



# 中国石化 SINOPEC

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

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

# 2022 Interim Report



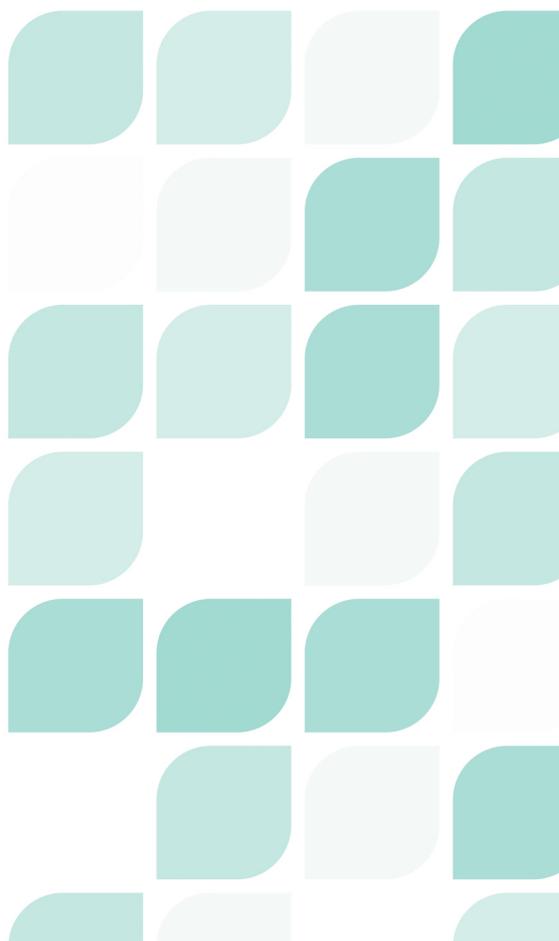
# IMPORTANT NOTES

1. The Board and the supervisory committee of the Company and its directors, supervisors and senior management warrant that there are no false representations, misleading statements or material omissions in this Interim Report and individually and jointly accept full responsibility for the authenticity, accuracy and completeness of the information contained in this Interim Report.
2. The 2022 Interim Report has been approved at the twelfth meeting of the tenth session of the Board. A total of 8 directors of the Company attended the meeting. Mr. Wei Ran, director, was absent from the meeting due to official affairs, but had authorized Mr. Chen Xikun to attend the meeting and exercise his rights.
3. The interim financial statements of the Company for 2022, which have been prepared in accordance with the PRC Accounting Standards for Business Enterprises (“PRC ASBE”) and International Financial Report Standards (“IFRS”), are unaudited. But the interim financial statements of the Company for 2022 which have been prepared in accordance with IFRS have been reviewed by BDO Limited.
4. Mr. Chen Xikun, Chairman, Mr. Yuan Jianqiang, General Manager, Mr. Cheng Zhongyi, Chief Financial Officer, and Mr. Yang Yulong, Manager of the Accounting Department of the Company, hereby warranted the authenticity, accuracy and completeness of the interim financial statements contained in the Interim Report.
5. According to the Articles of Association of the Company, the Board resolved that no interim cash dividend was paid for the year ended 31 December 2022, and no issue of bonus shares by way of capitalization of common reserves.
6. Due to the uncertainty of the forward-looking statement about the future plan and development strategy in the Interim Report, the Company cannot make a substantive commitment to investors, and the Company would ask investors to notice the investment risks.
7. There was no occupancy of non-operating funds by the controlling shareholder of the Company and its connected parties.
8. The Company did not provide external guarantees made in violation of required decision-making procedures.
9. There is no situation where more than half of the directors of the Company cannot guarantee the authenticity, accuracy and completeness of the Company’s 2022 Interim Report.
10. There are no significant risks that need to be prompted in the Company.



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## Section I Definitions

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

Company	Means	Sinopec Oilfield Service Corporation (中石化石油工程技术服务有限公司), a joint stock limited company incorporated in the PRC whose A Shares are traded on the SSE (Stock code 600871) and H Shares are listed on the Main Board of the HKSE (Stock code 1033)
Group	Means	The Company and its subsidiaries
Board	Means	The board of directors of the Company
Articles of Association	Means	The articles of association of the Company, as amended, modified or supplemented from time to time
CPC	Means	China Petrochemical Corporation, a wholly state-owned company established in the PRC and the controlling shareholder of the Company
Sinopec	Means	China Petroleum & Chemical Corporation, a joint stock limited company established in the PRC and listed on the Main Board of the HKSE as well as in New York, London and Shanghai, the subsidiary of CPC.
A Share	Means	Domestic Shares in the share capital of the Company of par value at RMB1.00 each which are listed on the SSE
H Share	Means	Overseas listed foreign Share(s) in the share capital of the Company of par value at RMB1.00 each which is(are) listed on the Main Board of the HKSE
SSE	Means	Shanghai Stock Exchange
HKSE	Means	The Stock Exchange of Hong Kong Limited
Listing Rules	Means	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	Means	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
CSRC	Means	China Securities Regulatory Commission
Century Bright Company	Means	Sinopec Century Bright Capital Investment, Ltd.
SOSC	Means	Sinopec Oilfield Service Company Limited, a subsidiary of the Company
Qi Xin Gong Ying Scheme	Means	Qi Xin Gong Ying Scheme for the management of the Company
Geophysical exploration or geophysical	Means	A method and theory of exploring the underground mineral and researching the geological formations by using physics principles, such as seismic exploration, electrical and magnetism exploration
Drilling	Means	The engineering of drilling formations down to a certain depth by using the mechanical equipment, and finally forming a cylindrical hole
CCUS	Means	Carbon capture, utilization and storage
Completion	Means	The last part of the drilling engineering, including connecting the drilling casing to the oil layer, selection of completion method, cementing, and perforating, etc.
Logging	Means	Acquiring, analyzing and interpreting the data related to the geological characteristics and hydrocarbon potential by using special tools or equipment and technology
Mud Logging	Means	Recording and acquiring the information during the drilling process; Mud Logging is the basic technique in oil and gas exploration and production activities, and is the most timely and most direct way to find and evaluate the reservoir. It has the characters of timely and variously acquiring the downhole information and analyzing and interpreting it quickly
Downhole Operation service	Means	Providing all oil, gas and water wellbore operations except drilling, logging and mud logging, mainly including oil test and gas testing, acidification fracturing, well repair and completion, etc.
Two dimensional geophysical	Means	A method for seismic data gathering by using a set of sound source and one or more collection point; 2D is generally used for drawing geographical structure for a preliminary analysis
Three dimensional geophysical	Means	A method for seismic data gathering by using two sets of sound source and two or more collection point; 3D is generally used for acquiring sophisticated seismic data, and improving the chances of successful drilling to the oil and gas wells
HSE	Means	Health, safety and environment management system
LPR	Means	The loan interest rate announced by the People's Bank of China
CNPC	Means	China National Petroleum Corporation
CNOOC	Means	China National Offshore Oil Corporation
Four improvements	Means	The improvement of the quality, service speed, efficiency and production
PipeChina	Means	China Oil & Gas Pipeline Network Corporation
Sinopec Star	Means	Sinopec Star Petroleum Company Limited
PRC	Means	People's Republic of China
Hong Kong	Means	Hong Kong Special Administrative Region of the People's Republic of China

## Section II Company Profile and Principal Financial Indicators

### 1. Company Information

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

### 2. Contact Information

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

### 3. The Changes for the Company Profile

Registered address	No.22 Chaoyangmen North Street, Chaoyang District, Beijing, PRC
Historical changes of registered address	The Company's registered address was changed to No.22 Chaoyangmen North Street, Chaoyang District, Beijing, PRC from Yizheng City, Jiangsu Province, PRC in June, 2016
Office address	No.9 Jishikou Road, Chaoyang District, Beijing, PRC
Post Code of Office address	100728
Company Internet Website	<a href="http://ssc.sinopec.com">http://ssc.sinopec.com</a>
E-mail	ir.ssc@sinopec.com

### 4. The Changes for the Information Disclosure and Inspection Place

Domestic newspapers disclosing information	China Securities, Shanghai Securities News, Securities Times
Internet website designated by stock exchange to publish the Interim Report	<a href="http://www.sse.com.cn">www.sse.com.cn</a> <a href="http://www.hkexnews.hk">www.hkexnews.hk</a>
Place where the Interim Report available for inspection	Office of the board of directors of the Company

### 5. Stock Briefs

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

## Section II Company Profile and Principal Financial Indicators

### 6. Other Related Information

#### Auditors

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

#### Legal advisors

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

#### Share registrars and transfer office

H Share:	Hong Kong Registrars Limited Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Roads East, Hong Kong
A Share:	China Securities Registration and Clearing Corporation Limited, Shanghai Branch No.188 Yanggao South Road, China (Shanghai) Pilot Free Trade Zone

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

#### (1) Key financial data

	For the six months ended 30 June 2022	For the six months ended 30 June 2021	Increase/(Decrease)
	RMB' 000	RMB' 000	(%)
Operating income	33,148,652	31,570,061	5.0
Operating profit	363,318	430,442	-15.6
Profit before income tax	377,377	450,516	-16.2
Net profit attributable to equity shareholders of the Company	200,268	368,558	-45.7
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company	144,002	310,618	-53.6
Net cash inflow from operating activities ("-" for outflow)	-537,926	358,861	-249.9

	As at 30 June 2022	As at 31 December 2021	Increase/(Decrease)
	RMB' 000	RMB' 000	(%)
Total equity attributable to equity shareholders of the Company	7,417,159	6,861,517	8.1
Total assets	65,671,526	64,052,447	2.5

## Section II Company Profile and Principal Financial Indicators

### (2) Key financial indicators

	For the six months ended 30 June 2022	For the six months ended 30 June 2021	Increase/(Decrease) (%)
Basic earnings per share (RMB/share)	0.011	0.019	-42.1
Diluted earnings per share (RMB/share)	0.011	0.019	-42.1
Basic earnings per share deducted extraordinary gain and loss (RMB/share)	0.008	0.016	-50.0
Weighted average return on net assets	2.88%	5.34%	Decreased by 2.46 percentage points
Weighted average return on net assets deducted extraordinary gain and loss	2.07%	4.50%	Decreased by 2.43 percentage points

Explanations for key financial data and key financial indicators

Applicable  Not Applicable

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

	Net profit attributable to equity shareholders of the Company		Total equity attributable to equity shareholders of the Company	
	For the six months ended 30 June 2022 RMB' 000	For the six months ended 30 June 2021 RMB' 000	As at 30 June 2022 RMB' 000	As at 1 January 2022 RMB' 000
PRC ASBE	200,268	368,558	7,417,159	6,861,517
Adjustment of items and amount in accordance with the IFRS:				
Specific reserve (a)	355,374	325,688	–	–
IFRS	555,642	694,246	7,417,159	6,861,517

#### (a) Specific reserve

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

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

Extraordinary gain and loss items	Amount (RMB' 000)
Disposal of non-current assets	21,611
Government grants recognized in profit or loss during the current period	59,025
Gain or loss on debt restructuring	10,841
Other non-operating income and expenses excluding the aforesaid items	-20,502
Effect of income tax	-14,709
Total	56,266

## Section II Company Profile and Principal Financial Indicators

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

	As at	As at	Increase/(Decrease) From last year
	30 June 2022	31 December 2021	
	RMB' 000	RMB' 000	(%)
<b>Total assets</b>	65,671,526	64,052,447	2.5
<b>Total Liabilities</b>	58,254,367	57,190,930	1.9
<b>Total equity attributable to equity shareholders of the Company</b>	7,417,159	6,861,517	8.1
<b>Net assets per share attributable to equity shareholders of the Company (RMB)</b>	0.39	0.36	8.3

	For the	For the	Increase/(Decrease) From corresponding period of last year
	six months ended 30 June 2022	six months ended 30 June 2021	
	RMB' 000	RMB' 000	(%)
Profit attributable to equity shareholders of the Company	555,642	694,246	-20.0
Basic and diluted earnings per share	RMB0.029	RMB0.037	-19.9
Net cash generated from operating activities	-537,926	358,861	-249.9
Return on net assets	7.49%	9.36%	Decreased by 1.87 percentage points
Net cash generated from operating activities per share	RMB -0.028	RMB0.019	-247.4

# Section III Discussion and Analysis of Management

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

With more than 60 years of business operation and rich experience in project execution, the Company is the largest, integrated, and professional oilfield service provider in China and a leader in providing integrated and full industrial-chain services covering the whole life cycle of oil and gas field exploration. As at 30 June 2022, the Company provided oilfield services in 76 basins and 561 blocks in more than 20 provinces in China, while its overseas business keeps growing with execution in more than 30 countries and regions.

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

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

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

In the first half of 2022, facing the complex and severe international environment, global economy witnessed an evident slowdown in its growth, while the sporadic outbreaks of pandemic in China delivered a big hit to the stable operation of the economy. Despite so, along with the effective coordination of pandemic prevention and control measures as well as the ongoing effectiveness in the economic and social developments, the overall domestic economy continued its steady growth upon the success in the implementation of a package of policies and measures to stabilize growth. In the first half of the year, the country achieved a year-on-year increment of 2.5% in its gross domestic product (GDP). Affected by factors such as geopolitical conflicts and the increased liquidity in the world's major economies, energy prices continued to stay high, where the average spot price of North Sea Brent Crude reached US\$107.2 per barrel, representing a year-on-year increase of 65.2%. These have effectively driven the continuous growth of upstream exploration and exploitation investment by oil companies, leading to the obvious trend of revival in the oilfield service industry. Meanwhile, through the efforts of strategies for safeguarding national energy security and the “Seven-year Action Plan” to expand reserves and production, the recovery in the domestic oilfield service market picked up pace where the utilization rate of the Company's teams also improved.

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

The Company has service capabilities covering the entire oilfield service industry chain. As at 30 June 2022, the Company has 661 onshore drilling rigs (Among them, 328 units above 7,000 meters), 12 offshore drilling platforms, 59 sets of seismic acquisition equipment and 133 sets of imaging logging tools, 483 sets of comprehensive logging instruments, 273 sets of Model 2500 and above fracturing trucks, 51 sets of 750 HP and above workover rigs and 1,594 professional teams for digging and geophysical exploration. The Company has been the largest onshore drilling contractor for Saudi Aramco, Kuwait Petroleum Company and Ecuadorian National Oil Company, and the important international geophysical contractor in Algeria for many years.

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

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

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

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

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

## 3. Discussion and analysis of operation

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

### Interim results

In the first half of 2022, making every effort to overcome hurdles imposed by unfavorable factors including the sporadic spread of the pandemic, the hiking prices of raw materials and the sluggish recovery in oilfield service prices, the Company seized the opportunities arising from the surge in oil prices and the demand recovery. Under its continuous step-up in efforts towards market expansion, as well as its strong focus on project management and unceasing promotion of resource optimization, the Company achieved a year-on-year growth in its operating income. During the first half of 2022, the consolidated revenue of the Company was RMB33,148,652,000, representing an increase of 5.0% over RMB31,570,061,000 in the same period of the previous year. Net profit attributable to shareholders of the Company amounted to RMB200,268,000, representing a decline of 45.7% from RMB368,558,000 in the same period of the previous year. This was mainly due to the Company's persistent focus on building up a technology-leading petroleum service company, expediting our core technological breakthroughs and increasing our research and development expenditure, which in turn resulted into a year-on-year growth of 91.1% in our research and development expenses in the first half of the year. Basic earning per share was RMB0.011, representing a decrease of RMB0.008 over the same period of the previous year; net cash flow from operating activities was RMB -537,926,000, representing a decrease of 249.9% as compared with RMB358,861,000 in the same period last year.

## Section III Discussion and Analysis of Management

### Operation review

In the first half of 2022, the Company proactively seized the favorable opportunities brought by the increased investment in oil and gas exploration and exploitation, increased its efforts in cultivating technological innovations along with reforms and management in innovative initiatives, and comprehensively improved the technical capability, management performance, comprehensive quality and market competitiveness of its teams. Adhering to market orientation, we exerted all efforts to support and safeguard the oil and gas exploration and exploitation of CPC, meanwhile to expand our domestic and external markets as well as high-quality and large-scaled markets overseas. We also achieved a historical high in the number of our newly signed contracts in the markets since the “13th Five-Year Plan”, where our accumulated value of our newly signed contracts amounted to RMB52.9 billion, representing a year-on-year growth of 20.8%. Among them, the value of our newly signed contracts in the market of CPC reached RMB31.63 billion, representing a year-on-year growth of 16.5%; the value of our newly signed contracts in the domestic and external markets reached RMB9.45 billion, representing a year-on-year growth of 21.5%; and the value of our newly signed contracts in the overseas markets reached RMB11.82 billion, representing a year-on-year growth of 33.3%. The Company also successfully guaranteed quality and efficient service, and made significant breakthroughs in its core technologies. During the first half of the year, we also established an unprecedented record of 300 constructions. Under the continuous promotion of market layout planning and the optimization of resource allocation, we have seen steady improvements, not only in our market competitiveness but also our capabilities in generating income and efficiency. In general, major HSE and drilling-well risks remained under control, and our production and operation remained promising.

#### A. Geophysical service

In the first half of 2022, the Company's operation revenue from the principal business of geophysical service was RMB1,512,225,000, representing a decline of 16.0% from RMB1,800,634,000 in the same period of the previous year. The completed 2D seismic exploration accumulated for 2,718 kilometers, representing a year-on-year increase of 344.8%; while the completed 3D seismic exploration accumulated for 6,962 square kilometers, representing a year-on-year decrease of 12.1%. During the first half of the year, with the roll-out of full-node acquisition as well as high-efficiency vibroseis acquisition technology, the Company comprehensively enhanced its oil and gas exploration capabilities, where our seismic data acquired with first grade quality was 3.1 percentage points higher and our 3D average daily efficiency increased by 224.7% as compared with that of the same period of previous year. Additionally, we actively served the oil and gas exploration of Sinopec in Junggar, Tarim, southeast Sichuan and other regions. In 2022, we have newly signed with Sinopec Northwest Oilfield Company in relation to the data acquisition for 3D seismic exploration in the Shuntuoguole Area of the Tarim Basin, covering a total of 3 projects with a total contract value of RMB670 million. The development in our Beidou business, engineering geophysical exploration and other new businesses demonstrated positive momentum, where we have also been awarded tenders amounting to RMB203 million with our new businesses, hitting a record high over the same period of the previous year.

#### B. Drilling service

In the first half of 2022, the Company's operation revenue from the principal business of drilling service was RMB16,635,798,000, representing an increase of 5.9% from RMB15,712,885,000 in the same period of the previous year. Our completed drilling footage reached 4,870 kilometers, representing a year-on-year increase of 3.2%. During the first half of the year, the average utilization rate of our drilling teams was 90.1%, which is a year-on-year improvement of 6.5 percentage points. Under the continuous optimization of its team scale, the Company established a more reasonable team layout, speeded up the promotion of recommended practices and the application of matured technologies. Focusing on the operation management of demonstration wells and key wells, we steadily expanded the “factory-based mode” drilling. During the first half of the year, the average drilling cycle of completed wells lasted for 26.51 days, which had been shortened by 11.6% as compared to the same period of the previous year. Meanwhile, the time on complicated failures was 0.42%, representing a year-on-year decline of 50.6%. Besides, Shengye 9-3HF well set a record for the longest domestic horizontal section of shale gas horizontal well, whereas Shunbei 4-12H well also set a record for the shortest drilling cycle among the comparable wells located in the Tahe and Shunbei industrial zones, altogether effectively establishing a group of key wells and high-yield wells with quality.

#### C. Logging and mud logging service

In the first half of 2022, the Company's operation revenue from the principal business of logging and mud logging service was RMB1,202,466,000, representing an increase of 4.5% from RMB1,150,738,000 in the same period of the previous year. Our completed logging projects accumulated for 133,780,000 standard meters, representing a year-on-year decrease of 2.3%, whereas our completed mud logging projects accumulated for 4,070 kilometers, representing a year-on-year decrease of 15.9%. The quality and technical indicators of logging and mud logging services were maintained well, and the pass rate of logging and mud logging data reached 100%. In Sinopec's “Northwest China, North China, Northeast China and Sichuan” and eastern old oil fields, our logging and mud logging business remained stable, while the Sichuan Basin and other domestic and external markets of CNPC also became pillars for the services of the logging and mud logging business of the Company. Focusing on the needs of its clients, the Company initiated technological promotion, and continued to enhance its technologies adhering to the works under the principle of “Four Improvements”, revealing a number of new records in multiple indicators in relation to testing, logging, locating and etc.

#### D. Downhole operation service

In the first half of 2022, the Company's operation revenue from the principal business of downhole operation service was RMB4,292,870,000, representing a year-on-year growth of 8.9% as compared with RMB3,941,443,000 in the same period of the previous year. We completed downhole operation for 3,463 wells/times, with a year-on-year increase of 4.7%, where the fracturing construction efficiency in key industrial zones in “Northwest China, North China, Northeast China and Sichuan” was improved by 18.5% year-on-year. The Company gave full play to the advantages of professionalism and technologies in horizontal well subdivided fracturing, large-scale acid fracturing, acid gas testing, high-temperature and high-pressure well testing and continuous oil pipeline operations. It also continued to enhance the support for high-quality exploration and profitable development of Sinopec, facilitating Sinopec to discover not only a number of wells of daily production in thousand ton per well in the Shunbei industrial zone in the Northwest China, but also the second shale gas reserve of trillion cubic feet in the southeast Sichuan, along with the significant breakthroughs made in the shale oil exploration in the Subei Basin. In addition, while collaborative exploitation of oilfields have been further deepened in the Company's reservoir business, we have also broken new ground in the Southwestern China in the partnerships regarding the tight gas reservoir in Xinchang – Hexingchang of the western Sichuan, as well as the shale gas region in Dingshan of the southern Sichuan, altogether forming a desirable profile for the bilateral growth in the areas of oil and gas.

## Section III Discussion and Analysis of Management

### E. Engineering and construction service

In the first half of 2022, the Company's operation revenue from the principal business of engineering and construction service was RMB8,326,149,000, representing a year-on-year growth of 5.8% from RMB7,868,764,000 in the same period of the previous year. We completed projects with an accumulated contract value of RMB8.53 billion, representing a year-on-year improvement of 8.1%, where the accumulated value of our newly signed contracts amounted to RMB23.16 billion, representing a year-on-year improvement of 60.2%. The Company undertook the relocation and construction project of the crude oil depot in Dongying, which was advanced with high standards and high quality, and the project in relation to the natural gas pipeline from the gas gathering station to Lunnan in Xinjiang was put into operation 81 days ahead of schedule. Additionally, we have also successfully won the tender in relation to a general contractor contract regarding the natural gas pipeline of the East Main Line of the Shandong pipeline network, where the value of the tender amounted to RMB6.27 billion. We also newly signed with PipeChina in relation to the project of the "Relocation and Construction Project of Dongying Gas Station of Eastern Crude Oil Storage and Transportation Co., Ltd.", which had a contract value of RMB175 million. Apart from these, we also successfully won the tender in relation to the construction project of the surface of the Shuyang to Suyu section, with a contract value of RMB420 million. All these achievements allow us to further gain a firm foothold in the expressway market in Jiangsu.

### International business

In the first half of 2022, the Company's operation revenue from the principal business of international business was RMB5,650,053,000, representing a year-on-year growth of 29.7% from RMB4,356,273,000 in the same period of the previous year, accounting for 17.3% of the revenue from our principal business in the first half of the year. During the first half of the year, in the face of the grim realities of persistent tensions generated by the pandemic overseas, the Company continued to solidify its presence in the traditional market while striving to expand new businesses; under it, we have effectively maintained the steady developments in three large-scaled markets, namely Saudi, Kuwait and Ecuador. In Saudi market, we successfully signed 6 contracts with Saudi Aramco in relation to unconventional gas well drilling rigs, with a contract value reaching US\$530 million. In Kuwait market, we successfully signed a drill bit contract with a contract value of US\$27.65 million, riding on the expansion of trading business driven by the traditional well drilling and improvement business. In the Ecuador market, we newly signed a drilling and completion general contractor service project in relation to the SACHA oilfield drilling and completion, with its contract value amounting to RMB830 million. Riding on the trend, our engineering construction business newly signed a US\$610 million general contractor project in relation to the oil and gas transmission in Uganda, as well as a US\$130 million EPC project in relation to the natural gas pipeline from Bang Pakong to south Bangkok of Thailand. Meanwhile, under the steady expansion of our geophysical exploration business, we extended our contract with Saudi Aramco for an additional year for the S84 3D seismic acquisition project, which has a contract value of US\$58 million. Through the diligence and care that we devoted in our oil reservoir business, our I-L-Y project in Ecuador as well as our EBANO project in Mexico have captured the favorable opportunities brought by the upward trend of oil prices, with various indicators indicating our performance in the first half of the year was beyond expectations, while new historical high has been reached in relation to the increase in our production and efficiency.

### Technology research & development

In the first half of 2022, the Company further optimized our institutional mechanisms of technological innovation, continued to release vitality and raise the effectiveness of innovation, and undertook 300 projects throughout the first half of the year, which is another new record. With integrated supporting technologies as the core tool supporting our development, we achieved a number of original and groundbreaking achievements by making breakthroughs in key technologies such as drilling and completion of deep and ultra-deep shale oil gas well, providing strong technical support for China Petrochemical Corporation's major breakthroughs in the upstream exploration and discovery. We saw substantial progress in making breakthroughs in core technology, with completion of testing of 13 oil wells by Type I rotary steerable system and continuous drilling in one go for 7 oil wells; our ultra-deep high-temperature electrical imaging logging instrument and high-temperature MWD became mature and finalized, with substantially enhanced technical capabilities of performing measurement and control, logging and measurement at wells of above 9,000 meters and high-temperature (175 °C); we have successfully developed the first integrated d/c driven fine pressure control drilling system in China. In the first half of the year, the industrialization of products and the transformation of scientific and technological achievements of the Company amounted to RMB1.39 billion.

### Internal reform and management

In the first half of 2022, the Company made efficient progress in coordinating and optimizing the resource allocation by establishing the project management department and the oil engineering equipment management centre in southwestern industrial zone, and strengthening efforts to optimize resource allocation in southwestern industrial zone. With these efforts, we coordinated and optimized allocation of equipment and resources precisely, and continued to enhance our capabilities in terms of asset management, generating revenue and raising efficiency; we have further clarified the overall approach to the construction of a project-based management system by formulating work plans of the construction of a project-based management system and plans of running the projects. We have accelerated the construction of a project-based management system centered on project management and supported by "two pools, two banks and one platform", and developed and finalized the relevant management measures. With these efforts, we have achieved overall improvement in profitability and resource allocation for the projects and have made substantial progress in the construction of the project-based management system; focusing on the five industrial chains including physical exploration, drilling, downhole operation, testing, logging and locating services and engineering and construction, we have formulated special development plan and ascertained distinctive business development approaches for the projects. With these efforts, we have laid a sound foundation for the coordination and development of the business of distinctive construction and technology services in the future.

### Capital expenditure

In the first half of 2022, the Company had a capital expenditure of RMB1.01 billion, representing an increase of RMB0.59 billion. The Company adhered to the "proactive and prudent" investment principle, optimized investment structure, strengthened resource coordination, and continued to play the leading and supporting role of investment, mainly for the renewal purchase of 25 drilling rigs, upgrading of 23 drilling rigs, purchase of 12 top-drive guiding devices of drilling rigs, 12 sets of rig network electrical equipment, 13 cementing trucks used in oil wells, 20 sets of electric fracturing units, 2 sets of coiled tubing equipment, 3 workover rigs, 10 rotary steering devices, 6 sets of devices for high-temperature measurement and control while drilling, 205,000 acquisition equipment and 10 sets of fully automatic welding standard unit.

## Section III Discussion and Analysis of Management

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

Applicable  Not Applicable

### 4. Statement of main business during the reporting period

#### (1) Main business analysis of the Company

##### A. Changes in the relevant items of financial statements

	For the six months ended 30 June 2022	For the six months ended 30 June 2021	Change
	RMB' 000	RMB' 000	(%)
Operating income	33,148,652	31,570,061	5.0
Operating costs	30,727,547	29,584,206	3.9
Selling and distribution expenses	26,643	32,041	-16.8
General and administrative expenses	1,092,018	803,949	35.8
Net financial expense	281,888	408,182	-30.9
Research and development expenditure	666,919	349,034	91.1
Net cash inflow from operating activities ("-" for outflow)	-537,926	358,861	-249.9
Net cash inflow from investing activities ("-" for outflow)	-492,591	-390,632	26.1
Net cash inflow from financing activities	305,843	9,267	3200.4

Reasons for the changes:

- (a) The change in operating income was mainly due to the increase in principal activities.
- (b) The change in operating costs was mainly due to the increase in income that results in an increase in cost.
- (c) The change in selling and distribution expenses was mainly due to the slowdown in expenditure affected by the pandemic.
- (d) The change in general and administrative expenses was mainly due to strengthened budget control to rebalance expenses and staff costs.
- (e) The change in financial expense was mainly due to the decrease in net foreign exchange losses.
- (f) The change in research and development expenditure was mainly due to an increase in R&D investment for accelerating efforts of making breakthroughs in key technologies such as rotary steerable system, and establishing a new energy research and development center.
- (g) The change in net cash inflow from operating activities was mainly due to the increase in payments to suppliers.
- (h) The change in net cash inflow from investing activities was mainly due to a year-on-year increase of equipment purchase expenses.
- (i) The change in net cash inflow from financing activities was mainly due to a year-on-year increase in incremental volume of credit.

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

Applicable  Not Applicable

#### (2) Explanations of significant changes in profit led by the non-core business

Applicable  Not Applicable

## Section III Discussion and Analysis of Management

### (3) Statement of assets and liabilities analysis

#### A. Assets and liabilities

Item	Amount at 30 June 2022	Percentage of amount at 30 June 2022 in total assets	Amount at 31 December 2021	Percentage of amount at 31 December 2021 in total assets	Changes from the end of the preceding year to the end of the reporting period
	RMB' 000	(%)	RMB' 000	(%)	(%)
Cash at bank and on hand	1,940,644	3.0	2,508,224	3.9	-22.6
Accounts receivable	8,541,458	13.0	8,151,019	12.7	4.8
Receivable financing	743,385	1.1	1,295,971	2.0	-42.6
Prepayment	703,422	1.1	338,555	0.5	107.8
Inventories	1,521,665	2.3	1,088,304	1.7	39.8
Contractual Assets	16,342,330	24.9	13,546,895	21.1	20.6
Other current assets	2,252,960	3.4	2,238,006	3.5	0.7
Long-term equity investments	46,498	0.1	47,048	0.1	-1.2
Investment in other equity instruments	21,760	0.0	21,760	0.0	0.0
Fixed assets	22,416,968	34.1	23,461,781	36.6	-4.5
Construction in progress	602,751	0.9	668,364	1.0	-9.8
Right-of-use assets	1,018,425	1.6	720,938	1.1	41.3
Intangible assets	403,389	0.6	506,596	0.8	-20.4
Long-term deferred and prepaid expenses	5,673,201	8.6	6,595,930	10.3	-14.0
Short-term borrowings	18,441,608	28.1	17,520,091	27.4	5.3
Bills payable	9,269,973	14.1	8,334,086	13.0	11.2
Accounts payable	20,657,680	31.5	21,556,262	33.7	-4.2
Contractual liabilities	3,251,499	5.0	3,547,938	5.5	-8.4
Other payables	2,539,740	3.9	2,355,823	3.7	7.8
Non-current liabilities due within one year	416,605	0.6	296,045	0.5	40.7
Long-term borrowings	1,550,335	2.4	1,554,686	2.4	-0.3
Lease liabilities	574,171	0.9	390,866	0.6	46.9
Long-term payable	50,656	0.1	28,885	0.0	75.4
Deferred income	9,619	0.0	9,288	0.0	3.6
Other comprehensive income	-3,823	0.0	-3,823	0.0	0.0
Specific reserve	574,556	0.9	219,182	0.3	162.1

Reasons for the changes:

- Receivable financing decreased by RMB552,586,000 as compared with the beginning of the fiscal year, mainly because of accelerated process of endorsements for bills.
- Prepayment increased by RMB364,867,000 as compared with the beginning of the fiscal year, mainly because of the increase in material costs and advances to sub-contractors.
- Inventories increased by RMB433,361,000 as compared to the beginning of the fiscal year, mainly because of the increase in service projects commenced and in progress.
- Right-of-use assets increased by RMB297,487,000 as compared to the beginning of the fiscal year, mainly because of the newly signed lease contracts with related parties.
- Non-current liabilities maturing within one year increased by RMB120,560,000 as compared to the beginning of the fiscal year, mainly because of the increase in lease liabilities within one year.
- Lease liabilities increased by RMB183,305,000 as compared to the beginning of the fiscal year, mainly because of the newly signed lease contracts with related parties.
- Long-term payables increased by RMB21,771,000 as compared to the beginning of the fiscal year, mainly because of the safety and insurance fund refund.
- Special reserves increased by RMB355,374,000 as compared to the beginning of the fiscal year, mainly because the process of safety production expenses payment delayed after accounting process.

## Section III Discussion and Analysis of Management

### B. Situation about overseas assets:

#### (a) Asset scale

On 30 June 2022, the Company's overseas assets were RMB18,303,413,000, accounting for 27.9% of total assets of the Company.

#### (b) Relevant statement about overseas assets

Applicable  Not applicable

The company has professional equipments such as land drilling rigs, earthquake collectors, well repair machines, imaging logging system and integrated drilling instruments, which can apply services for overseas oil & gas fields from exploration and development to production and engineering construction. In the first half of 2022, the Company's operating income was RMB5,706,680,000 and achieved net profit of RMB259,569,000.

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

On 30 June 2022, the Company's funds with restricted use such as margin deposit, etc. was RMB93,804,000 (On 31 December 2021: RMB32,918,000).

## (4) Analysis of investments

### A. Significant equity investment

Applicable  Not Applicable

### B. Significant non-equity investment

Applicable  Not Applicable

### C. Information of financial assets measured at fair value

Applicable  Not Applicable

## (5) Sales of major assets and equity

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

## (6) Information of major subsidiaries

Unit : RMB' 000

Name of company	Registered capital	Shareholding percentage %	Amount of total assets	Amount of total liabilities	Amount of total net assets	Amount of net profit	Main Business
Sinopec Oilfield Service Company Limited	RMB4,000,000,000	100	65,686,066	62,599,523	3,086,543	201,124	Petroleum engineering technical service
Sinopec Shengli Oil Engineering Company Limited *	RMB700,000,000	100	10,244,283	10,076,252	168,031	40,583	Petroleum engineering technical service
Sinopec Zhongyuan Oil Engineering Company Limited *	RMB450,000,000	100	11,969,256	11,652,376	316,880	5,766	Petroleum engineering technical service
Sinopec Jiangnan Oil Engineering Company Limited *	RMB250,000,000	100	4,508,912	3,266,145	1,242,767	38,428	Petroleum engineering technical service
Sinopec East China Oil Engineering Company Limited *	RMB860,000,000	100	4,504,241	3,927,142	577,100	6,582	Petroleum engineering technical service
Sinopec North China Oil Engineering Company Limited *	RMB890,000,000	100	4,590,468	2,677,186	1,913,282	12,031	Petroleum engineering technical service
Sinopec Southwest Oil Engineering Company Limited *	RMB300,000,000	100	6,041,443	2,612,739	3,428,705	6,355	Petroleum engineering technical service
Sinopec Oil Engineering Geophysical Company Limited *	RMB300,000,000	100	3,183,752	2,983,694	200,058	-89,081	Geophysical exploration
Sinopec Oil Engineering and Construction Corporation *	RMB500,000,000	100	21,238,803	20,723,773	515,030	120,384	Construction
Sinopec Jingwei Company Limited	RMB1,000,000,000	100	3,802,723	2,900,382	902,341	132,581	Testing, logging and locating service
Sinopec Shanghai Offshore Oil Engineering Company Limited *	RMB2,000,000,000	100	4,711,518	998,242	3,713,276	8,520	Offshore Oil Engineering Technology Service
Sinopec International Petroleum Service Corporation *	RMB700,000,000	100	2,994,293	1,932,913	1,061,381	18,607	Petroleum engineering technical service

## Section III Discussion and Analysis of Management

Name of company	Revenue	Operating profit
	RMB' 000	RMB' 000
Sinopec Oilfield Service Company Limited	33,148,652	364,174
Sinopec Shengli Oil Engineering Company Limited*	6,572,566	67,375
Sinopec Zhongyuan Oil Engineering Company Limited *	4,979,161	47,418
Sinopec Jiangnan Oil Engineering Company Limited *	2,570,245	42,505
Sinopec East China Oil Engineering Company Limited *	1,796,433	5,123
Sinopec North China Oil Engineering Company Limited*	1,971,020	19,002
Sinopec Southwest Oil Engineering Company Limited *	2,706,202	9,632
Sinopec Oil Engineering Geophysical Company Limited *	1,464,049	-78,267
Sinopec Oil Engineering and Construction Corporation *	8,561,630	126,304
Sinopec Jingwei Company Limited	2,332,234	178,771
Sinopec Shanghai Offshore Oil Engineering Company Limited *	633,513	10,139
Sinopec International Petroleum Service Corporation *	674,805	35,804

\* Note: The Company holds shares through SOSC.

### (7) The structured entity controlled by the Company

Applicable  Not Applicable

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

#### A. Statement of operation by industry and products

Industry	Operating Income for the first half of 2022	Operating cost for the first half of 2022	Gross profit margin	Increase/ (decrease) in operating income as compared with last year	Increase/ (decrease) in operating cost as compared with last year	Gross profit margin compared with last year
	RMB' 000	RMB' 000	(%)	(%)	(%)	
Geophysical	1,512,225	1,503,752	0.6	-16.0	-13.8	Decreased by 2.5 percentage points
Drilling	16,635,798	15,455,935	7.1	5.9	4.9	Increased by 0.9 percentage points
Logging/Mud logging	1,202,466	977,133	18.7	4.5	4.3	Increased by 0.1 percentage points
Downhole operation	4,292,870	4,014,132	6.5	8.9	7.6	Increased by 1.1 percentage points
Engineering and Construction	8,326,149	7,692,437	7.6	5.8	3.7	Increased by 1.9 percentage point
Other	757,056	789,082	-4.2	15.8	5.1	Increased by 10.7 percentage points
Total	32,726,564	30,432,471	7.0	5.1	3.8	Increased by 1.2 percentage points

#### B. Statement of operation by regions

Region	Operating income for the first half of 2022	Increase/(decrease) as compared with the corresponding period of last year
	RMB' 000	(%)
Mainland China	27,076,511	1.1
Hong Kong, Macau, Taiwan and overseas	5,650,053	29.7

## Section III Discussion and Analysis of Management

### 5. Market prospects and operation arrangements in the second half of 2022

#### Market Forecast for the Second Half of 2022

Looking forward to the second half of 2022, the oilfield service industry will continue to recover, but the market competition remains challenging and complicated. In the second half of the year, the risk premium of geopolitics will remain there, while many uncertainties in supply and demand sides remain. The overall crude oil prices are expected to fluctuate at a high level, which will continue to make contribution to the recovery of investment in oil and gas exploration and exploitation; to ensure national energy security, China will vigorously promote the implementation of relevant planning for oil and gas projects to encounter uncertainties in the external environment with certainties in increasing output and ensuring abundant supplies of domestic oil and gas products, so as to create development opportunities for the oilfield service market in the PRC. However, we also see that the risk of the pandemic across the world remains, prospects for a global economic recovery remains uncertain, and there are still many uncertainties in the way to recovering demand in the industry. Accordingly, domestic and overseas oil companies will have higher requirements for cost of construction, engineering technology, quality of service, safety and environmental protection.

#### Operation Plans for the Second Half of 2022

In the second half of 2022, the Company will continue to enhance its capabilities in support for the exploration and exploitation, promote efficient co-ordination of market layout and resource allocation, leverage the advantages of comprehensive services and special technologies to support the exploration and exploitation work of CPC and continue to optimize the market layout and fully expand the market. Focusing on efficiency improvement, the Company will continue to coordinate its market layout, optimize resources allocation, and strengthen technological innovation and application, so as to facilitate sustainable development of the petroleum engineering and improve the quality of corporate development. The Company expects to achieve a newly signed contract value of RMB21.1 billion, among which RMB14.3 billion will be from the CPC market, RMB3.6 billion from domestic and external market, and RMB3.2 billion from overseas market. The Company expects to achieve a newly signed contract value of 74 billion for the whole year.

##### A. Geophysical service

In the second half of 2022, the Company will efficiently serve the exploration and exploitation of oil companies, accelerate efforts to make breakthroughs in key technologies, equipment and practical processes, accelerate upgrading of key equipment, pay close attention to the development of digital and intellectual seismic teams by continuously improving the level of automation, informatization and mechanization of the geophysical equipment, so as to provide support to endeavor to realize higher yield with less wells in a stronger and more effective manner; we will leverage our competitive advantages in integration of collection, processing and interpretation, strengthen efforts to develop domestic and external markets including the China Geological Survey, coal mining companies, Yanchang Oilfield, mining companies in different provinces, which have been the traditional markets of seismic services. We plan to complete the acquisition of 2D seismic data of 1,412 kilometers and 3D of 11,298 sq. kilometers in the second half of the year.

##### B. Drilling service

In the second half of 2022, the Company will strengthen the linkage of professional teams and production links in their operation, so as to enhance the efficiency of production and operation and reduce non-productive time; accelerate efforts of making breakthroughs in key technologies and equipment such as deep and ultra-deep oil and gas engineering, development of shale oil and gas, as well as intelligent drilling and completion of oil wells. We will strengthen management of key wells and model wells in all aspects, promote recommended practices and wider application of advanced and sophisticated technologies in key regions to continuously reduce complicated downhole failures. We will expand the scale of development of difficult-to-use reserve for expansion of oil and gas reserves and production on all fronts; we will continue our expansion in domestic external markets such as CNPC and CNOOC, so as to expand the domestic market share for shale gas, conventional oil and gas and coalbed methane. The Company plans to complete drilling footage accumulated for 4,830 kilometers in the second half of the year.

##### C. Logging and mud logging service

In the second half of 2022, the Company will leverage on the professional synergy advantage and continue to optimize the professional technology system of our logging/mud logging, expand the application of various new technologies of our logging/mud logging and keep increasing the ability to maintain our exploration and exploitation service. While we are stabilizing the markets for the CPC companies, we will proactively expand the domestic and foreign market and overseas service business, and accelerate the expansion of markets with economy of scale, promote featured technologies, such as high build-up rate rotary steering, safe and efficient ultra-deep well logging and smart engineering warning, to our clients while keep overcoming technological difficulties and preparing for the technology base. The Company plans to complete logging footage accumulated for 156,810 kilometers and the mud logging footage accumulated for 5,130 kilometers in the second half of the year.

##### D. Downhole operation service

In the second half of 2022, the Company will continue to improve the ability of the technical service and guarantee capacity of our downhole operation service. We will also endeavor to increase the standard of our integrated reservoir services, continue to optimize and expand the market of shale gas in Sichuan and Chongqing, shale oil in Shengli, tight gas fracturing in Northern China and completion testing service of Shunbei oil and gas fields, speed up the breakthrough, research and development of instruments and the application and promotion of ultra-deep high-temperature-and-pressure reserve of oil and gas testing technology, progress steadily in the cooperative exploitation of eastern old oil fields reserve, western Sichuan tight gas reserve and southern Sichuan shale gas difficult-to-use reserves. The Company plans to complete downhole operation service of 3,717 wells/times in the second half of 2022.

##### E. Engineering and construction service

In the second half of 2022, the Company will focus on the construction term of our key domestic projects, the key nodes and the integrated progress control and ensure the mid-term delivery by late September and the start of production by late October for Dongying crude oil depot relocation project. We will ensure the quality of the new project planning of the Daniudi Gas Field ethane recovery project, Wen 24 Gas Storage project, etc., and make sure the projects are initiated with quality. We will continue to consolidate the traditional beneficial market and endeavor to strengthen our new business, such as new energy resource, carbon reduction, digitalization and intellectualization to achieve low-cost advantage and reach the leading position in the national pipeline network and local gas market, water conservancy, highway and other high-quality external markets. The Company plans to sign new contracts of RMB6 billion and complete contracts of RMB8.5 billion in the second of the year.

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### F. International business

In the second half of 2022, the Company will continue to strive for the strategy of globalizing operation, steadily expand the base for market scale, improve the ability to generate efficiency in quality markets, strengthen and optimize the industrial chain and value chain of overseas business, refine and optimize the three major markets, namely Saudi Arabia, Kuwait and Ecuador, and strive to achieve breakthroughs in fracturing, thick oil large-scale contracting, general contracting projects and high-end technical services. We will intensively utilize the two oil reservoir projects in Mexico and Ecuador and keep improving the success rate of production and the return rate on investment. We will keep an eye on the progress of key projects, such as Saudi Aramco's unconventional drilling, the acquisition and processing of 3D seismic data in Mexico, and surface construction in Uganda to ensure the performance of the projects and the efficiency in operation.

### G. Technology research & development

In the second half of 2022, the Company will take full advantage of the integration of production, education, research and application, mobilize all positive factors to drive key technological innovation, research and achievement transformation, and create the next level technological innovation. We accelerate breakthroughs in key technologies and equipment, such as deep and ultra-deep oil and gas engineering, shale oil and gas exploitation, and smart drilling and completion, strengthen the introduction and application of highly adaptive tools and instruments, and comprehensively improve technical support capabilities. We will finalize the mass production of Type I rotary steerable system and the field test of Type II rotary steerable system as soon as possible, and forge core technology tools for low-cost and efficient exploitation of shale gas in China. We will anchor the development goal of product industrialization, accelerate the standardized construction of industrial bases and product lines of machinery and equipment, tools and instruments, and oilfield chemicals, continue to expand the scale of product industrialization, and drive the industrialization of chemical auxiliaries to move forward.

### H. Internal reform and management

In the second half of 2022, the Company will continue to intensify reforms, promote the optimization of resource allocation in full swing, maintain the integration of internal resources, and improve the overall efficiency of the Company. We will comprehensively intensify the building of project-based management systems, and complete the building and supporting operation mechanisms of "two pools, two banks and one platform" by the end of the year to path the way for the full implementation and operation in the Company next year. We continue to promote the development of featured businesses, formulate guiding opinions on the Company's featured development, and promote the efficient aggregation of featured businesses, increase differentiation competitiveness, and enhance the Company's ability to expand the market and generate efficiency in accordance with the principle of supporting the excellence. We strengthen the implementation of cost target management for all employees, drastically reduce labor costs and organizational operating costs for low efficiency projects and improve the level of cost and efficiency of scale.

### I. Capital expenditure

In the second half of 2022, the planned capital expenditure is RMB3.49 billion. The Company will focus on economic benefits, continue to improve its exploration and exploitation service capabilities, expand resource integration and enhance overall planning, and focus on ensuring the renewal and transformation of urgent production needs, technical service capabilities, and equipment with potential safety and environmental protection hazards, mainly including the purchase of 2 sets of quick transferring and making-up drilling rigs, the upgrading and transformation of 1 drilling rig, the purchase of 18 sets of maintenance equipment for logging instruments, the purchase of oil-based rock chip processing equipment and other equipment. We further promote the transformation of development mode, the adjustment of market structure, and the cultivation of core competitiveness.

## 6. Other matters of disclosure

### (1) Potential risks

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

#### A. Market competition risk

At present, the competitive landscape of the oilfield service market has not undergone major changes, and there is still an oversupply situation. Coupled with the influence of international situation changing beyond expectations and the energy market fluctuated sharply, the oilfield service industry is facing greater operating pressure. At the same time, oil and gas companies seek to achieve their promised emission reduction targets, and some countries or regions protect the local oil service industry market, therefore, market risk is still the one that the company needs to face.

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### B. Health, safety and environmental protection risk

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

### C. Overseas operation risk

The Company has business in many foreign countries, and will increase communication with territorial governments, enterprises and staff. Due to the influence of geopolitics, economy, religion, humanity, policy changes, scientific and technological improvement, legal differences and other conditions, including political instability, fiscal instability and tax policies, barriers to entry, contract breaches, tax and legal disputes, trade secrets disputes or disclosure, technical equipment and information capabilities cannot meet competitive needs, etc., the risks of the company's overseas business development and operations may increase. At the same time, the current epidemic situation in countries where the company's key overseas markets are located continues to change, which has also increased the impact on the company's overseas projects operating and personnel health.

### D. Exchange rate risk

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

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

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

### A. Assets, liabilities and shareholders' equity analysis

	As to 30 June 2022	As to 31 December 2021	The change
	RMB' 000	RMB' 000	RMB' 000
<b>Total assets</b>	<b>65,671,526</b>	64,052,447	1,619,079
Current assets	35,215,584	31,752,732	3,462,852
Non-current assets	30,455,942	32,299,715	-1,843,773
<b>Total liabilities</b>	<b>58,254,367</b>	57,190,930	1,063,437
Current liabilities	55,921,683	55,020,881	900,802
Non-current liabilities	2,332,684	2,170,049	162,635
<b>Total equity attributable to equity shareholders of the Company</b>	<b>7,417,159</b>	6,861,517	555,642

As at 30 June 2022, the Group's total assets were RMB65,671,526,000 and total liabilities were RMB58,254,367,000. The total equity attributable to shareholders of the Company was RMB7,417,159,000. Compared with the consolidated statement of financial position as at 31 December 2021 ("Compared with that at the end of last year"), the changes and its main reasons were as follow:

Total assets were RMB65,671,526,000, increased by RMB1,619,079,000 compared with that of the end of last year, including that (i) current assets were RMB35,215,584,000, increased by RMB3,462,852,000 compared with that of the end of last year, mainly due to the increase in completed unliquidated projects in the first half of the year, resulting in an increase in contract assets of RMB3,304,419,000. (ii) non-current assets were RMB30,455,942,000, decreased by RMB1,843,773,000 compared with that of the end of last year, mainly due to depreciation and amortization of the Group's fixed assets and long-term prepaid expenses were normally accrued in the first half year.

The total liabilities were RMB58,254,367,000, increased by RMB1,063,437,000 compared with that of the end of last year, including that (i) current liabilities were RMB55,921,683,000, increased by RMB900,802,000 compared with that of the end of last year, mainly due to an increase of RMB1,042,176,000 of short-term borrowings in the first half of the year; and (ii) non-current liabilities were RMB2,332,684,000, increased by RMB162,635,000 compared with that of the end of last year, which is mainly due to an increase of long-term borrowings of RMB178,954,000.

Total equity attributable to shareholders of the Company was RMB7,417,159,000, increased by RMB555,642,000 compared with that of the end of last year. It was mainly due to the fact that profit attributable to shareholders of the Company for the first half of 2022 was RMB555,642,000.

As at 30 June 2022, the ratio of total liabilities to assets was 88.7%, comparing with 89.3% as at 31 December 2021.

## Section III Discussion and Analysis of Management

### B. Cash flow analysis

The main items of cash flow of the Company in the first half of 2022 and the first half of 2021 showed in the following table.

Main items of cash flow	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Net cash (outflow)/inflow from operating activities	(537,926)	358,861
Net cash outflow from investing activities	(492,591)	(390,632)
Net cash inflow from financing activities	305,843	9,267
(Decrease)/increase in cash and cash equivalents	(724,674)	(22,504)
Cash and cash equivalents at the beginning of the year	2,475,307	1,523,352
Exchange in cash and cash equivalents	96,207	(6,704)
Cash and cash equivalents at the end of the interim year	1,846,840	1,494,144

In the first half of 2022, the Group's net cash outflow from operating activities was RMB537,926,000, representing an increase of cash outflow by RMB896,787,000 as compared with the corresponding period of last year. It was mainly due to the increased payments to suppliers during the first half of this year.

In the first half of 2022, the Group's net cash outflow from investing activities was RMB492,591,000, an increase of cash outflow by RMB101,959,000 as compared with the corresponding period of last year. It was mainly due to the expenditure on the acquisition of equipment increasing year-on-year.

In the first half of 2022, the Group's net cash inflow from financing activities was RMB305,843,000, an increase of cash inflow by RMB296,576,000 compared with the corresponding period of last year. It was mainly due to the increase in volume of loans in the first half year.

### C. Borrowings from bank and related companies

As at 30 June 2022, the Group's borrowings from bank and related companies were RMB19,991,943,000 (as at 31 December 2021: RMB19,074,777,000). These borrowings include the short-term borrowings of RMB18,441,608,000 and the long-term borrowings due more than one year of RMB1,550,335,000. As at 30 June 2022, approximately 86.0% of the borrowings were denominated in Renminbi (as at 31 December 2021: 86.8%) and approximately 14.0% were denominated in US dollars (as at 31 December 2021: 13.2%).

### D. Gearing ratio

As at 30 June 2022, the gearing ratio of the Group was 72.1% (as at 31 December 2021: 71.6%). The gearing ratio = (liability with interest – cash & cash equivalents)/(liability with interest – cash & cash equivalents + shareholders' equity).

### E. Assets pledge

For the year ended 30 June 2022, there was no pledge on the Group's assets.

### F. Foreign exchange risk management

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

## Section IV Corporate Governance

During the reporting period, the Company continues to improve the corporate management, regulate the operation, and operate in compliance with domestic and international laws and regulations. The Company's general meeting, the Board and the management have clear definition of power and responsibilities, and they perform their own duties and operate in a clear and standardized manner. The newly established nomination committee of the Board promotes the diversification within the Board. The independent directors perform their duties with due diligence, actively attend the meetings of the Board and relevant specific committees, earnestly study matters to be decided on, and make suggestions and proposals for the Company's reform and development. The Company strengthened the construction of fundamental corporate governance systems, and formulated the Working Rules of the Nominating Committee, the Working Rules of the General Manager, the Administrative Measures for the Authorization of the Board of Directors, the Special Meeting System of the Chairman, and General Manager's Office Meeting System in accordance with the latest regulatory requirements and work practices to build an institutional foundation for standardizing corporate governance. The Company continued to improve the quality of information disclosure, increased active disclosures, and enhanced corporate transparency. The Company cares about investor communication and would overcome the adverse impact of the epidemic to maintain positive interaction with investors and we have achieved new progress in investor relationship work. The Company has continuously enhanced the awareness of compliance with laws and regulations by its directors, supervisors and senior management, and meticulously organized trainings for the directors, supervisors and senior management to perform their duties.

During the reporting period, the Company convened three general meetings of shareholders (including two class meetings), three meetings of the Board, and three meetings of the supervisory committee. A total of 9 resolutions of the shareholders meeting, 25 resolutions of the meetings of the Board and 11 resolutions of the meetings of the supervisory committee were formed. The preparation and convening of various meetings comply with laws and regulations, and the resolutions formed are legal and effective.

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

### 1. Summary of Shareholders' Meetings

During the reporting period, the Company held the annual general meeting for the year 2021, the first A shareholders class meeting for 2022 and the first H shareholders class meeting for 2022 of the Company on 26 May 2022 in Beijing. Details are as follows:

Name of meeting	Date of meeting	Website designated for searching the resolutions	Domestic disclosure date of resolutions	Resolutions
The annual general meeting for the year 2021	26 May 2022	www.sse.com.cn www.hkexnews.hk	27 May 2022	1. To consider and approve the Report of the Board of Directors of the Company for the year 2021. 2. To consider and approve the Report of the Supervisory Committee of the Company for the year 2021. 3. To consider and approve the audited financial statements and the auditor's report of the Company for the year 2021. 4. To consider and approve the profit distribution plan of the Company for the year 2021. 5. To re-appoint BDO China Shu Lun Pan Certified Public Accountants LLP as the domestic auditor and internal control auditor of the Company for the year 2022 and to re-appoint BDO Limited as the international auditor of the Company for the year 2022. 6. To consider and approve the annual cap of continuing related transactions between the Company and PipeChina for 2022. 7. To consider and approve the election of Mr. Wang Jun as a non-employee representative supervisor of the tenth session of the supervisory committee of the Company. 8. To consider and approve provision of guarantee for wholly-owned subsidiaries and joint venture. 9. To consider and approve the authorisation to the Board to repurchase domestic shares and/or overseas-listed foreign shares of the Company.
The first A shareholders class meeting for 2022	26 May 2022	www.sse.com.cn www.hkexnews.hk	27 May 2022	To consider and approve the authorisation to the Board to repurchase domestic shares and/or overseas-listed foreign shares of the Company.
The first H shareholders class meeting for 2022	26 May 2022	www.sse.com.cn www.hkexnews.hk	27 May 2022	To consider and approve the authorisation to the Board to repurchase domestic shares and/or overseas-listed foreign shares of the Company.

## Section IV Corporate Governance

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

Name	Position	Change	Reasons for change
Ma Xiang	Chairman of Supervisory Committee, Supervisor	Resigned	Personal age
Wang Jun	Supervisor	Elected	Elected by the general meeting
Wang Jun	Chairman of Supervisory Committee	Elected	Elected by the supervisory committee
Zhang Jiankuo	Deputy General Manager	Resigned	Change of work

Mr. Ma Xiang resigned as the chairman of the supervisory committee and the supervisor of the Company due to his age on 29 March 2022. According to the election of the annual general meeting for the year 2021, Mr. Wang Jun was elected as a non-employee representative supervisor of the tenth session of the supervisory committee of the Company.

On 26 May 2022, the Company held the tenth meeting of the tenth session of the supervisor committee and Mr. Wang Jun was elected as the chairman of the tenth session of the supervisor committee, with a term of office commencing from 26 May 2022 to the date when the term of the tenth session of the supervisor committee expires.

Mr. Zhang Jiankuo resigned as the deputy general manager of the Company due to change in his work position on 28 June 2022.

The Company expresses its heartfelt thanks to Mr. Ma Xiang and Mr. Zhang Jiankuo for their hard work and important contributions during their tenure.

### 3. Interim cash dividends plan for 2022 and plan to convert capital reserves into share capital

In accordance with the Articles of Association of the Company, the Board resolved that no interim cash dividend was paid for the period ended 31 December 2022, and no issue of bonus shares by way of capitalization of common reserves.

### 4. The Company's share option incentive scheme and its effect

Applicable  Not Applicable

### 5. Compliance with the Corporate Governance Code

For the six months ended 30 June 2022, the Company has complied with all the code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

### 6. Compliance with the Model Code

The Board of the Company has adopted the Model Code as contained in Appendix 10 to the Listing Rules. After having specifically inquired from all the directors, supervisors and senior management, the Company confirms that its directors, supervisors and senior management have fully complied with the standards as set out in the Model Code as contained in Appendix 10 to the Listing Rules.

### 7. Independent non-executive directors and audit committee

As at 30 June 2022, the Company has three independent non-executive directors, one of whom is professional in the accounting field and has experience in financial management.

The audit committee of the Board of the Company has been founded. The members of the audit committee include Mr. Zheng Weijun, Mr. Zhou Meiyun, Mr. Chen Weidong and Mr. Dong Xiucheng. The main responsibilities of the audit committee are to review and supervise the Company's financial reporting procedures and internal control system, and to provide advice to the Board. The audit committee has reviewed and confirmed the interim results of the Company for the six-months ended 30 June 2022 and the 2022 Interim Report.

# Section V Environmental and Social Responsibility

## 1. Environmental Information

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

Applicable  Not Applicable

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

Applicable  Not applicable

#### A. Administrative penalty due to environmental protection problems

Applicable  Not Applicable

#### B. Other disclosure environmental information refers to heavily polluting industries

The Company adheres to the development philosophy of ecological civilization, green and low-carbon, implementing HSE management system, environmental protection and pollution prevention effectively. The Company strictly complies with environmental protection regulations and requirements of the emission standards and international conventions in the countries where it operates, and has executed relevant systems such as the Environmental Protection Management Regulations, the Pollution Prevention Management Regulations, the Radiation Management Regulations and the Energy and Water Saving Management Regulations. The Company verifies the operation of environmental protection factors through relevant inspection and system audit at all levels, and continues to rectify and improve it. For hazardous waste, the Company conducts recycling and treatment by delivering the waste to the entities with treatment qualifications.

Currently, the pollutants generated by the Company mainly include exhaust gas, domestic sewage, general solid waste, and oily waste, etc. The owners would directly outsource, or the construction unit would outsource to environmental protection treatment service providers to dispose of drilling waste mud, water-based rock chip and oil-based rock chip. Exhaust gas includes diesel engine exhaust and gas fuel exhaust, and the emission indicators have met the local standards and requirements; domestic sewage includes the domestic sewage from fixed places and the domestic sewage from mobile construction sites, and the domestic sewage from fixed production sites is transferred to municipal pipeline network for centralized treatment while the domestic sewage from mobile construction sites is recycled after on-site pre-treatment; general solid wastes are mainly mud medicament packaging bags (barrels), rubber part waste, color striped cloth, oil-free screens and impermeable membranes, etc., and are handed over to environmental protection service providers for recycling and disposal. Oily wastes mainly include mineral oil waste, waste oil drum, oily sludge, and oil-contaminated waste such as waste paint drums, oily screens, and oily anti-seepage membranes which shall be handed over to qualified environmental protection service providers for disposal; domestic garbage should be handed over to professional organization for disposal; waste drilling mud, water-based cuttings and oil-based cuttings shall be handled according to the contract and handed over to the environmental protection service provider for disposal for those classified as general solid waste, while those classified as hazardous waste should be handed over to the qualified environmental protection service provider for collection, transportation and storage and to be utilized in integration after adopting thermal analysis and other methods for harmless treatments. We will actively carry out self-inspection, rectification and improvement actions for solid waste and hazardous waste management and issue the Notice on Carrying Out Special Supervision of Solid and Hazardous Waste Management at Production Sites. Through the combination of self-inspection, self-improvement and special supervision, the time node is clarified, and the management of general industrial solid waste, hazardous waste, domestic waste, kitchen waste and other management conditions at the Company's operation site is comprehensively inspected and rectified. Also, we will check stringently the personnel, equipment, on-site storage and pollution prevention and control conditions of environmental protection treatment service providers, and legal and compliant disposal of pollutants to curb "replacing management with contracting" and "contracting without management". As at 30 June 2022, the Company disposed of 969,000 tons of general solid waste (including drilling water-based waste mud and rock chip), 571 tons of hazardous waste (without oil-based rock chip), 253,000 cubic meters of domestic sewage and 406,000 cubic meters of drilling operation waste water according to regulations.

The Company strengthened on-site energy efficiency management, implemented energy conservation and clean production technical measures, and vigorously implemented energy efficiency improvement projects. In the first half of the year, the comprehensive energy consumption for RMB10,000 industrial output value was 0.195 tons of standard coal, representing a year-on-year decrease of 12.78%. At the same time, the Company actively organized the establishment of green project companies and the creating activities of green grassroots, based on four professional indicators for creating green grassroots such as drilling, downhole operation, geophysics and oil project construction sites, added a new indicator for logging and mud logging. The Company organized the annual establishment and recheck work of green grassroots, 372 teams passed the acceptance at present, and the remaining acceptance is carried out in an orderly manner. The Company used 779 environmental toilets now, the drilling construction site was basically equipped, the underground operation team was equipped in an orderly manner, the site use and effect were good, and the working and living environment of employees has been further improved. 7 enterprises passed the green enterprise recheck and 3 enterprises completed the creating work green enterprise for the first time.

The Company has a completed environmental emergency management system and an environmental emergency network, which is divided into three levels including enterprise, professional business unit and grassroots level. The Company prepared and timely revised the environmental emergency plans according to the risk assessment results, and filed the environmental emergency plan according to the requirements. The Company also has emergency rescue teams and conducts regular emergency plan training and drills, besides, inspecting emergency rescue facilities regularly.

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

Applicable  Not Applicable

# Section V Environmental and Social Responsibility

## D. Information about ecological protection, pollution prevention and environmental responsibilities

Applicable  Not applicable

In order to strengthen the ability enhancement of the environmental protection professional management team and continuously improve the standard of our environmental protection business, we held online training courses on improving the ability and quality of environmental protection business within the Company and invited expert teams to provide professional training to our safety directors, environmental protection staff and business backbones of each subsidiary company. These courses mainly include environmental protection and pollution prevention laws, regulations and policy requirements, analysis and application of on-site pollution prevention and control technology for petroleum engineering, clean production review and acceptance and legal compliance supervision, green enterprise creation and environmental protection system review, production site pollution prevention and control practices, etc. We also regularly carry out rotation training for key environmental protection positions in grassroots units to consolidate the fundamentals of environmental protection management at production sites for grassroots environmental management personnel.

We make use of banners, posters, board newspapers, electronic screens, WeChat and other ways to actively carry out promotion and education on the "June Fifth" World Environment Day around the topic "collaboratively construct a clean and beautiful world". Various activities on environmental protection topics, such as Sinopec open day "Exploration of smart energy", "Go green and low carbon. Save energy first.", "Save some more water. Save some more energy. Drive a day less. Save one more paper", were held successfully, encouraging all employees to strive to be the pioneers of constructing an ecological civilization.

## E. Measures and effects on the Company to reduce the carbon emissions

Applicable  Not applicable

In the first half of 2022, the Company has strengthened the application of clean energy. In view of the advantages that the drilling projects of the operation units in Sichuan, Xinjiang, Phase II Fuling, etc. have long cycles and it is suitable for them to use electricity and natural gas, the Company created chances to advocate the use of clean energy such as electricity and natural gas and promoted to adjust the energy consumption structure. Specifically, in the first half of this year, we carried out well completion for 463 wells by use of network electrical drilling rigs, with a drilling footage of 2,059,000 meters, accounting for 51% of the domestic total drilling footage of 4,037,200 meters. The use of electricity in substitute of 150,000 tons of diesel managed to save 156,000 tons of standard coal. The Company strengthens carbon asset management, organizes further investigations of greenhouse gas emission facilities, emission sources, and emission categories, changes relevant inspections from annually to monthly. In the first half of the year, carbon emissions of the Company were 1,136,000 tons. The Company also conducts specialized training for personnel of carbon asset management of subsidiaries.

## 2. Poverty alleviation program launched by the Company

Applicable  Not Applicable

## Section VI Significant Events

### 1. Performance of undertakings

The special undertakings made by the Company and its shareholders holding more than 5% of the shares of the Company and their performance of the undertakings as of 30 June 2022:

Undertaking Background	Undertaking Type	Undertaking party	Undertaking	Date and duration of the Undertaking	Whether there is a performance period	Whether the undertaking has been strictly fulfilled
Undertaking regarding the material assets reorganization	To solve horizontal competition	CPC	The Non-Competition Undertaking 1. China Petrochemical Corporation undertook that it would not engage with the Company's production and business activities in competition, and will ensure its subsidiaries not to engage with the Company's production and business activities in competition through exercise of its shareholder rights. 2. After the material assets reorganization, if Sinopec Star's new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. 3. After the material assets reorganization, if China Petrochemical Corporation and its subsidiaries' new business opportunity has any direct or indirect competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company. If China Petrochemical Corporation intends to transfer, sell, lease, license or otherwise transfer or permit to use any of the above business which would result in the competition with the Company's main business, priorities of the above-mentioned opportunity will be given to the Company for avoiding the competition. 4. China Petrochemical Corporation consents that it will bear and pay damages to the listed companies caused by its violation of the commitment.	Date of undertaking: 12 September 2014 Duration: long term	No	During the reporting period, China Petrochemical Corporation did not act contrary to the undertaking.
Undertaking regarding the material assets reorganization	To solve connected transactions	CPC	The Undertaking 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 fulfill the obligations of the program approval and information disclosure, in accordance with the provisions of relevant laws and regulations, and the Company's Articles of Association. The confirmation price related to the connected transaction will follow the principle of fair, reasonable and impartial.	Date of undertaking: 12 September 2014 Duration: long term	No	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.
Undertaking regarding the material assets reorganization	Others	CPC	Issued "The commitment letter regarding to the regulating of connected transaction and maintaining the independence of the Company": 1. China Petrochemical Corporation and its controlling companies guarantee the maintaining of the separation from the Company's asset, personnel, finance, organization and business, strictly comply with the relevant provisions regarding to the listed Company's independency of CSRC. China Chemical Corporation will not utilize, control or violate the standardized operation program of the listed company, not intervene the Company's operating decisions, and not jeopardize the legitimate rights and interests of the Company and its shareholders. 2. China Petrochemical Corporation and its controlling companies guarantee not to illegally use the funds of the Company and its holding Company. 3. If China Petrochemical Corporation violates the above commitment, it would undertake the law and compensate the losses caused to the Company.	Date of undertaking: 12 September 2014 Duration: long term	No	During the reporting period, China Petrochemical Corporation did not act contrary to the promise.

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

Applicable  Not Applicable

### 3. Illegal guarantee

Applicable  Not Applicable

## Section VI Significant Events

### 4. Audit of the interim report

Applicable  Not Applicable

#### (1) The situation of appointment and dismissal of the accounting firm

The Company didn't change its accounting firm during the reporting period.

As proposed by the eighth meeting of the tenth session of the Board of the Company and approved by the shareholders at the annual general meeting for 2021, the Company re-appointed BDO China Shu Lun Pan Certified Public Accountants LLP (special general partnership) and BDO Limited as the domestic auditor and overseas auditor of the Company for the year 2022, respectively, and appointed BDO China Shu Lun Pan Certified Public Accountants LLP (special general partnership) as the Company's internal control auditor for 2021.

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

Applicable  Not Applicable

### 5. The changes and solutions of matters involved in non-standard opinion of financial report for 2021 given by the auditors

Applicable  Not Applicable

### 6. Insolvency and restructuring

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

### 7. Material litigation and arbitration

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

On 16 August 2018, Sinopec (Brazil) Co., Ltd., an indirectly wholly-owned overseas subsidiary of the Company (the "Brazil Subsidiary") applied for judicial reorganization to the Third State Court of Commercial Enterprises in Rio de Janeiro, Brazil (the "Court of Rio") according to the relevant local laws in Brazil. On 31 August 2018, the Brazil Subsidiary received a ruling from the Court of Rio which approved Brazil Subsidiary's entering into judicial reorganization and the law firm Nascimento & Rezende Advogados was appointed as the judicial reorganization manager by the Court of Rio. For details, please refer to the "Announcement regarding the Proposed Judicial Reorganization by an Indirectly Wholly-owned Overseas Subsidiary" (P. 2018-056) disclosed in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 4 September 2018, and on www.hkexnews.hk on 3 September 2018.

On 15 July 2019 (Brazil time), the Brazil Subsidiary received a ruling from the Court of Rio on the approval of the judicial reorganization plan of the Brazil Subsidiary. After the judicial reorganization judge officially approved and published the reorganization scheme, the reorganization procedure entered into the execution stage with an execution period of two years. For details, please refer to the "Announcement on Approval of Judicial Reorganization Plan of Indirectly Wholly-owned Overseas Subsidiary by Overseas Court" (P. 2019-032) disclosed in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 19 July 2019, and on www.hkexnews.hk on 18 July 2019.

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

As of 31 December 2021, according to the progress of the judicial restructuring plan, the Company estimated that the Brazil Subsidiary will pay a total of approximately USD58.42 million (equivalent to RMB389 million) for the restructuring plan. In 2018, the Company has accrued an estimated judicial restructuring expenses of USD69.25 million (equivalent to approximately RMB475 million in the year). Therefore, the Company proposed to reverse an estimated liability of USD10.83 million (equivalent to approximately RMB69 million) by the end of 2021, which will increase the net profit of the Company by approximately RMB69 million for the period ended 31 December 2021. For details, please refer to the "Announcement of the Progress of Judicial Reorganization of Indirectly Wholly-owned Overseas Subsidiary" disclosed in "China Securities Journal", "Shanghai Securities News", "Securities Times" and on www.sse.com.cn on 22 January 2022, and on www.hkexnews.hk on 21 January 2022.

## Section VI Significant Events

On 8 October 2014, the Ecuador Banya Duri Company (厄瓜多爾斑尼亞杜麗公司), an indirectly wholly-owned subsidiary of the Company (the “Banya Duri Company”) entered into the Contract for I-L-Y Oilfield Comprehensive Service Projects in Ecuador (the “I-L-Y Oilfield Projects Contract”) with Corporacion Estatal Petrolera Ecuatoriana (the “PAM”). The Banya Duri Company is a project company established by the Company in Ecuador to engage in I-L-Y oilfield comprehensive service with 90% and 10% of its shares held by Sinopec International Petroleum Service Corporation (中國石化集團國際石油工程有限公司), a wholly-owned subsidiary of the Company, and Sinopec International Petroleum Service Corporation Ecuador Subsidiary respectively. During the implementation of the projects, the parties had disputes on the payments for some increased oil production. After repeated unsuccessful negotiations, in April 2019, the Banya Duri Company served the Notice of Application for Legal Arbitration to the PAM in relation to such contract disputes in accordance with the relevant provisions of the I-L-Y Oilfield Projects Contract, recommending the Permanent International Court of Arbitration in Hague as the arbitration institution to conduct arbitrations in accordance with the arbitration rules of the UNCITRAL Arbitration Rules (1976 Edition). The requests made by Banya Duri Company include: the PAM should pay an invoice amount of US\$63.29 million for the increased oil production with interest, confirm the Y-12 well would operate with optimized production capacity and pay US\$8.13 million, as well as pay the losses brought to the Banya Duri Company due to the default of the PAM and relevant charges for the legal arbitration. In August 2019, Banya Duri Company and PAM has each recommended one arbitrator and jointly appointed one presiding arbitrator to form the arbitration tribunal. In November 2020, PAM had submitted its Statement of Defense to the arbitral tribunal. From April to August in 2021, both sides completed the second round of defense and jurisdictional objection reply procedure. From 20 to 24 September 2021, both sides held a five-day hearing under the auspices of the arbitral tribunal, and completed opinions return after arbitral court on 25 October 2021.

On 22 February 2022, the Banya Duri Company received the following ruling on the arbitration: 1. The arbitration tribunal required PAM to compensate Banya Duri Company or pay accounts payable, tax, and fees for arbitration, experts and consultants, totaling approximately US\$64 million to Banya Duri Company. 2. The arbitration tribunal did not support the arbitration request of Banya Duri Company for PAM to pay for the service fees of increased oil production incurred by the YNEB 12 well in the Y oilfield of US\$7 million. 3. The arbitration required PAM to pay the default interest as determined and calculated in accordance with the arbitration ruling and relevant provisions of the Civil Code of Ecuador. The location of the arbitration was Chile. In accordance with the relevant laws on arbitration in Chile, PAM may apply to the courts of Chile to revoke the arbitration ruling.

As the ruling has not yet been executed, there is uncertainty in its implementation. As such, it is currently impossible to determine the impact of the arbitration on the current or future profits of the Company. The Company has made a certain proportion of bad debt provision for the above accounts receivable according to their aging. The Company will make active response and safeguard the legitimate rights and interests of the Company. For details, please refer to the “Announcement on an Arbitration in relation to an Indirectly Wholly-owned Subsidiary” (P.2019-033) disclosed in “China Securities Journal”, “Shanghai Securities News”, “Securities Times”, and on www.sse.com.cn on 27 August 2019, and on www.hkexnews.hk on 26 August 2019; the “Announcement on an Arbitration in relation to an Indirectly Wholly-owned Subsidiary” (P.2022-005) disclosed in “China Securities Journal”, “Shanghai Securities News”, “Securities Times”, and on www.sse.com.cn on 26 February 2022, and on www.hkexnews.hk on 25 February 2022.

### 8. The punishment or rectification situation suffered by the Company or its directors, supervisors, senior management, controlling shareholder and actual controllers

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

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

Applicable  Not Applicable

## Section VI Significant Events

### 10. Information on material connected transactions

The Company's material connected transactions for the six months ended 30 June 2022 were as follows:

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

The nature of the transaction classification	Connected parties	Amount of transaction RMB' 000	Proportion of the same type of transaction (%)
Purchase of materials and equipment	China Petrochemical Corporation and its associates	5,291,028	45.0
Rendering engineering services	China Petrochemical Corporation and its associates	20,762,266	63.6
Rendering engineering services	China Oil and Gas Pipeline Network Corporation	1,694,835	5.2
Comprehensive service expenditure	China Petrochemical Corporation and its subsidiaries	4,420	100.0
Other comprehensive service expenditure	China Petrochemical Corporation and its subsidiaries	192,675	100.0
Technology R&D Income	China Petrochemical Corporation and its subsidiaries	51,312	97.5
Land and property rental expenses	China Petrochemical Corporation and its subsidiaries	428,809	64.3
Equipment leasing expenses	China Petrochemical Corporation and its subsidiaries	11,869	10.6
Loan interest expense	China Petrochemical Corporation and its associates	263,629	97.8
Borrowings obtained	China Petrochemical Corporation and its subsidiaries	12,154,500	100.0
Borrowings repaid	China Petrochemical Corporation and its subsidiaries	11,380,482	99.7
Safety and insurance fund expenses	China Petrochemical Corporation	40,100	100.0
Safety and insurance fund expenses refund	China Petrochemical Corporation	36,821	100.0

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

## Section VI Significant Events

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

Unit: RMB' 000

Connected parties	Connected relation	Funds provided to connected party			Funds provided to the Company by connected party		
		Opening balance	Occurrence amount	Closing balance	Opening balance	Occurrence amount	Closing balance
<b>China Petrochemical Corporation and its subsidiaries</b>	Controlling shareholder and its subsidiaries	8,255,885	1,773,196	10,029,081	15,477,629	1,195,648	16,673,277
<b>Sinopec Finance Company Limited</b>	Subsidiary of the controlling shareholder	–	–	–	4,550,000	650,000	5,200,000
<b>Sinopec Century Bright Capital Investment Limited</b>	Subsidiary of the controlling shareholder	–	–	–	1,970,091	271,517	2,241,608
<b>Total</b>		8,255,885	1,773,196	10,029,081	21,997,720	2,117,165	24,114,885
<b>Causes of related claims and debts</b>					Normal production and operation		
<b>Influence of connected claims and debts on the Company's performance and financial situation</b>					No material adverse effects		

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

### A. Deposit business

Unit: RMB' 000

Connected parties	Connected relation	Daily maximum deposit limit	Deposit rate scope	Beginning balance	For the six months ended 30 June 2022	Ending balance
<b>Sinopec Finance Company Limited</b>	Subsidiary of the controlling shareholder	3,500,000	0.35%	902,678	-869,757	32,921
<b>Sinopec Century Bright Capital Investment Limited</b>	Subsidiary of the controlling shareholder		0.01%	690,991	367,004	1,057,995

### B. Loan business

Unit: RMB' 000

Connected parties	Connected relation	Loan limit	Loan rate scope	Beginning balance	For the six months ended 30 June 2022	Ending balance
<b>Sinopec Finance Company Limited</b>	Subsidiary of the controlling shareholder	16,000,000	LPR-0.1%	4,550,000	650,000	5,200,000
<b>Sinopec Century Bright Capital Investment Limited</b>	Subsidiary of the controlling shareholder	600,000,000 US dollar	LIBOR +1.18%~2.22%	1,970,091	271,517	2,241,608

### C. Credit extension and other finance business

Connected parties	Connected relation	Business type	Total amount RMB' 000	Actual amount RMB' 000
<b>Sinopec Finance Company Limited</b>	Subsidiary of the controlling shareholder	Back letter and credit extension of bill	11,800,000	10,018,420

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

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

## Section VI Significant Events

### 11. Material contracts and performance

#### (1) Trusteeship, sub-contracting and leasing

##### A. Trusteeship and sub-contracting

Applicable  Not Applicable

##### B. Leasing matters

Applicable  Not Applicable

#### (2) Guarantee

Applicable  Not applicable

Unit: Thousand RMB

External Guarantee provided by the Company (excluding Guarantees for Subsidiaries)															
Guarantor	Relationship with the listed company	Guaranteed person	Amount of guarantee	Date of guarantee (Agreement signing date)	The starting day	End date	Type of guarantee	Main debt situation	Pledged thing	Whether the guarantee has been fulfilled	Whether the guarantee is overdue	Overdue amount	Counter-guarantee	Whether to guarantee the related party	Connected relationship
The Company	itself	Mexico DS Company	1,845,299	17 June 2022	17 June 2022	The end time of annual meeting of shareholders for the year 2022	Guarantee of joint and several liability	-	No	No	No	0	Yes	No	-
Total Amount of Guarantees during the Reporting Period (excluding Guarantees for Subsidiaries)															1,845,299
Total Balance of Guarantees at the end of the Reporting Period (A) (excluding Guarantees for Subsidiaries)															1,845,299
The Guarantee provided by the Company and its Subsidiaries to the Subsidiaries															
Total Amount of Guarantees paid to Subsidiaries during the Reporting Period															10,207,331
Total Balance of Guarantees to Subsidiaries at the end of the Reporting Period (B)															27,989,017
Total Company Guarantee (including Guarantee for Subsidiaries)															
Total Guarantees(A+B)															29,834,316
Total Amount of Guarantees as a Percentage of the Company's Net Asset (%)															402.2
Among them:															
Amount of Guarantees provided to Shareholders, Actual Controllers and their related Parties (C)															0
Debt Guarantees Amount directly or indirectly for the guaranteed Object whose asset-liability Ratio exceeds 70% (D)															10,329,210
The Amount of the total Guarantee exceeds 50% of the Net Assets (E)															26,125,737
Sum of the three Guarantees above (C+D+E)															36,454,947
Statement of Unexpired Guarantees as potential subject to Joint Liability															None
Guarantee Statement							The guarantees provided by the Company are all provided for the performance of the performance guarantee letters issued by the wholly-owned subsidiaries and joint venture (DS Servicios Petroleros,S.A. de C.V.) in the domestic and foreign contracts. The guarantee amount is within the amount approved by the annual general meeting for 2021 of the Company.								

On 27 April 2021, the Board of the Company has considered and approved the resolution on the provision of guarantee for wholly-owned subsidiaries and joint venture of the Company and such resolution was also approved by the 2020 annual general meeting of the Company convened on 18 June 2021. The valid period of the guarantee commenced from the date of approval by the shareholders at the 2020 annual general meeting until the conclusion of the 2021 annual general meeting of the Company. In order to satisfy the needs of international market expansion and day to day operation, the Company expects that after the conclusion of the 2021 annual general meeting, the Company needs to continue to provide guarantee for wholly-owned subsidiaries of the Company. Meanwhile, in order to satisfy the needs of Mexico EBANO Project, the Company needs to provide performance guarantee for its joint venture, Mexico DS Company. Therefore, the Board considered and approved the resolution on the provision of guarantee for wholly-owned subsidiaries and joint venture on 29 March 2022, mainly including the Company will provide performance guarantee to Mexico DS Company, and the maximum amount of joint and several guarantee liabilities undertaken by the Company during the guarantee period shall not exceed US\$275 million. The guarantee period commences from the date of approval by the shareholders at the 2021 annual general meeting until the conclusion of the 2022 annual general meeting of the Company. On 26 May 2022, the 2021 annual general meeting has approved all of matters above. For details, please refer to the "Announcement on provision of guarantee for wholly-owned subsidiaries and joint venture" (P.2022-014) disclosed in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 30 March 2022, and on www.hkexnews.hk on 29 March 2022.

On 17 June 2022, the Company, as Guarantor, entered into the Guarantee Agreement with Mexican National Hydrocarbons Commission, as Beneficiary, pursuant to which the Company has agreed to provide guarantee under the Production Sharing Contract for Mexico DS Company, to ensure that when Mexico DS Company loses contract performance capabilities, the Company will perform the contracts on its behalf to Mexican National Hydrocarbons Commission. The maximum amount of the joint and several guarantee liabilities undertaken by the Company during the guarantee period shall not exceed US\$274,950,000. Meanwhile, the other shareholder of Mexico DS Company, DIAVAZ issued a unilateral guarantee letter for 50% of the guarantee amount for the Guarantor. For details, please refer to the "Discloseable transaction provision of guarantee for joint venture" (P.2022-021) disclosed in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 20 June 2022, and on www.hkexnews.hk on 19 June 2022.

## Section VI Significant Events

### (3) Other material contracts

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

## 12. Other significant events

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

Applicable  Not Applicable

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

Applicable  Not Applicable

### (3) Other important matters that have a significant impact on investors' value judgments and investment decisions

Applicable  Not Applicable

# Section VII Changes in Ordinary Shares and Information on Shareholders

## 1. Changes in share capital

### (1) Changes in share capital

#### A. Changes in share capital

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

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

Applicable  Not Applicable

#### C. The effects of changes in share capital of ordinary shares on the financial indicators of the Company such as earnings per share and net assets per share, from reporting period to the date of interim report disclosure

Applicable  Not Applicable

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

Applicable  Not Applicable

### (2) Changes in shares with selling restrictions

Applicable  Not Applicable

## 2. Information of Shareholders

### (1) Number of shareholders

As at 30 June 2022, the number of shareholders of the Company was 133,672, including 133,336 shareholders of A shares and 336 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").

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

Shareholdings of the top ten shareholders						
Names of shareholders	Nature of shareholders	Changes of shareholdings <sup>1</sup> (shares)	Number of shares held at the end of the reporting period (shares)	Percentage to total share capital (%)	Number of shares with selling restrictions (shares)	Number of shares pledged or frozen
China Petrochemical Corporation <sup>2</sup>	State-owned legal person	0	10,727,896,364	56.51	0	0
Hong Kong Securities Clearing Company (Nominees) Limited ("HKSCC (Nominees) Limited") <sup>3</sup>	Overseas legal person	-52,000	5,402,011,694	28.46	0	0
CITIC Corporation Limited	State-owned legal person	-59,043,400	616,113,200	3.25	0	0
Hong Kong Securities Clearing Company Limited <sup>4</sup>	Others	-26,974,597	95,318,032	0.50	0	0
Anhui Yangguang Xintong Electronic Technology Corp., Ltd	Others	23,600,000	26,600,000	0.14	0	0
Agricultural Bank of China – China Securities 500 Trading Open Index Securities Investment Fund	Others	7,228,200	17,825,200	0.09	0	0
Shanghai Tongneng Investment Holdings Co., Ltd.	Others	4,660,000	16,176,200	0.09	0	0
Li Feng	Domestic natural person	1,593,300	12,000,000	0.06	0	0
Changjiang Pension Insurance Co.,Ltd.- Changjiang Shengshi Huazhang No.2 Community Pension Management Fund <sup>5</sup>	Others	0	11,574,427	0.06	0	0
Hu Xiao	Domestic natural person	0	9,920,000	0.05	0	0

## Section VII Changes in Ordinary Shares and Information on Shareholders

Shareholdings of top ten shareholders of shares without selling restrictions		Number of shares without selling restrictions held at the end of the reporting period (shares)	Types of shares
Name of shareholders			
China Petrochemical Corporation		10,727,896,364	A Share
Hong Kong Securities Clearing Company (Nominees) Limited ("HKSCC (Nominees) Limited")		5,402,011,694	H Share
CITIC Corporation Limited		616,113,200	A Share
Hong Kong Securities Clearing Company Limited		95,318,032	A Share
Anhui Yangguang Xintong Electronic Technology Corp., Ltd		26,600,000	A Share
Agricultural Bank of China – China Securities 500 Trading Open Index Securities Investment Fund		17,825,200	A Share
Shanghai Tongneng Investment Holdings Co., Ltd.		16,176,200	A Share
Li Feng		12,000,000	A Share
Changjiang Pension Insurance Co.,Ltd.- Changjiang Shengshi Huazhang No.2 Community Pension Management Fund		11,574,427	A Share
Hu Xiao		9,920,000	A Share
Statement on the connected relationship or activities in concert among the above-mentioned shareholders		The Company is not aware of any connected relationship or acting in concert among the above-mentioned shareholders.	

- Note:
- As compared with the number of shares held as of 31 December 2021.
  - Apart from directly holding 10,727,896,364 A shares of the Company, China Petrochemical Corporation also held 2,595,786,987 H shares through its wholly-owned subsidiary, Century Bright Company. Therefore, China Petrochemical Corporation directly and indirectly holds 13,323,683,351 shares of the Company, which represents 70.18% of the total shares of the Company.
  - HKSCC (Nominees) Limited is a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited, acts as an agent to hold H shares of the Company on behalf of other companies or individual shareholders.
  - Hong Kong Securities Clearing Company Limited is a wholly-owned subsidiary of the Hong Kong Exchanges and Clearing Limited, and acts as a nominal holder to hold A shares of the Company in the Shanghai Stock Exchange on behalf of the investors of the Hong Kong Stock Exchange.
  - Changjiang Pension Insurance Co., Ltd held it on behalf of Qi Xin Gong Ying Scheme.

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

To the directors' knowledge, as at 30 June 2022, the following persons (other than director, supervisor or senior management of the Company) had an interest or short position in the shares and underlying shares of the Company which shall be disclosed under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") were as follows:

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

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

Save as disclosed above, as at 30 June 2022, as far as known to the directors, no other person (other than director, supervisor or senior management of the Company) had an interest or short position in the shares and underlying shares of the Company which would as recorded in the register kept by the Company under Section 336 of the SFO.

## Section VII Changes in Ordinary Shares and Information on Shareholders

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

#### (1) Shareholdings of the current directors, supervisors and senior management and those resigned during the reporting period

The actual number of shares in the issued share capital of the Company held by the directors, supervisors and senior management as at the end of the reporting period are as follows:

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

#### Directors', supervisors' and senior management's rights to acquire interest or short position in shares or debentures

As at 30 June 2022, the Company's deputy general manager Mr. Sun Bingxiang as a beneficial owner held 50,300 A shares of the Company, representing 0.00037% of the A shares in issue of the Company and 0.00026% of shares in issue of the Company. Save as disclosed above and Qi Xin Gong Ying Scheme disclosed below, none of the directors, supervisors or other senior management of the Company had any interest or short position in any share, underlying share or debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors, supervisors and senior management of the Company are taken or deemed to have under such provisions of the SFO), or as recorded in the registry by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

## Section VII Changes in Ordinary Shares and Information on Shareholders

### (2) Directors, supervisors and senior management participate in Qi Xin Gong Ying Scheme

On 25 January 2018, the Company non-publicly issued 1,503,568,702 and 23,148,854 shares of restricted-sale A shares to China Petrochemical Corporation and Qi Xin Gong Ying Scheme respectively. Qi Xin Gong Ying Scheme is managed by Changjiang Pension Insurance Co., Ltd., and its shares shall be subscribed by the certain directors, supervisors, senior management and other core management personnel of the Company. The number of subscribers is 198, and the subscription amount is RMB60.65 million in total. The subscription price for each scheme share under Qi Xin Gong Ying Scheme is RMB1.00. The duration of Qi Xin Gong Ying Scheme is 48 months commencing from 25 January 2018. The first 36 months shall be the lock-up period and the last 12 months shall be the unlocking period. On 25 January 2021, the lock-up period of 23,148,854 A shares with selling restrictions held by Qi Xin Gong Ying Scheme have ended and were listed for trading. In 2021, Qi Xin Gong Ying Scheme reduced holding 11,574,427 shares of A share through centralized bidding. By the end of the reporting period, Qi Xin Gong Ying Scheme still holds 11,574,427 shares of A share.

In Qi Xin Gong Ying Scheme, directors, supervisors and senior management of the Company have subscribed 5.15 million scheme shares in total, accounting for approximately 8.5% of the total scheme shares of Qi Xin Gong Ying Scheme. There are 15 directors, supervisors and senior management of the Company in total who have subscribed for Qi Xin Gong Ying Scheme. The subscriptions by the directors, supervisors and senior management of the Company under Qi Xin Gong Ying Scheme are as follows:

Name	Position	Subscription amount under Qi Xin Gong Ying Scheme (RMB)	Subscription scheme shares under Qi Xin Gong Ying Scheme (shares)	Subscription Price (RMB/A Share)	Subscription of A share (share)
Chen Xikun	Chairman, Secretary of the Party Committee	400,000	400,000	2.62	152,671
Wang Jun	Chairman of Supervisory Committee	300,000	300,000	2.62	114,503
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	Former Deputy General Manager	300,000	300,000	2.62	114,503
Li Honghai	Former Secretary to the Board	300,000	300,000	2.62	114,503
Sun Qingde	Former Vice Chairman, General Manager	400,000	400,000	2.62	152,671
Li Wei	Former Chairman of Supervisory Committee	350,000	350,000	2.62	133,587
Li Tian	Former Chief Financial Officer	350,000	350,000	2.62	133,587
Huang Songwei	Former Supervisor	350,000	350,000	2.62	133,587
Zhang Hongshan	Former Supervisor	350,000	350,000	2.62	133,587
Total	/	5,150,000	5,150,000	—	1,965,637

### 5. Information on changes of controlling shareholder and the actual controller

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

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

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

## Section VIII Financial Reports

### 1. PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

#### CONSOLIDATED BALANCE SHEET

As at June 30, 2022

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB' thousand unless otherwise stated)

Assets:	Note 5	Balance as at June 30, 2022	Balance as at December 31, 2021
<b>Current assets:</b>			
Cash and cash equivalents	5.1	1,940,644	2,508,224
Settlement provisions			
Loans to banks and other financial institutions			
Financial assets held for trading			
Derivative financial assets			
Notes receivable			
Accounts receivable	5.2	8,541,458	8,151,019
Receivables at FVTOCI	5.3	743,385	1,295,971
Advances to suppliers	5.4	703,422	338,555
Premiums receivable			
Reinsurance accounts receivable			
Provision of cession receivable			
Other receivables	5.5	3,137,547	2,552,292
Financial assets purchased under resale agreements			
Inventories	5.6	1,521,665	1,088,304
Contract assets	5.7	16,342,330	13,546,895
Assets held for sale			
Non-current assets maturing within one year			
Other current assets	5.8	2,252,960	2,238,006
<b>Total current assets</b>		<b>35,183,411</b>	<b>31,719,266</b>
<b>Non-current assets:</b>			
Disbursement of loans and advances			
Creditor's right investment			
Other creditors' right investment			
Long-term receivables			
Long-term equity investments	5.9	46,498	47,048
Investment in other equity instruments	5.10	21,760	21,760
Other non-current financial assets			
Investment properties			
Fixed assets	5.11	22,416,968	23,461,781
Construction in progress	5.12	602,751	668,364
Productive biological assets			
Oil and gas assets			
Right-of-use assets	5.13	1,018,425	720,938
Intangible assets	5.14	403,389	506,596
Research and development expenditure			
Goodwill			
Long-term deferred expenses	5.15	5,673,201	6,595,930
Deferred income tax assets	5.16	305,123	310,764
Other non-current assets			
<b>Total non-current assets</b>		<b>30,488,115</b>	<b>32,333,181</b>
<b>Total assets</b>		<b>65,671,526</b>	<b>64,052,447</b>

## Section VIII Financial Reports

### CONSOLIDATED BALANCE SHEET (Continued)

As at June 30, 2022

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB' thousand unless otherwise stated)

Liabilities and owners' equity	Note 5	As at June 30, 2022	As at December 31, 2021
<b>Current liabilities:</b>			
Short-term borrowings	5.17	18,441,608	17,520,091
Borrowings from central bank			
Loans from banks and other financial institutions			
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable	5.18	9,269,973	8,334,086
Accounts payable	5.19	20,657,680	21,556,262
Advances from customers			
Contract liabilities	5.20	3,251,499	3,547,938
Financial assets sold under repurchase agreements			
Absorption of deposits and interbank deposits			
Receiving from vicariously traded securities			
Receiving from vicariously sold securities			
Employee compensation payable	5.21	707,248	644,026
Taxes and surcharges payable	5.22	586,674	737,725
Other payables	5.23	2,539,740	2,355,823
Handling charges and commission payable			
Reinsurance accounts payable			
Liabilities held for sale			
Non-current liabilities maturing within one year	5.24	416,605	296,045
Other current liabilities			
<b>Total current liabilities</b>		<b>55,871,027</b>	<b>54,991,996</b>
<b>Non-current liabilities:</b>			
Reserves for insurance contracts			
Long-term borrowings	5.25	1,550,335	1,554,686
Bonds payable			
Including: preferred stock			
Perpetual bonds			
Lease liabilities	5.26	574,171	390,866
Long-term payables	5.27	50,656	28,885
Long-term employee compensation payable			
Estimated liabilities	5.28	189,346	205,771
Deferred income	5.29	9,619	9,288
Deferred income tax liabilities	5.16	9,213	9,438
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>2,383,340</b>	<b>2,198,934</b>
<b>Total liabilities</b>		<b>58,254,367</b>	<b>57,190,930</b>
<b>Owners' equity:</b>			
Share capital	5.30	18,984,340	18,984,340
Other equity instruments			
Including: preferred stock			
Perpetual bonds			
Capital reserves	5.31	11,717,773	11,717,773
Less: Treasury stock			
Other comprehensive income	5.32	-3,823	-3,823
Special reserves	5.33	574,556	219,182
Surplus reserves	5.34	200,383	200,383
General risk reserves			
Retained earnings	5.35	-24,056,070	-24,256,338
<b>Total equity attributable to owners of the parent company</b>		<b>7,417,159</b>	<b>6,861,517</b>
Minority interest			
<b>Total owners' equity</b>		<b>7,417,159</b>	<b>6,861,517</b>
<b>Total liabilities and owners' equity</b>		<b>65,671,526</b>	<b>64,052,447</b>

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

Chairman:  
Chen Xikun

General Manager:  
Yuan Jianqiang

Accounting Principal:  
Cheng Zhongyi

Head of the Accounting Department:  
Yang Yulong

## Section VIII Financial Reports

### PARENT COMPANY'S BALANCE SHEET

As at June 30, 2022

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB' thousand unless otherwise stated)

Assets:	Note 15	Balance as at June 30, 2022	Balance as at December 31, 2021
<b>Current assets:</b>			
Cash at bank and on hand		147	147
Financial assets held for trading			
Derivative financial assets			
Notes receivable			
Accounts receivable			
Receivables financing			
Advances to suppliers			
Other receivables	15.1	4,380,391	4,380,622
Inventories			
Contract assets			
Assets held for sale			
Non-current assets maturing within one year			
Other current assets		296	278
<b>Total current assets</b>		<b>4,380,834</b>	<b>4,381,047</b>
<b>Non-current assets:</b>			
Creditor's right investment			
Other creditor's right investment			
Long-term receivables			
Long-term equity investments	15.2	27,891,662	27,891,662
Investment in other equity instruments			
Other non-current financial assets			
Investment properties			
<b>Fixed assets</b>			
Construction in progress			
Productive biological assets			
Oil and gas assets			
Right-of-use assets			
Intangible assets			
Development expenditures			
Goodwill			
Long-term deferred expenses			
Deferred income tax assets			
Other non-current assets			
<b>Total non-current assets</b>		<b>27,891,662</b>	<b>27,891,662</b>
<b>Total assets</b>		<b>32,272,496</b>	<b>32,272,709</b>

## Section VIII Financial Reports

### PARENT COMPANY'S BALANCE SHEET (Continued)

As at June 30, 2022

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB' thousand unless otherwise stated)

Liabilities and owners' equity	Note 15	Balance as at June 30, 2022	Balance as at December 31, 2021
<b>Current liabilities:</b>			
Short-term borrowings			
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable			
Accounts payable		8,500	8,500
Advances from customers			
Contract liabilities			
Employee compensation payable			
Taxes and surcharges payable		26,851	26,791
Other payables		14,866	14,284
Liabilities held for sale			
Non-current liabilities maturing within one year			
Other current liabilities			
<b>Total current liabilities</b>		<b>50,217</b>	<b>49,575</b>
<b>Non-current liabilities:</b>			
Long-term borrowings			
Bonds payable			
Including: preferred stock			
Perpetual bonds			
Lease liabilities			
Long-term payables			
Long-term employee compensation payable			
Estimated liabilities			
Deferred income			
Deferred income tax liabilities			
Other non-current liabilities			
<b>Total non-current liabilities</b>			
<b>Total liabilities</b>		<b>50,217</b>	<b>49,575</b>
<b>Owners' equity:</b>			
Share capital		18,984,340	18,984,340
Other equity instruments			
Including: preferred stock			
Perpetual bonds			
Capital reserves		14,568,016	14,568,016
Less: treasury stock			
Other comprehensive income			
Special reserves			
Surplus reserves		200,383	200,383
Undistributed profits		-1,530,460	-1,529,605
<b>Total owners' equity</b>		<b>32,222,279</b>	<b>32,223,134</b>
<b>Total liabilities and owners' equity</b>		<b>32,272,496</b>	<b>32,272,709</b>

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

Chairman:  
Chen Xikun

General Manager:  
Yuan Jianqiang

Accounting Principal:  
Cheng Zhongyi

Head of the Accounting Department:  
Yang Yulong

## Section VIII Financial Reports

### CONSOLIDATED INCOME STATEMENT

For the Year Ended June 30, 2022

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB' thousand unless otherwise stated)

Item	Note 5	Current period	Prior period
<b>I. Total operating revenue</b>		<b>33,148,652</b>	31,570,061
Including: operating revenue	5.36	33,148,652	31,570,061
Interest income			
<b>II. Total operating costs</b>		<b>32,917,223</b>	31,283,287
Including: operating costs	5.36	30,727,547	29,584,206
Interest expenses			
Taxes and surcharges	5.37	122,208	105,875
Selling and distribution expenses	5.38	26,643	32,041
General and administrative expenses	5.39	1,092,018	803,949
Research and development expenses	5.40	666,919	349,034
Financial expenses	5.41	281,888	408,182
Including: interest expenses	5.41	312,413	350,692
Interest income	5.41		
Plus: other income	5.42	35,167	78,231
Investment income ("-" for losses)	5.43	13,599	19,295
Including: income from investment in associates and joint ventures	5.43	2,758	3,337
Losses from credit impairment ("-" for losses)	5.44	70,691	58,095
Losses from assets impairment ("-" for losses)	5.45	-1,351	-17,453
Gains from disposal of assets ("-" for losses)	5.46	13,783	5,500
<b>III. Operating profits ("-" for losses)</b>		<b>363,318</b>	430,442
Plus: non-operating revenue	5.47	54,124	35,768
Less: non-operating expenses	5.48	40,065	15,694
<b>IV. Total profits ("-" for total losses)</b>		<b>377,377</b>	450,516
Less: income tax expenses	5.49	177,109	81,958
<b>V. Net profit ("-" for net loss)</b>		<b>200,268</b>	368,558
(I) Classified by operating sustainability			
1. Net profit from continued operation ("-" for net loss)		200,268	368,558
2. Net profit from discontinued operation ("-" for net loss)			
(II) Classified by ownership			
1. Net profit attributable to shareholders of the parent company ("-" for net loss)		200,268	368,558
2. Minority interest income ("-" for net loss)			

## Section VIII Financial Reports

### CONSOLIDATED INCOME STATEMENT (Continued)

For the Year Ended June 30, 2022

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB' thousand unless otherwise stated)

Item	Note 5	Current period	Prior period
<b>VI. Other comprehensive income, net of tax</b>			10
Other comprehensive income, net of tax, attributable to owners of the parent company			10
(I) Other comprehensive income that cannot be reclassified into profit or loss			10
1. Changes in fair value of other equity instrument investment			10
(II) Other comprehensive income that will be reclassified into profit or loss			
Other comprehensive income, net of tax, attributable to minority shareholders			
<b>VII. Total comprehensive income</b>		200,268	368,558
Total comprehensive income attributable to owners of the parent company		200,268	368,558
Total comprehensive income attributable to minority shareholders			
<b>VIII. Earnings per share:</b>			
(I) Basic earnings per share (RMB/Share)	17.2	0.011	0.019
(II) Diluted earnings per share (RMB/Share)			

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

*Chairman:*

Chen Xikun

*General Manager:*

Yuan Jianjiang

*Accounting Principal:*

Cheng Zhongyi

*Head of the Accounting Department:*

Yang Yulong

# Section VIII Financial Reports

## PARENT COMPANY'S INCOME STATEMENT

For the Year Ended June 30, 2022

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB' thousand unless otherwise stated)

Item	Note 15	Current period	Prior period
<b>I. Operating revenue</b>			
<b>Less: operating costs</b>			
Taxes and surcharges			
Selling and distribution expenses			
General and administrative expenses		855	866
Research and development expenses			
Financial expenses			2
Including: interest expenses			
Interest income			
<b>Plus: other income</b>			
Investment income ("-" for losses)			
Including: income from investment in associates and joint ventures			
Gains from derecognition of financial assets measured at amortized cost			
Gains from net exposure hedging ("-" for losses)			
Gains from changes in fair value ("-" for losses)			
Losses from credit impairment ("-" for losses)			
Losses from assets impairment ("-" for losses)			
Gains from disposal of assets ("-" for losses)			
<b>II. Operating profits ("-" for losses)</b>		<b>-855</b>	<b>-868</b>
<b>Plus: non-operating revenue</b>			
<b>Less: non-operating expenses</b>			
<b>III. Total profits ("-" for total losses)</b>		<b>-855</b>	<b>-868</b>
<b>Less: income tax expenses</b>			
<b>IV. Net profit ("-" for net loss)</b>		<b>-855</b>	<b>-868</b>
(I) Net profit from continued operation ("-" for net loss)		-855	-868
(II) Net profit from discontinued operation ("-" for net loss)			
<b>V. Other comprehensive income, net of tax</b>			
(I) Other comprehensive income that cannot be reclassified into profit or loss			
(II) Other comprehensive income that will be reclassified into profit or loss			
<b>VI. Total comprehensive income</b>		<b>-855</b>	<b>-868</b>
<b>VII. Earnings per share:</b>			
(I) Basic earnings per share (RMB/Share)			
(II) Diluted earnings per share (RMB/Share)			

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

Chairman:  
Chen Xikun

General Manager:  
Yuan Jianqiang

Accounting Principal:  
Cheng Zhongyi

Head of the Accounting Department:  
Yang Yulong

# Section VIII Financial Reports

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2022

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB' thousand unless otherwise stated)

Item	Note 5	Current period	Prior period
<b>I. Cash flows from operating activities</b>			
Cash received from sales of goods and rendering of services		26,511,123	26,379,564
Refund of taxes and surcharges		162,722	61,071
Cash received from other operating activities	5.50	990,607	746,831
Sub-total of cash inflows from operating activities		27,664,452	27,187,466
Cash paid for purchase of goods and receipt of services		19,058,356	18,391,038
Cash paid to and on behalf of employees		7,005,451	6,990,261
Various taxes and surcharges paid		701,782	570,397
Cash paid for other operating activities	5.50	1,436,789	876,909
Sub-total of cash outflows from operating activities		28,202,378	26,828,605
Net cash flows from operating activities	5.51	-537,926	358,861
<b>II. Cash flows from investing activities</b>			
Cash received from disinvestment			10
Cash received from returns on investments		3,856	690
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		12,079	17,184
Net cash received from disposal of subsidiaries and other business units			
Cash received from other investing activities			
Sub-total of cash inflows from investing activities		15,935	17,884
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		508,526	408,516
Cash paid for investments			
Net increase in pledge loans			
Net cash paid to acquire subsidiaries and other business units			
Cash paid for other investing activities			
Sub-total of cash outflows from investing activities		508,526	408,516
Net cash flows from investing activities		-492,591	-390,632
<b>III. Cash flows from financing activities</b>			
Cash received from absorption of investments			
Including: cash received by subsidiaries from investment by minority shareholders			
Cash received from borrowings		12,154,500	29,118,868
Cash received from other financing activities			
Sub-total of cash inflows from financing activities		12,154,500	29,118,868
Cash paid for debt repayments		11,415,907	28,611,789
Cash paid for distribution of dividends and profits or payment of interest		274,029	299,675
Cash paid for other financing activities	5.50	158,721	198,137
Sub-total of cash outflows from financing activities		11,848,657	29,109,601
Net cash flows from financing activities		305,843	9,267
<b>IV. Effect of fluctuation in exchange rate on cash and cash equivalents</b>			
		96,207	-6,704
<b>V. Net increase in cash and cash equivalents</b>			
	5.51	-628,467	-29,208
Plus: beginning balance of cash and cash equivalents		2,475,307	1,523,352
<b>VI. Ending balance of cash and cash equivalents</b>			
	5.51	1,846,840	1,494,144

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

Chairman:

Chen Xikun

General Manager:

Yuan Jianqiang

Accounting Principal:

Cheng Zhongyi

Head of the Accounting Department:

Yang Yulong

## Section VIII Financial Reports

### PARENT COMPANY'S STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2022

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB' thousand unless otherwise stated)

Item	Note 16	Current period	Prior period
<b>I. Cash flows from operating activities</b>			
Cash received from sales of goods and rendering of services			
Refund of taxes and surcharges			
Cash received from other operating activities			
Sub-total of cash inflows from operating activities			
Cash paid for purchase of goods and receipt of services			
Cash paid to and on behalf of employees			
Various taxes and surcharges paid			
Cash paid for other operating activities			13
Sub-total of cash outflows from operating activities			13
<b>Net cash flows from operating activities</b>			-13
<b>II. Cash flows from investing activities</b>			
Cash received from disinvestment			
Cash received from returns on investments			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets			
Net cash received from disposal of subsidiaries and other business units			
Cash received from other investing activities			
Sub-total of cash inflows from investing activities			
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets			
Cash paid for investments			
Net cash paid to acquire subsidiaries and other business units			
Cash paid for other investing activities			
Sub-total of cash outflows from investing activities			
<b>Net cash flows from investing activities</b>			
<b>III. Cash flows from financing activities</b>			
Cash received from absorption of investments			
Cash received from borrowings			
Cash received from other financing activities			
Sub-total of cash inflows from financing activities			
Cash paid for debt repayments			
Cash paid for distribution of dividends and profits or payment of interest			
Cash paid for other financing activities			
Sub-total of cash outflows from financing activities			
<b>Net cash flows from financing activities</b>			
<b>IV. Effect of fluctuation in exchange rate on cash and cash equivalents</b>			
<b>V. Net increase in cash and cash equivalents</b>			-13
Plus: beginning balance of cash and cash equivalents		147	159
<b>VI. Ending balance of cash and cash equivalents</b>		147	146

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

Chairman:  
Chen Xikun

General Manager:  
Yuan Jianqiang

Accounting Principal:  
Cheng Zhongyi

Head of the Accounting Department:  
Yang Yulong

# Section VIII Financial Reports

## CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the Year Ended June 30, 2022

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB' thousand unless otherwise stated)

Item	Current period													Minority equity	Total owners' equity
	Equity attributable to owners of the parent company											Sub-total			
	Share capital	Other equity instruments			Capital reserves	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits				
	Preferred stock	Perpetual bonds	Others												
I. Balance at the end of the last year	18,984,340				11,717,773		-3,823	219,182	200,383		-24,256,338	6,861,517		6,861,517	
Plus: changes in accounting policies															
Others															
II. Balance at the beginning of the current year	18,984,340				11,717,773		-3,823	219,182	200,383		-24,256,338	6,861,517		6,861,517	
III. Increases/decreases in current year ("-" for decreases)								355,374			200,268	555,642		555,642	
(I) Total comprehensive income											200,268	200,268		200,268	
(II) Capital contributed or reduced by owners															
(III) Profit distribution															
(IV) Internal carry-forward of owners' equity															
1. Carry-forward of other comprehensive income for retained earnings															
(V) Special reserves								355,374				355,374		355,374	
1. Amount withdrawn in the current period								575,168				575,168		575,168	
2. Amount used in the current period								219,794				219,794		219,794	
(VI) Others															
IV. Balance at the end of the current period	18,984,340				11,717,773		-3,823	574,556	200,383		-24,056,070	7,417,159		7,417,159	

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

Chairman:  
Chen Xikun

General Manager:  
Yuan Jianqiang

Accounting Principal:  
Cheng Zhongyi

Head of the Accounting Department:  
Yang Yulong

## Section VIII Financial Reports

### CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY (Continued)

For the Year Ended June 30, 2022

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB' thousand unless otherwise stated)

Item	Prior period														Minority equity	Total owners' equity
	Equity attributable to owners of the parent company															
	Share capital	Other equity instruments			Capital reserves	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Sub-total				
	Preferred stock	Perpetual bonds	Others													
<b>I. Balance at the end of the last year</b>	18,984,340				11,717,773		-2,014	258,523	200,383		-24,436,139	6,722,866		6,722,866		
Plus: changes in accounting policies																
Others																
<b>II. Balance at the beginning of the current year</b>	18,984,340				11,717,773		-2,014	258,523	200,383		-24,436,139	6,722,866		6,722,866		
<b>III. Increases/decreases in current year</b> <b>("-" for decreases)</b>							10	325,688			368,568	694,256		694,256		
(I) Total comprehensive income											368,568	368,568		368,568		
(II) Capital contributed or reduced by owners																
1. Amounts of share-based payments recognized in owners' equity																
(III) Profit distribution							-10				10					
(IV) Internal carry-forward of owners' equity							-10				10					
(V) Special reserves								325,688				325,688		325,688		
1. Amount withdrawn in the current period								568,834				568,834		568,834		
2. Amount used in the current period								243,146				243,146		243,146		
(VI) Others																
<b>IV. Balance at the end of the current period</b>	18,984,340				11,717,773		-2,014	584,211	200,383		-24,067,571	7,417,122		7,417,122		

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

Chairman:  
Chen Xikun

General Manager:  
Yuan Jianqiang

Accounting Principal:  
Cheng Zhongyi

Head of the Accounting Department:  
Yang Yulong

## Section VIII Financial Reports

### PARENT COMPANY'S STATEMENT OF CHANGES IN OWNERS' EQUITY

For the Year Ended June 30, 2022

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB' thousand unless otherwise stated)

Item	Current period										
	Share capital	Other equity instruments			Capital reserves	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Total owners' equity
		Preferred stock	Perpetual bonds	Others							
<b>I. Balance at the end of the last year</b>	18,984,340				14,568,016				200,383	-1,529,605	32,223,134
Plus: changes in accounting policies											
Others											
<b>II. Balance at the beginning of the current year</b>	18,984,340				14,568,016				200,383	-1,529,605	32,223,134
<b>III. Increases/decreases in current year ("-" for decreases)</b>											
(I) Total comprehensive income										-855	-855
(II) Capital contributed or reduced by owners										-855	-855
(III) Profit distribution											
(IV) Internal carry-forward of owners' equity											
(V) Special reserves											
(VI) Others											
<b>IV. Balance at the end of the current period</b>	18,984,340				14,568,016				200,383	-1,530,460	32,222,279

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

Chairman:

Chen Xikun

General Manager:

Yuan Jianqiang

Accounting Principal:

Cheng Zhongyi

Head of the Accounting Department:

Yang Yulong

## Section VIII Financial Reports

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

For the Year Ended June 30, 2022

Sinopec Oilfield Service Corporation

(Amounts are expressed in RMB' thousand unless otherwise stated)

Item	Share capital	Other equity instruments			Capital reserves	Prior period					Total owners' equity	
		Preferred stock	Perpetual bonds	Others		Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits		
<b>I. Balance at the end of the last year</b>	18,984,340				14,568,016					200,383	-1,516,087	32,236,652
Plus: changes in accounting policies												
<b>II. Balance at the beginning of the current year</b>	18,984,340				14,568,016					200,383	-1,516,087	32,236,652
<b>III. Increases/decreases in current year ("-" for decreases)</b>												
(I) Total comprehensive income											-868	-868
(II) Capital contributed or reduced by owners											-868	-868
1. Amounts of share-based payments recognized in owners' equity												
(III) Profit distribution												
(IV) Internal carry-forward of owners' equity												
(V) Special reserves												
(VI) Others												
<b>IV. Balance at the end of the current period</b>	18,984,340				14,568,016					200,383	-1,516,955	32,235,784

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

*Chairman:*

Chen Xikun

*General Manager:*

Yuan Jianqiang

*Accounting Principal:*

Cheng Zhongyi

*Head of the Accounting Department:*

Yang Yulong

## NOTES TO THE FINANCIAL STATEMENTS

### 1 COMPANY PROFILE

#### 1.1 Overview

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

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

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

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

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

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

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

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

# Section VIII Financial Reports

## 1 COMPANY PROFILE (Continued)

### 1.1 Overview (Continued)

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

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

The financial statements and the notes to the financial statements have been approved for issue by the 12th meeting of the 10th Board of Directors of the Company on August 25, 2022.

### 1.2 Scope of the consolidated financial statement

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

## 2 BASIS OF PREPARATION FOR THE FINANCIAL STATEMENTS

### 2.1 Basis of preparation

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

### 2.2 Going Concern

The financial statements are prepared based on going concern.

As at June 30, 2022, the Group’s accumulated loss amounted to RMB24,056,070,000, the current liabilities exceeded the current assets by about RMB20,687,616,000 (In 2021, the current liabilities exceeded the current assets by about RMB23,272,730,000), and the committed capital expenditure amounted to RMB31,415,000. Directors of the Company have made the assessment, by which the sufficient cash flows for operating activities are likely to generate in the future 12 months; as the Group’s borrowings mainly come from Sinopec Group and its subsidiaries, and the Group has maintained a long-term and good relationship with them, the Group is able to obtain adequate financial support from Sinopec Group and its subsidiaries. In December 2021, the Company obtained a credit line of RMB16 billion and an equivalence of USD593 million as well as a credit line of RMB11.8 billion for acceptance bill issuance from subsidiaries of Sinopec Group. Management and those charged with governance believe that these credit lines are sufficient to guarantee the Company’s going-concern ability. The Company will broaden the channel for financing and develop good relationships with all listed and state-owned financial institutions to obtain the more sufficient credit line. As directors of the Group believe that the above-mentioned measures are enough to meet the Group’s fund requirement for debts repayment and commitment, the Group prepared the financial statements for this reporting period on a going concern basis.

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Tips for specific accounting policies and accounting estimates:

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

#### 3.1 Statement on compliance with the Accounting Standards for Business Enterprises

The financial statements meet the requirements of the Accounting Standards for Business Enterprises issued by the Ministry of Finance, and truly and completely reflect the consolidated and the parent company's financial position of the Company as at June 30, 2022, and the consolidated and the parent company's operating results and cash flows for the six months ended.

#### 3.2 Accounting period

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

The accounting period of this report is January to June, 2022.

#### 3.3 Operating cycle

The Company's operating cycle is 12 months.

#### 3.4 Functional currency

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

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

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

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

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

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

#### 3.6 Preparation method of consolidated financial statements

##### 3.6.1 Scope of consolidation

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

##### 3.6.2 Consolidation procedures

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

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

## Section VIII Financial Reports

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.6 Preparation method of consolidated financial statements (Continued)

##### 3.6.2 Consolidation procedures (Continued)

###### (1) Acquisition of subsidiaries or business

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

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

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

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

###### (2) Disposal of subsidiaries

###### ① General method of disposal

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

###### ② Disposal of subsidiaries by stages

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

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

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

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

###### (3) Purchase of minority interest of subsidiaries

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

## 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.6 Preparation method of consolidated financial statements (Continued)

#### 3.6.2 Consolidation procedures (Continued)

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

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

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

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

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

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

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

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

### 3.8 Recognition criteria of cash and cash equivalents

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

### 3.9 Foreign currency transactions and translation of foreign currency statements

#### 3.9.1 Foreign currency transactions

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

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

#### 3.9.2 Translation of foreign currency financial statements

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

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

## Section VIII Financial Reports

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.10 Financial instruments

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

##### 3.10.1 Classification of financial instruments

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

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

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

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

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

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

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

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

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

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

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

##### 3.10.2 Recognition basis and measurement methods of financial instruments

###### (1) Financial assets measured at amortized cost

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

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

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

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

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

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

## 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.10 Financial instruments (Continued)

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

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

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

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

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

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

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

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

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

##### **(6) Financial liabilities measured at amortized cost**

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

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

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

#### 3.10.3 Derecognition and transfer of financial assets

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

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

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

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

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

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

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

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

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

## Section VIII Financial Reports

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.10 Financial instruments (Continued)

##### 3.10.4 Derecognition of financial liabilities

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

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

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

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

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

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

##### 3.10.6 Test method and accounting treatment of depreciation of financial assets

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

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

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

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

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

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

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

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

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

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

## 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.10 Financial instruments (Continued)

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

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

##### **A. Notes receivable**

Notes receivable portfolio 1: bank acceptance bill

Notes receivable portfolio 2: commercial acceptance bill

##### **B. Accounts receivable**

Accounts receivable portfolio 1: receivable from related parties

Accounts receivable portfolio 2: receivable from other clients

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

Contract assets portfolio 1: engineering service

Contract assets portfolio 2: others

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

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

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

Other receivables portfolio 1: reserve funds

Other receivables portfolio 2: deposits or security deposits receivable

Other receivables portfolio 3: other receivables

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

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

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

### 3.11 Inventories

#### 3.11.1 Classification and cost of inventories

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

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

#### 3.11.2 Measurement method of dispatched inventories

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

## Section VIII Financial Reports

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.11 Inventories (Continued)

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

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

In the normal production and operation process, the estimated selling price of the inventories minus the estimated selling expenses and relevant taxes and fees shall be used to determine the net realizable value of commodity inventories that are directly used for sale, such as finished products, goods in stock, and materials for sale; Material inventory that needs to be processed, in the normal production and operation process, net realizable value is the amount after the estimated selling price of the finished product produced minus the estimated cost to be incurred upon completion, estimated selling expenses and related taxes and fees; the net realizable value of inventories held for the execution of a sales contract or a labor service contract shall be calculated on the basis of the contract price. If the quantity of inventory held is larger than the quantity ordered by the sales contract, the net realizable value of the excess inventory is calculated on the basis of the general sales price.

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

##### 3.11.4 Inventory system

The perpetual inventory system is adopted.

##### 3.11.5 Amortization method for low-cost consumables

(1) Low-cost consumables are amortized at lump-sum method.

#### 3.12 Contract assets

##### 3.12.1 Recognition method and criteria for contract assets

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

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

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

#### 3.13 Long-term equity investments

##### 3.13.1 Judgment criteria for joint control and significant influence

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

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

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.13 Long-term equity investments (Continued)

##### 3.13.2 Determination of initial investment costs

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

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

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

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

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

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

##### 3.13.3 Subsequent measurements and recognition of profit or loss

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

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

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

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

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

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

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

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

## Section VIII Financial Reports

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.13 Long-term equity investments (Continued)

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

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

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

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

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

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

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

#### 3.14 Fixed assets

##### 3.14.1 Recognition and initial measurement of fixed assets

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

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

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

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

##### 3.14.2 Depreciation method

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

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

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

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

## 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.14 Fixed assets (Continued)

#### 3.14.3 Disposal of fixed assets

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

### 3.15 Construction in progress

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

### 3.16 Borrowing costs

#### 3.16.1 Recognition criteria of capitalization of borrowing costs

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

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

#### 3.16.2 Capitalization period for borrowing costs

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

Capitalization shall start when the following conditions are satisfied simultaneously:

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

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

#### 3.16.3 Period of capitalization suspension

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

#### 3.16.4 Measurement of capitalization rate and capitalized amounts of borrowing costs

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

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

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

## Section VIII Financial Reports

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.17 Intangible assets

##### 3.17.1 Measurement method of intangible assets

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

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

**(2) Subsequent measurement**

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

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

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

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

##### 3.17.3 Specific criteria for classifying research and development stages

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

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

Development phase: Development phase is the stage when the research achievements and other knowledge are applied to a plan or design, prior to the commercial production or use, to produce any new or substantially improved material, device, or product.

The research and development projects of the Group enter the development stage after the technical feasibility and economic feasibility studies and project establishment.

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

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

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

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

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.18 Impairment of long-term assets

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

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

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

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

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

#### 3.19 Long-term deferred expenses

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

#### 3.20 Contract liabilities

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

#### 3.21 Employee compensation

##### 3.21.1 Accounting treatment of short-term compensation

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

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

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

## Section VIII Financial Reports

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.21 Employee compensation (Continued)

##### 3.21.2 Accounting treatment of post-employment benefits

Post-employment benefit plans include defined contribution plans and defined benefit plans. Defined contribution plan refers to a post-employment benefit plan in which the enterprise no longer undertakes further payment obligations after paying a fixed fee to an independent fund; Defined benefit plan refers to a post-employment benefit plan other than the defined contribution plan. During the reporting period, the Group's post-employment benefits were mainly basic pension insurance.

The employees of the Group participated in the basic social pension insurance organized and implemented by the local labor and social security department. The Group pays endowment insurance premiums to the local social basic endowment insurance agency monthly based on the payment base and proportion of the local social basic endowment insurance. After employees retire, local labor and social security departments are responsible for paying basic social pensions to retired employees.

Enterprise Annuity Plan: In addition to the basic endowment insurance, the Group has established an enterprise annuity plan ("annuity plan") in accordance with the relevant policies of the national enterprise annuity system, and employees can voluntarily participate in the annuity plan. Apart from this, the Group has no other significant employee social security commitments. During the accounting period in which the employee provides services, the amount to be paid calculated according to the defined contribution plan is recognized as a liability and included in the current profit and loss or related asset costs.

##### 3.21.3 Accounting treatment of dismissal benefits

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

##### 3.21.4 Accounting treatment of other long-term employee benefits

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

#### 3.22 Estimated liabilities

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

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

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

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

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

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

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

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.23 Share-based payment

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

##### 3.23.1 Equity-settled share-based payment and equity instruments

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

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

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

##### 3.23.2 Cash-settled share-based payment and equity instruments

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

## Section VIII Financial Reports

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.24 Revenue

##### 3.24.1 Accounting policies for revenue recognition and measurement

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

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

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

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

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

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

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

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

##### 3.24.2 Specific methods

Specific methods of the Group for recognition of revenue:

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

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

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

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.24 Revenue (Continued)

##### 3.24.2 Specific methods (Continued)

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

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

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

#### 3.25 Contract costs

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

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

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

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

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

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

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

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

#### 3.26 Government grants

##### 3.26.1 Type

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

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

##### 3.26.2 Timing of recognition

Government grants are recognized when the Company is eligible for and can receive the government grants.

## Section VIII Financial Reports

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.26 Government grants (Continued)

##### 3.26.3 Accounting treatment

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

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

##### 3.27 Deferred income tax assets and deferred income tax liabilities

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

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

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

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

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

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

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

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

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

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

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

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

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.28 Leases

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

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

For rent reductions, exemptions, deferred payments, and other rent reductions directly caused by the COVID-19 epidemic and reached on existing lease contracts, if the following conditions are met at the same time, the company adopts the simplified method for all lease options, neither assess whether a lease modification has occurred, nor reassess the lease classification:

- The lease consideration after the concession is reduced or basically unchanged from that before the concession, among which, the lease consideration can be undiscounted or discounted at the discount rate before the concession;
- The other terms and conditions of the lease have not changed significantly after considering both qualitative and quantitative factors.

#### 3.28.1 The Company as the lessee

##### (1) *Right-of-use assets*

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

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

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

The Company determines whether a right-of-use asset is impaired and accounts for the identified impairment loss in accordance with the principles described in the Note "3.18 Impairment of long-term assets".

##### (2) *Lease liabilities*

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

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

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

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

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

## Section VIII Financial Reports

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.28 Leases (Continued)

##### 3.28.1 The Company as the lessee (Continued)

###### (2) Lease liabilities (Continued)

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

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

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

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

###### (4) Lease changes

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

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

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

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

###### (5) Rent concessions related to the COVID-19 epidemic

For the adoption of simplified methods of rent concession related to the COVID-19 epidemic, the Company will not evaluate whether the lease change has occurred, it will continue to calculate the interest expense of the lease liabilities according to the same discount rate as before the concession and include it in the current profit or loss, and continue to accrue the depreciation for the right-to-use assets according to the same method as before the concession. In the event of rent reduction or exemption, the Company will treat the reduced rent as variable lease payments. When the original rent payment obligation is relieved by reaching a concession agreement, the undiscounted amount or the discounted amount at the discount rate before the concession is used to offset the cost or expenses of related assets, and the lease liabilities will be adjusted accordingly; if the rent payment is delayed, the Company will offset the lease liabilities recognized in the previous period at the time of actual payment.

For short-term lease and low-value asset lease, the Company continues to include the rent in the original contract in the costs or expenses of related assets according to the method consistent with that before concession. In case of any rent reduction or exemption, the Company will treat the reduced rent as variable lease payments to offset the costs or expenses of related assets during the reduction or exemption period; In case of any deferred payment of rent, the Company will recognize the payable rent as payables during the original payment period, and offset the payables recognized in the previous period at the time of actual payment.

## 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.28 Leases (Continued)

#### 3.28.2 The Company as the lessee

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

##### (1) Accounting treatment of operating lease

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

##### (2) Accounting treatment of finance lease

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

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

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

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

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

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

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

#### 3.28.3 Sale-and-leaseback transactions

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

##### (1) The Company as the lessee

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

##### (2) The Company as the lessor

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

## Section VIII Financial Reports

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.29 Work safety expenses

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

#### 3.30 Share repurchases

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

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

#### 3.31 Segment reporting

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

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

#### 3.32 Significant accounting estimates and judgments

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

##### 3.32.1 Classification of financial assets

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

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

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

##### 3.32.2 Measurement of expected credit loss of receivables

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

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.32 Significant accounting estimates and judgments (Continued)

##### 3.32.3 Provision for inventory depreciation

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

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

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

##### 3.32.5 Development expenses

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

##### 3.32.6 Revenue recognition

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

##### 3.32.7 Pending litigations

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

##### 3.32.8 Deferred income tax assets

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

##### 3.32.9 Taxation

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

## Section VIII Financial Reports

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.33 Changes in significant accounting policies and accounting estimates

##### 3.33.1 Changes in significant accounting policies

###### (1) Implementation of the Interpretation No. 15 to the Accounting Standards for Business Enterprises on the presentation of centralized management of funds

On December 30, 2021, the Ministry of Finance issued the Interpretation No. 15 to the Accounting Standards for Business Enterprises (CS [2021] No. 35, hereinafter referred to as the "Interpretation No. 15"), effective from the date of promulgation.

###### ① Accounting Treatment of Trial Operation Sales

Interpretation No. 15 specifies the accounting treatment and presentation of selling the products or by-products produced before the fixed assets reach the intended usable state or during the research and development process by the Company. It stipulates that the net amount after offsetting the cost from the sales related to the trial operation shall not be written off against the cost of fixed assets or R&D expenditure. This regulation comes into force on January 1, 2022, and retrospective adjustments should be made for the trial sales that occurred between the beginning of the earliest period of financial statement presentation and January 1, 2022. The adoption of Interpretation No. 15 had no material impact on the Company's financial position and operating results.

###### ② Judgment on onerous contracts

Interpretation No. 15 clarifies that the "cost of performing the contract" considered by an enterprise when judging whether a contract constitutes an onerous contract should include both the incremental cost of performing the contract and the apportioned amount of other costs directly related to performing the contract. This regulation comes into force on January 1, 2022. Company should implement this regulation for contracts that have not yet fulfilled all obligations on January 1, 2022, and the cumulative effect will be adjusted on the implementation date of the retained earnings at the beginning of the year and other related financial statement items, without adjusting the comparative financial statement data for the previous period. The adoption of Interpretation No. 15 had no material impact on the Company's financial position and operating results.

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

On May 19, 2022, the Ministry of Finance issued the *Provisions on Accounting Treatment of Rent Concessions Related to Epidemic in Covid-19* (CK (2022) No.13). The scope of Covid-19-related rental concessions that allow for the simplified approach has been adjusted again, removing the previous restriction that the simplified approach would only apply to concessions on lease payments due before June 30, 2022. Lessees and lessors may continue to elect to use the simplified approach specified in the Regulations on Accounting for COVID-19 Related Rent Concessions for concessions on lease payments payable after 30 June 2022 that are directly attributable to the COVID-19 pandemic. processing, other applicable conditions remain unchanged.

The current period of the Company does not involve the relevant accounting treatment of the above-mentioned "Provisions on Accounting Treatment of Rent Concessions Related to Epidemic in Covid-19".

###### (3) Implementation of Q&A on the implementation of the fifth batch of accounting standards for enterprises in 2021 issued by the Accounting Department of the Ministry of Finance

The Accounting Department of the Ministry of Finance issued the *fifth batch of Q&As for the implementation of the Accounting Standards for Business Enterprises in 2021*. According to the implementation Q&A, 1) For the daily repair expenses of fixed assets that do not meet the conditions for subsequent expenditures for capitalization of fixed assets, the Group will adjust the repair expenses of the production department that meet the conditions originally included in the general and administration expenses into the operating costs and adjust the comparative figures for the same period. 2) For transportation activities engaged in the performance of revenue contracts, if the transportation activities do not constitute a single performance obligation, the relevant transportation costs shall be regarded as contract performance costs, when the contract performance costs are amortized and included in the profit and loss, they are listed in the income statement and adjusted. In this year, the qualified sales and freight expenses that were originally included in the selling and distribution expenses were adjusted to the operating costs, and the comparative figures for the same period were adjusted.

The Company has changed the relevant accounting policies and carried out a retrospective restatement of the comparative financial statements. The restated consolidated income statement is as follows:

Item	Prior period amount	Restated amount	Difference
Operating costs	29,497,628	29,584,206	86,578
Selling and distribution expenses	34,037	32,041	-1,996
General and administrative expenses	888,531	803,949	-84,582

##### 3.33.2 Changes in significant accounting estimates

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

#### 3.34 Others

The Company had no other adjustments this year.

## 4 TAXATION

### 4.1 Major tax types and tax rates

Tax type	Tax basis	Legal tax rate (%)
Value-added tax	The output tax is calculated based on the sales of goods and taxable labor income calculated according to the tax law. After deducting the input tax that can be deducted in the current period, the difference is the value-added tax payable.	3, 6, 9, 10 or 13
Consumption tax	Levied based on taxable sales income	1, 5 or 7
Urban maintenance and construction tax	Levied based on the actual VAT and consumption tax paid	5
Enterprise income tax	Levied based on the taxable income	25

Disclosure of information about taxpayers applying different enterprise income tax rates

Taxpayer name	Income tax rate
Sinopec Shengli Petroleum Engineering Corporation	15
Sinopec Zhongyuan Petroleum Engineering Corporation	15
Sinopec Jiangnan Petroleum Engineering Corporation	15
Sinopec Zhongyuan Oil Engineering Design Company Limited	15
Sinopec Oil Engineering Design Company Limited	15
Sinopec Geophysical Corporation	15
Sinopec Jiangnan Oil Engineering Design Company Limited	15
Sinopec Henan Oil Engineering Design Company Limited	15
Sinopec Huabei Petroleum Engineering Corporation	15
Sinopec Pipeline Technical Service Co., Ltd.	15
SinoFTS Petroleum Services Ltd.	15
Sinopec Jiangnan Oil Construction Engineering Co., Ltd.	15

### 4.2 Tax preference

#### 4.2.1 Consumption tax refund of self-used refined oil

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

#### 4.2.2 Enterprise income tax

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

## Section VIII Financial Reports

### 5 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### 5.1 Monetary funds

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Cash on hand	3,682	5,230
Cash at banks	845,566	908,850
Cash in finance companies	1,090,916	1,593,669
Other monetary funds	480	475
<b>Total</b>	<b>1,940,644</b>	<b>2,508,224</b>
Including: Amount deposited abroad:	1,597,280	1,290,784

As at June 30, 2022, the Group's monetary funds restricted for use due to mortgage, pledge or freezing, or placed overseas with restrictions on fund repatriation are as follows:

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Guarantee deposit	14,095	7,352
L/C deposit	91	87
Frozen and pledged deposits	25,031	22,478
Time deposit	3,000	3,000
Dedicated custody account funds	51,587	
<b>Total</b>	<b>93,804</b>	<b>32,917</b>

As at June 30, 2022, the Group had not pledged deposit with any bank for the issuance of bank acceptance bill.

#### 5.2 Accounts receivable

##### 5.2.1 Disclosure of accounts receivable by aging

Aging	Balance as at June 30, 2022	Balance as at December 31, 2021
Within 1 year	7,977,899	7,475,672
Including: Not overdue	5,183,016	4,678,622
Overdue – Within 1 year	2,794,883	2,797,050
1 – 2 years	429,139	577,084
2 – 3 years	302,140	314,236
3 – 4 years	380,998	452,920
4 – 5 years	275,365	186,583
Over 5 years	1,619,197	1,560,019
<b>Sub-total</b>	<b>10,984,738</b>	<b>10,566,514</b>
Less: provision for bad debts	2,443,280	2,415,495
<b>Total</b>	<b>8,541,458</b>	<b>8,151,019</b>

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

### 5.2 Accounts receivable (Continued)

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

Category	Balance as at June 30, 2022					Balance as at December 31, 2021				
	Book balance		Provision for bad debts		Book value	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss ratio (%)		Amount	Proportion (%)	Amount	Expected credit loss ratio (%)	
Provision made on an individual basis	998,611	9.09	998,611	100.00		955,589	9.04	955,589	100.00	
Provision for bad debts made by portfolio	9,986,127	90.91	1,444,669	14.47	8,541,458	9,610,925	90.96	1,459,906	15.19	8,151,019
Including:										
Related-party portfolio	3,788,553	34.49	50,877	1.34	3,737,676	3,293,119	31.17	48,184	1.46	3,244,935
Non-related-party portfolio	6,197,574	56.42	1,393,792	22.49	4,803,782	6,317,806	59.79	1,411,722	22.35	4,906,084
<b>Total</b>	<b>10,984,738</b>	<b>100.00</b>	<b>2,443,280</b>		<b>8,541,458</b>	<b>10,566,514</b>	<b>100.00</b>	<b>2,415,495</b>		<b>8,151,019</b>

Provision made on an individual basis:

Item	Balance as at June 30, 2022			
	Book balance	Provision for bad debts	Proportion of provision (%)	Reason for provision
Entity A	919,859	919,859	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
Entity B	44,705	44,705	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
Entity C	23,812	23,812	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
Total of other sporadic units	10,235	10,235	100.00	The debtor is short of funds and the funds have not been recovered for a long time.
<b>Total</b>	<b>998,611</b>	<b>998,611</b>		

Provision for bad debts made by portfolio:

Provision by portfolio:

Item	Balance as at June 30, 2022		
	Accounts receivable	Provision for bad debts	Proportion of provision (%)
Accounts receivable from related-party clients	3,788,553	50,877	1.34
Accounts receivables from non-related-party clients	6,197,574	1,393,792	22.49
<b>Total</b>	<b>9,986,127</b>	<b>1,444,669</b>	

## Section VIII Financial Reports

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

#### 5.2 Accounts receivable (Continued)

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

Provision by portfolio: Accounts receivable from related-party clients

Category	Balance as at June 30, 2022			Balance as at December 31, 2021		
	Book balance	Provision for bad debts		Book balance	Provision for bad debts	
	Amount	Amount	Expected credit loss ratio (%)	Amount	Amount	Expected credit loss ratio (%)
Within 1 year	3,563,242	14,151	0.40	3,025,701	11,896	0.39
Including:						
Not overdue	2,703,203	8,110	0.30	2,333,468	7,000	0.30
Overdue – Within 1 year	860,039	6,041	0.70	692,233	4,896	0.71
1 – 2 years	123,635	5,465	4.42	128,378	5,810	4.53
2 – 3 years	33,645	2,246	6.68	79,747	5,666	7.10
3 – 4 years	31,204	4,719	15.12	30,219	4,602	15.23
4 – 5 years	18,066	9,344	51.72	11,768	6,185	52.56
Over 5 years	18,761	14,952	79.70	17,306	14,025	81.04
<b>Total</b>	<b>3,788,553</b>	<b>50,877</b>	<b>1.34</b>	<b>3,293,119</b>	<b>48,184</b>	<b>1.46</b>

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

Category	Balance as at June 30, 2022			Balance as at December 31, 2021		
	Book balance	Provision for bad debts		Book balance	Provision for bad debts	
	Amount	Amount	Expected credit loss ratio (%)	Amount	Amount	Expected credit loss ratio (%)
Within 1 year	4,414,657	92,051	2.09	4,449,971	107,739	2.42
Including:						
Not overdue	2,479,813	7,439	0.30	2,345,154	7,035	0.30
Overdue – Within 1 year	1,934,844	84,612	4.37	2,104,817	100,704	4.78
1 – 2 years	305,504	77,769	25.46	448,706	115,929	25.84
2 – 3 years	268,495	139,283	51.88	234,489	123,406	52.63
3 – 4 years	271,042	203,419	75.05	340,961	258,484	75.81
4 – 5 years	257,299	200,693	78.00	174,815	137,298	78.54
Over 5 years	680,577	680,577	100.00	668,864	668,866	100.00
<b>Total</b>	<b>6,197,574</b>	<b>1,393,792</b>	<b>22.49</b>	<b>6,317,806</b>	<b>1,411,722</b>	<b>22.35</b>

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

### 5.2 Accounts receivable (Continued)

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

Category	Balance as at December 31, 2021	Changes in the current period			Balance as at June 30, 2022	
		Provision	Recovery or reversal	Write-off or charge-off		Other decreases
Provision for bad debts	2,415,495	54,444	111,120		-84,461	2,443,280
<b>Total</b>	2,415,495	54,444	111,120		-84,461	2,443,280

#### 5.2.4 Accounts receivable actually charged off in the current period

No accounts receivable charged off in the current period.

#### 5.2.5 Top 5 of accounts receivable as at June 30, 2022, presented by debtor

Company name	Balance as at June 30, 2022		
	Accounts receivable	Proportion in total accounts receivable (%)	Provision for bad debts
Entity 1	2,547,616	23.19	35,429
Entity 2	919,859	8.37	919,859
Entity 3	824,098	7.50	38,130
Entity 4	823,525	7.50	9,663
Entity 5	619,970	5.64	13,301
<b>Total</b>	5,735,068	52.20	1,016,382

### 5.3 Receivables financing

#### 5.3.1 Breakdowns of receivables financing

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Notes receivable	743,385	1,295,971
<b>Total</b>	743,385	1,295,971

Some subsidiaries of the Group discounted and transferred via endorsement a part of bank acceptance bills and commercial acceptance bills based on its routine funds management demand and derecognized the discounted and endorsed notes receivable based on the situation that almost all risks and remuneration have been transferred to relevant counterparties. As at June 30, 2022, the notes receivable endorsed or discounted but not matured amounted to RMB3,228,764 thousand (As at December 31, 2021, RMB4,714,67 thousand). As relevant subsidiaries manage notes receivable with the purpose of collecting contractual cash flows and selling such financial assets, the Company classifies these subsidiaries' bank acceptance bills and commercial acceptance bills as the financial assets measured at fair value through other comprehensive income.

The Group had no bank acceptance bill or commercial acceptance bill with the provision for impairment made individually. As at June 30, 2022, the Group believed that the bank acceptance bills and commercial acceptance bills it held had not significant credit risk as they were accepted by the banks or finance companies with higher credit levels, and it would not be subjected to the significant loss caused by the default of these banks and finance companies. The Group had not made the provision for losses from credit impairment of receivables financing.

## Section VIII Financial Reports

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

#### 5.4 Advances to suppliers

##### 5.4.1 Presentation of advances to suppliers by aging

Aging	Balance as at June 30, 2022		Balance as at December 31, 2021	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	605,424	86.06	242,449	71.61
1 – 2 years	67,706	9.63	66,669	19.69
2 – 3 years	28,775	4.09	28,127	8.31
Over 3 years	1,517	0.22	1,310	0.39
<b>Total</b>	<b>703,422</b>	<b>100.00</b>	<b>338,555</b>	<b>100.00</b>

##### 5.4.2 Top 5 of advances to suppliers as at June 30, 2022, collected by supplier

The sum amount of top 5 of accounts receivable as at June 30, 2022, presented by debtor was RMB253,230,000, accounting for 36% of the total ending balance of advances to suppliers.

#### 5.5 Other receivables

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Dividends receivable		548
Other receivables	3,137,547	2,551,744
<b>Total</b>	<b>3,137,547</b>	<b>2,552,292</b>

##### 5.5.1 Dividends receivable

###### (1) Details of dividends receivable

Project (or investee)	Balance as at June 30, 2022	Balance as at December 31, 2021
Qianjiang Hengyun Motor Vehicle Comprehensive Performance Inspection & Testing Co., Ltd.		548
<b>Sub-total</b>		<b>548</b>
Less: provision for bad debts		
<b>Total</b>		<b>548</b>

##### 5.5.2 Other receivables

###### (1) Disclosure of other receivables by aging

Aging	Balance as at June 30, 2022	Balance as at December 31, 2021
Within 1 year	2,490,080	1,892,581
1 – 2 years	155,935	175,623
2 – 3 years	587,429	582,805
3 – 4 years	43,051	72,611
4 – 5 years	88,326	97,489
Over 5 years	591,676	535,874
<b>Sub-total</b>	<b>3,956,497</b>	<b>3,356,983</b>
Less: provision for bad debts	818,950	805,239
<b>Total</b>	<b>3,137,547</b>	<b>2,551,744</b>

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

### 5.5 Other receivables (Continued)

#### 5.5.2 Other receivables (Continued)

(2) Disclosure of other receivables by category based on the method for provision for bad debts

Category	Balance at June 30, 2022			Balance as at December 31, 2021		
	Book balance	Provision for bad debts	Book value	Book balance	Provision for bad debts	Book value
	Amount	Amount	Amount	Amount	Amount	Amount
Imprest	40,347	944	39,403	3,304	124	3,180
Security deposit	1,265,811	145,785	1,120,026	1,247,723	121,125	1,126,598
Advance money for the Company	1,192,354	176,487	1,015,867	870,202	165,960	704,242
Suspense payment	918,019	470,998	447,021	697,197	473,246	223,951
Escrow payment	4,756	1,527	3,229	6,430	1,727	4,703
Deposit	133,002	8,673	124,329	127,035	8,611	118,424
Export rebates receivable	6,589	70	6,519	21,405	70	21,335
Others	395,619	14,466	381,153	383,687	34,376	349,311
<b>Total</b>	<b>3,956,497</b>	<b>818,950</b>	<b>3,137,547</b>	<b>3,356,983</b>	<b>805,239</b>	<b>2,551,744</b>

(3) Details of provision for bad debts

Provision for bad debts at stage I as at June 30, 2022

Category	Book balance	Expected credit loss ratio in future 12 months (%)	Provision for bad debts	Book value
Provision for bad debts made by portfolio	3,233,444	4.39	141,863	3,091,581
– Imprest	40,347	2.34	944	39,403
– Margin and deposit	1,261,292	4.03	50,830	1,210,462
– Other receivables	1,931,805	4.66	90,089	1,841,716
<b>Total</b>	<b>3,233,444</b>		<b>141,863</b>	<b>3,091,581</b>

As at June 30, 2022, the Company had no interest receivable, dividends receivable and other receivables at stage II.

Provision for bad debts at stage III as at June 30, 2022:

Category	Book balance	Expected credit loss ratio in future 12 months (%)	Provision for bad debts	Book value
Provision for bad debts made by portfolio	723,053	93.64	677,087	45,966
– Imprest				
– Margin and deposit	137,521	75.35	103,628	33,893
– Other receivables	585,532	97.94	573,459	12,073
<b>Total</b>	<b>723,053</b>		<b>677,087</b>	<b>45,966</b>

## Section VIII Financial Reports

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

#### 5.5 Other receivables (Continued)

##### 5.5.2 Other receivables (Continued)

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

Provision for bad debts	Stage I	Stage II	Stage III	Total
	Expected credit loss in future 12 months	Expected credit loss in the whole duration (without credit impairment)	Expected credit loss in the whole duration (with credit impairment)	
Balance as at December 31, 2021	131,563		673,676	805,239
Balance as at December 31, 2021 in the current period				
– Transferred in Stage II				
– Transferred in Stage III				
– Reversal from Stage II				
– Reversal from Stage I				
Provision in the current period	22,719		17,293	40,012
Reversal in the current period	12,419		41,608	54,027
Write-off in the current period				
Other changes			-27,726	-27,726
Balance as at June 30, 2022	141,863		677,087	818,950

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

No other receivables were charged off in the current period.

###### (6) Top 5 of other receivables as at June 30, 2022, presented by debtor

Company name	Nature	Balance as at June 30, 2022	Aging	Proportion in the total balance of other receivables as at June 30, 2022 (%)	Balance of provision for bad debts as at June 30, 2022
Entity A	Advance money for the Company	558,338	Within 1 year and 2 – 3 years	14.11	23,281
Entity B	Suspense payment	316,135	Within 1 year and over 5 years	7.99	295,304
Entity C	Security deposits Advance payment	295,695	Within 1 year and over 5 years	7.47	6,163
Entity D	Suspense payment	166,339	Over 5 years	4.20	166,339
Entity E	Security deposits Advance payment	118,789	Within 1 year and 1 – 2 years	3.00	4,870
<b>Total</b>		1,455,296		36.77	495,957

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

### 5.6 Inventories

#### 5.6.1 Classification of inventories

Item	Balance as at June 30, 2022			Balance as at December 31, 2021		
	Book balance	Provision for inventory depreciation/ Provision for impairment of contract performance cost	Book value	Book balance	Provision for inventory depreciation/ Provision for impairment of contract performance cost	Book value
Raw materials	812,347	24,494	787,853	919,795	24,610	895,185
Revolving materials	15,046		15,046	13,604		13,604
Goods in process	22,151	1,671	20,480	5,567	1,671	3,896
Stock commodities	110,164		110,164	96,481		96,481
Contract performance cost	588,122		588,122	79,138		79,138
<b>Total</b>	<b>1,547,830</b>	<b>26,165</b>	<b>1,521,665</b>	<b>1,114,585</b>	<b>26,281</b>	<b>1,088,304</b>

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

Item	Balance as at December 31, 2021	Increase in the current period		Decrease in the current period		Balance as at June 30, 2022
		Provision	Others	Reversal or write-off	Others	
Raw materials	24,610				116	24,494.00
Goods in process	1,671					1,671.00
<b>Total</b>	<b>26,281</b>				<b>116</b>	<b>26,165</b>

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

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

As at June 30, 2022 and December 31, 2021, the Group had no capitalized borrowing costs included in the year end balance of inventories. The inventories were not used for collateral or guarantee.

## Section VIII Financial Reports

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

#### 5.7 Contract assets

##### 5.7.1 Breakdowns of contract assets

Item	Balance as at June 30, 2022			Balance as at December 31, 2021		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Contract assets	16,446,305	103,975	16,342,330	13,647,488	100,593	13,546,895
<b>Total</b>	<b>16,446,305</b>	<b>103,975</b>	<b>16,342,330</b>	<b>13,647,488</b>	<b>100,593</b>	<b>13,546,895</b>

The petroleum engineering technology services provided by the Group are usually settled in stages according to the completion schedule agreed in the contract, and the project payment will be collected 30 – 180 days after the settlement via making out an invoice. Engineering construction business will reserve quality guarantee as 5% of progress billings, and have an unconditional right to receive the guarantee after guarantee period.

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

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

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

Category	Balance as at June 30, 2022					Balance as at December 31, 2021				
	Book balance		Provision for impairment		Book value	Book balance		Provision for impairment		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)		Amount	Proportion (%)	Amount	Proportion of provision (%)	
Provision for impairment made by portfolios	16,446,305	100.00	103,975	0.63	16,342,330	13,647,488	100.00	100,593	0.74	13,546,895
Including:										
Petroleum Engineering	9,349,143	56.85	82,707	0.88	9,266,436	7,627,792	55.89	82,495	1.08	7,545,297
Construction and Engineering	7,097,162	43.15	21,268	0.30	7,075,894	6,019,696	44.11	18,098	0.30	6,001,598
<b>Total</b>	<b>16,446,305</b>	<b>100.00</b>	<b>103,975</b>		<b>16,342,330</b>	<b>13,647,488</b>	<b>100.00</b>	<b>100,593</b>		<b>13,546,895</b>

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

### 5.8 Other current assets

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Value-added tax retained	1,164,087	1,281,654
Input VAT to be certified	32,579	22,671
Value-added tax prepaid	1,053,524	931,596
Enterprise income tax prepaid	2,770	2,085
<b>Total</b>	<b>2,252,960</b>	<b>2,238,006</b>

### 5.9 Long-term equity investments

Investee	Balance as at December 31, 2021	Increase/decrease in the current period								Balance as at June 30, 2022	Ending balance of provision for impairment	
		Additional investment	Negative investment	Profit or loss on investments recognized by the equity method	Adjustment to other comprehensive income	Other changes in equity	Cash dividends or profits declared to be distributed	Provision for impairment made	Others			
<b>1. Joint ventures</b>												
Zhong Wei Energy Services Co., Ltd. (A Sinopec - Weatherford Joint Venture)	8,374			-291							8,083	
Sinopec Gulf Petroleum Engineering Services, LLC	13,039										13,039	
Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited	1,672			387							2,059	
EBAPAN,S.A.DEC.V	1,037										1,037	
Sub-total	24,122			96							24,218	
<b>2. Associates</b>												
Hua Bei Ruida Oil Service Company Limited ("Ordos North")	8,251			1,620			-1,400				8,471	
Xinjiang North China Tianxiang Oil Service Company Limited ("Xinjiang North")	4,263			1,042			-1,620				3,685	
Zhenjiang Huajiang Oil and Gas Engineering Technology Service Co., Ltd	2,353						-288				2,065	
Henan Zhongyuan Oil & Gas Technology Service Co., Ltd	2,557										2,557	
Henan Zhongyou Oil & Gas Technology Service Co., Ltd	5,502										5,502	
Sub-total	22,926			2,662			-3,308				22,280	
<b>Total</b>	<b>47,048</b>			<b>2,758</b>			<b>-3,308</b>				<b>46,498</b>	

Other descriptions: There is no restriction on sale of the long-term equity investments held by the Group. For the information on the Group's joint ventures and associates, see Note 7.2 Equity in joint ventures or associates.

## Section VIII Financial Reports

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

#### 5.10 Investment in other equity instruments

##### 5.10.1 Details of investment in other equity instruments

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Sinopec & Tharwa Drilling Company	13,352	13,352
Dongying Kewei Intelligent Technology Co., Ltd.	116	116
Shengli Oilfield Niuzhuang Petroleum Development Co., Ltd.	8,292	8,292
<b>Total</b>	<b>21,760</b>	<b>21,760</b>

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

##### 5.10.2 Details of investment in non-trading equity instruments

Item	Dividend revenue recognized in the current period	Accumulated gains	Accumulated losses	Amount of other comprehensive income transferred to retained earnings	Reason for being designated as the item measured at fair value through the other comprehensive income	Reason for transferring the other comprehensive income to retained earnings
Sinopec & Tharwa Drilling Company			9,697			
Dongying Kewei Intelligent Technology Co., Ltd.			300			
Shengli Oilfield Niuzhuang Petroleum Development Co., Ltd.		14,466				

#### 5.11 Fixed assets

##### 5.11.1 Fixed assets and disposal of fixed assets

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Fixed assets	22,384,796	23,428,943
Disposal of fixed assets	32,172	32,838
<b>Total</b>	<b>22,416,968</b>	<b>23,461,781</b>

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

### 5.11 Fixed assets (Continued)

#### 5.11.2 Breakdowns of fixed assets

Item	Buildings and constructions	Equipment and others	Total
<b>1. Original book value</b>			
(1) Balance as at December 31, 2021	1,644,119	63,932,401	65,576,520
(2) Increase in the current period		499,453	499,453
– Purchase		11,434	11,434
– Transferred from construction in progress		488,019	488,019
(3) Decrease in the current period	2,794	585,341	588,135
– Disposal or retirement	2,794	585,341	588,135
(4) Balance as at June 30, 2022	1,641,325	63,846,513	65,487,838
<b>2. Accumulated depreciation</b>			
(1) Balance as at December 31, 2021	640,591	40,259,263	40,899,854
(2) Increase in the current period	27,723	1,478,953	1,506,676
– Provision	27,723	1,478,953	1,506,676
(3) Decrease in the current period	2,622	538,086	540,708
– Disposal or retirement	2,622	538,086	540,708
(4) Balance as at June 30, 2022	665,692	41,200,130	41,865,822
<b>3. Provision for impairment</b>			
(1) Balance as at December 31, 2021	654	1,247,069	1,247,723
(2) Increase in the current period			
– Provision			
(3) Decrease in the current period		10,503	10,503
– Disposal or retirement		10,503	10,503
(4) Balance as at June 30, 2022	654	1,236,566	1,237,220
<b>4. Book value</b>			
(1) Book value as at June 30, 2022	974,979	21,409,817	22,384,796
(2) Book value as at December 31, 2021	1,002,874	22,426,069	23,428,943

As at June 30, 2022, the Group had no fixed assets under pledge.

#### 5.11.3 Fixed assets with pending certificates of title

There had been a total amount of 25 premises without qualified ownership certificates up to June 30, 2022, totaling amount in cost of RMB161,689,000, in accumulated depreciation of RMB31,444,000 and net book value of RMB130,245,000.

#### 5.11.4 Disposal of fixed assets

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Equipment	32,172	32,838
<b>Total</b>	<b>32,172</b>	<b>32,838</b>

Remark: As at June 30, 2022, there was no disposal of fixed assets lasting for over one year.

## Section VIII Financial Reports

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

#### 5.12 Construction in progress

##### 5.12.1 Construction in progress and project materials

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Construction in progress	602,708	668,364
Engineer material	43	
<b>Total</b>	<b>602,751</b>	<b>668,364</b>

##### 5.12.2 Details of construction in progress

Item	Balance as at June 30, 2022			Balance as at December 31, 2021		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Infrastructure improvement expenditure	8,731	3,502	5,229	8,731	3,502	5,229
Major Materials and equipment procurement projects	589,200		589,200	655,232		655,232
Other construction projects	8,279		8,279	7,903		7,903
<b>Total</b>	<b>606,210</b>	<b>3,502</b>	<b>602,708</b>	<b>671,866</b>	<b>3,502</b>	<b>668,364</b>

##### 5.12.3 Changes in important construction in progress in the current period

Project name	Budget amount	Balance as at December 31, 2021	Increase in the current period	Amount transferred to fixed assets in the current period	Other decreases in the current period	Balance as at June 30, 2022	Proportion of accumulated project investments in budget amount (%)	Project progress	Accumulated capitalized amount of interest	Including: capitalized amount of interest in the current period	Capitalization rate of interest in the current period (%)	Source of funds
Purchase of construction drilling rigs in Uganda in 2021	175,210	157,610				157,610	89.95	89.95				Self-financing in full
Saudi unconventional gas well drilling rig purchase	162,000		84,011			84,011	51.86	51.86				Self-financing in full
2022-Mexico HUELITLI project non-installation equipment purchase project	277,610		42,591			42,591	15.34	15.34				Self-financing in full
2021 80 Rig Acquisition Project	49,560	35,372				35,372	71.37	71.37				Self-financing in full
Ecuador's Bania Douri Project	104,698	4,807	29,318			34,125	32.59	32.59				Self-financing in full
2021 80 Rig Acquisition Project	49,560	34,446		3,673		30,773	69.50	69.50				Self-financing in full
SICP system construction	65,000	20,788				20,788	31.98	31.98				Self-financing in full
Upgrading of Type 70 Drilling Rig in Chongqing Shale Gas Market in 2021	23,880	19,157	1,453	4,688		15,922	86.31	86.31				Self-financing in full
Upgrading of Type 70 Drilling Rig in Sichuan Shale Gas Market in 2021	23,900	19,157	1,453	4,688		15,922	86.23	86.23				Self-financing in full
ERP Improvement Project in 2019	12,450	12,255				12,255	98.43	98.43				Self-financing in full
<b>Total</b>		303,592	158,826	13,049		449,369						

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

### 5.13 Right-of-use assets

Item	Land	Buildings	Equipment and others	Total
<b>1. Original book value</b>				
(1) Balance as at December 31, 2021	164,030	711,999	1,026,161	1,902,190
(2) Increase in the current period	38,547	525,292	11,862	575,701
– Newly-added leases	38,547	520,804	8,931	568,282
– Adjustment of lease liabilities		4,488	2,931	7,419
(3) Decrease in the current period	21,418	157,230	20,734	199,382
– Adjustment of lease liabilities	33	1,601	734	2,368
– Write-off or early termination	21,385	155,629	20,000	197,014
(4) Balance as at June 30, 2022	181,159	1,080,061	1,017,289	2,278,509
<b>2. Accumulated depreciation</b>				
(1) Balance as at December 31, 2021	112,286	487,856	581,110	1,181,252
(2) Increase in the current period	20,329	135,673	103,926	259,928
– Depreciation	20,329	135,673	103,926	259,928
(3) Decrease in the current period	19,470	142,677	18,949	181,096
– Write-off or early termination	19,470	142,677	18,949	181,096
(4) Balance as at June 30, 2022	113,145	480,852	666,087	1,260,084
<b>3. Provision for impairment</b>				
<b>4. Book value</b>				
(1) Book value as at June 30, 2022	68,014	599,209	351,202	1,018,425
(2) Book value as at December 31, 2021	51,744	224,143	445,051	720,938

Other description: As at June 30, 2022, the lease expenses recognized by the Group and relevant to the short-term lease and low-value assets lease amounted to RMB379,742,000.

## Section VIII Financial Reports

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

#### 5.14 Intangible assets

##### 5.14.1 Breakdowns of intangible assets

Item	Land use right	Software use right	Contract income right	Others	Total
<b>1. Original book value</b>					
(1) Balance as at December 31, 2021	137,876	206,662	706,143	77,364	1,128,045
(2) Increase in the current period		580			580
– Purchase		580			580
(3) Decrease in the current period					
(4) Balance as at June 30, 2022	137,876	207,242	706,143	77,364	1,128,625
<b>2. Accumulated amortization</b>					
(1) Balance as at December 31, 2021	31,410	153,455	396,518	40,066	621,449
(2) Increase in the current period	1,608	7,886	89,931	4,362	103,787
– Provision	1,608	7,886	89,931	4,362	103,787
(3) Decrease in the current period					
(4) Balance as at June 30, 2022	33,018	161,341	486,449	44,428	725,236
<b>3. Provision for impairment</b>					
<b>4. Book value</b>					
(1) Book value as at June 30, 2022	104,858	45,901	219,694	32,936	403,389
(2) Book value as at December 31, 2021	106,466	53,207	309,625	37,298	506,596

① As at June 30, 2022, there were no intangible assets generating from the internal research and development.

② As at June 30, 2022, there were no intangible assets under pledge or guarantee.

##### 5.14.2 Land use right with pending certificate of title

As at June 30, 2022, there were 2 land-use-right with pending certificates of title and the original book value thereof amounted to RMB7,766,000. The provision for accumulated amortization made amounted to RMB2,282,000, and the net book value was RMB5,485,000.

#### 5.15 Long-term deferred expenses

Item	Balance as at December 31, 2021	Increase in the current period	Amortization in the current period	Other decreases	Balance as at June 30, 2022
Special tools for petroleum engineering	5,392,326	75,591	833,412	1,146	4,633,359
Other tools for petroleum engineering	523,770	55,562	117,776		461,556
Camping house	659,885	16,795	114,605		562,075
Other long-term deferred expenses	19,949		3,738		16,211
<b>Total</b>	<b>6,595,930</b>	<b>147,948</b>	<b>1,069,531</b>	<b>1,146</b>	<b>5,673,201</b>

Other description: The Group's long-term deferred expenses mainly represent special drilling and logging tools of petroleum engineering, geophysical special tools, camping house etc.

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

### 5.16 Deferred income tax assets and deferred income tax liabilities

#### 5.16.1 Deferred income tax assets without offset

Item	Balance as at June 30, 2022		Balance as at December 31, 2021	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for asset impairment and impact of depreciation	996,699	163,559	1,009,924	166,865
Provision for bad debts	778,849	139,738	788,394	142,073
Deferred income	2,478	372	2,478	372
Others	9,697	1,454	9,697	1,454
<b>Total</b>	<b>1,787,723</b>	<b>305,123</b>	<b>1,810,493</b>	<b>310,764</b>

#### 5.16.2 Deferred income tax liabilities before offset

Item	Balance as at June 30, 2022		Balance as at December 31, 2021	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Revaluation of assets	14,220	3,555	14,220	3,555
Depreciation of fixed assets	16,339	4,085	26,656	4,310
Changes in fair value through other comprehensive income	6,292	1,573	6,292	1,573
<b>Total</b>	<b>36,851</b>	<b>9,213</b>	<b>47,168</b>	<b>9,438</b>

#### 5.16.3 Details of unrecognized deferred income tax assets

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Deductible temporary differences	2,859,829	2,760,502
Deductible losses	14,069,578	14,146,311
<b>Total</b>	<b>16,929,407</b>	<b>16,906,813</b>

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

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

Year	Balance as at June 30, 2022	Balance as at December 31, 2021	Remark
Year 2022	1,434,465	1,460,055	
Year 2023	246,170	246,170	
Year 2024	136,050	136,050	
Year 2025	479,591	555,618	
Year 2026	9,569,754	9,569,754	
Year 2027 and later	2,203,548	2,178,664	
<b>Total</b>	<b>14,069,578</b>	<b>14,146,311</b>	

## Section VIII Financial Reports

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

#### 5.17 Short-term borrowings

##### 5.17.1 Classification of short-term borrowings

Item	Currency	Balance as at June 30, 2022	Balance as at December 31, 2021
Credit loans from related parties	RMB	16,200,000	15,550,000
	USD	2,241,608	1,970,091
<b>Total</b>		<b>18,441,608</b>	<b>17,520,091</b>

Description: As at June 30, 2022, no assets of the Group were pledged.

As at June 30, 2022, the Group has no overdue short-term borrowings.

As at June 30, 2022, 2021, the interest rate interval for short-term borrowings was from 1.39% to 3.60% (As at December 31, 2021: 1.42%-3.92%).

#### 5.18 Notes payable

Category	Balance as at June 30, 2022	Balance as at December 31, 2021
Bank acceptance bill	9,269,973	8,334,086
<b>Total</b>	<b>9,269,973</b>	<b>8,334,086</b>

Other descriptions:

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

#### 5.19 Accounts payable

##### 5.19.1 Presentation of accounts payable

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Payables for materials	4,804,067	5,012,775
Payables for construction	5,388,588	5,625,361
Payable for labour cost	6,576,472	6,862,711
Payables for equipment	3,218,036	3,358,143
Others	670,517	697,272
<b>Total</b>	<b>20,657,680</b>	<b>21,556,262</b>

##### 5.19.2 Significant accounts payable with aging over one year

Item	Balance as at June 30, 2022	Reason for no payment or carry-forward
Entity 1	53,893	Quality guarantee deposit, unsettled payment
Entity 2	28,783	Quality guarantee deposit, unsettled payment
Entity 3	24,917	Quality guarantee deposit, unsettled payment
Entity 4	23,721	Quality guarantee deposit, unsettled payment
Entity 5	19,854	Quality guarantee deposit, unsettled payment
<b>Total</b>	<b>151,168</b>	

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

### 5.20 Contract liabilities

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Petroleum Engineering	1,123,083	1,179,692
Construction Engineering	2,128,416	2,368,246
<b>Total</b>	<b>3,251,499</b>	<b>3,547,938</b>

In the current period, revenue recognized based on the contract liabilities at the beginning of the current period amounted to RMB2,035,572,000.

### 5.21 Employee compensation payable

#### 5.21.1 Presentation of employee compensation payable

Item	Balance as at December 31, 2021	Increase in the current period	Decrease in the current period	Balance as at June 30, 2022
Short term employee benefits	643,446	6,091,759	6,028,639	706,566
Post-employment benefits	580	1,047,590	1,047,488	682
Termination benefits		8,057	8,057	
<b>Total</b>	<b>644,026</b>	<b>7,147,406</b>	<b>7,084,184</b>	<b>707,248</b>

#### 5.21.2 Presentation of short-term compensation

Item	Balance as at December 31, 2021	Increase in the current period	Decrease in the current period	Balance as at June 30, 2022
(1) Wages or salaries, bonuses, allowances and subsidies	474,028	3,935,111	3,882,655	526,484
(2) Staff welfare		434,406	434,406	
(3) Social security contributions	810	541,652	542,147	315
Including: 1. Basic medical insurance	229	466,788	466,754	263
2. Work-related injury insurance	10	34,326	34,328	8
3. Birth insurance	20	13,918	13,913	25
4. Other insurance	551	26,620	27,152	19
(4) Housing funds	1,734	508,521	508,765	1,490
(5) Labor union and employee education funds	160,544	93,109	98,151	155,502
(6) Others	6,330	578,960	562,515	22,775
<b>Total</b>	<b>643,446</b>	<b>6,091,759</b>	<b>6,028,639</b>	<b>706,566</b>

#### 5.21.3 Presentation of defined contribution plans

Item	Balance as at December 31, 2021	Increase in the current period	Decrease in the current period	Balance as at June 30, 2022
Basic pension insurance	400	680,149	680,148	401
Unemployment insurance	13	28,641	28,641	13
Annuity	167	338,800	338,699	268
<b>Total</b>	<b>580</b>	<b>1,047,590</b>	<b>1,047,488</b>	<b>682</b>

The in-service employees of the Group are subject to basic pension and medical insurance, which are extracted and paid according to regulated rates and set up and governed by local government. In addition, the Company provides a supplementary defined contribution retirement plan for its employees at rates not exceeding 8% of their salaries. Employees who have served the Group for more than one year may participate in this plan. The assets of this plan are held separately from those of the Group in an independent fund administered by a committee consisting of representatives from the employees and the Group. A member of the above plans is entitled to a pension amount equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefit associated with the basic and supplementary pension plans beyond the annual contributions described above.

During this report, the Group paid RMB8,057,000 compensation to the resigning employee for terminating labor relation.

## Section VIII Financial Reports

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

#### 5.22 Taxes and surcharges payable

Taxes and surcharges	Balance as at June 30, 2022	Balance as at December 31, 2021
VAT	159,936	209,114
Corporate income tax	256,337	211,513
Urban maintenance and construction tax	30,176	35,705
House property tax	825	1,637
Land use tax	10,186	12,209
Individual income tax	40,273	159,739
Education surtax	17,243	21,021
Other taxes	71,698	86,787
<b>Total</b>	<b>586,674</b>	<b>737,725</b>

#### 5.23 Other payables

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Interest payable	32,178	19,476
Other payables	2,507,562	2,336,347
<b>Total</b>	<b>2,539,740</b>	<b>2,355,823</b>

##### 5.23.1 Interest payable

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Interest payable of long term loan which interest paid by installment and principal paid at maturity date	1,730	112
Interest payable of short term loan	30,448	19,364
<b>Total</b>	<b>32,178</b>	<b>19,476</b>

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

##### 5.23.2 Other payables

###### (1) Presentation of other payables by nature

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Guarantee	697,719	617,945
Deposit	143,786	138,024
Amount paid on behalf	650,318	671,505
Temporary receipts	401,246	224,384
Escrow payments	47,146	38,852
Withheld payments	49,817	56,341
Others	517,530	589,296
<b>Total</b>	<b>2,507,562</b>	<b>2,336,347</b>

As at June 30, 2022, other payables with aging over one year amounted to RMB452,753,000 (As at December 31, 2021: RMB439,815,000), mainly including the project quality guarantee deposit, deposit and security fund which are payable. As the project guarantee period has not been matured, or the settlement period has not been due, such payables have not been settled.

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

### 5.24 Non-current liabilities maturing within one year

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Long-term payables within one year	2,872	5,700
Lease liabilities within one year	413,733	290,345
<b>Total</b>	<b>416,605</b>	<b>296,045</b>

#### 5.24.1 Long-term payables maturing within one year

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Loans of sale-leaseback	2,872	5,700
<b>Total</b>	<b>2,872</b>	<b>5,700</b>

### 5.25 Long-term borrowings

Classification of long-term borrowings:

Item	Balance as at June 30, 2022	Interest rate period	Balance as at December 31, 2021	Interest rate period
Loans on credit	1,550,335	2.42%-2.84%	1,554,686	2.37%-2.92%
Sub-total	1,550,335		1,554,686	
Less: Long-term loans within one year				
<b>Total</b>	<b>1,550,335</b>		<b>1,554,686</b>	

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

### 5.26 Lease liabilities

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Land and housing	643,742	251,416
Equipment and others	344,162	429,795
Sub-total	987,904	681,211
Less: Lease liabilities within one year	413,733	290,345
<b>Total</b>	<b>574,171.00</b>	<b>390,866</b>

The interest expenses of lease liabilities accrued for the six months ended June 30, 2022 were RMB25,681,000, which were included in the "financial expenses – interest expenses".

### 5.27 Long-term payables

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Long-term payables	50,656	28,885
<b>Total</b>	<b>50,656</b>	<b>28,885</b>

#### 5.27.1 Long-term payables

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Loans payable	2,800	5,600
Others	50,728	28,985
Sub-total	53,528	34,585
Less: Long-term payables within one year	2,872	5,700
<b>Total</b>	<b>50,656</b>	<b>28,885</b>

## Section VIII Financial Reports

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

#### 5.28 Estimated liabilities

Item	Balance as at June 30, 2022	Balance as at December 31, 2021	Forming reason
Outstanding litigation	4,000	4,000	
Expected loss of judicial restructuring	149,539	158,233	Estimated payment costs of judicial restructuring
Executory onerous contracts	17,273	25,004	Expected loss of construction contract
Estimated foreign tax expenses	18,534	18,534	Estimated tax expense
<b>Total</b>	<b>189,346</b>	<b>205,771</b>	

For details of expected loss of judicial restructuring, please see Note 11 Significant contingencies existing on balance sheet date.

#### 5.29 Deferred income

Item	Balance as at December 31, 2021	Increase in current period	Decrease in current period	Balance as at June 30, 2022	Forming reason
Government grants	9,288	59,366	59,035	9,619	Government grants received
<b>Total</b>	<b>9,288</b>	<b>59,366</b>	<b>59,035</b>	<b>9,619</b>	

#### 5.30 Share capital

Current Period

Item	Balance as at December 31, 2021	Changes in current period (“+” for increase and “-” for decrease)					Balance as at June 30, 2022
		New shares issued	Share donation	Conversion of reserves into shares	Others	Sub-total	
Legal person share held by domestic capital	11,786,046						11,786,046
RMB social public shares (A-share)	1,783,333						1,783,333
Foreign shares listed overseas (H-share)	5,414,961						5,414,961
<b>Total</b>	<b>18,984,340</b>						<b>18,984,340</b>

Prior Period

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

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

### 5.31 Capital reserves

Current Period

Item	Balance as at December 31, 2021	Increase in current period	Decrease in current period	Balance as at June 30, 2022
Share premium	11,649,804			11,649,804
Other capital reserves	67,969			67,969
<b>Total</b>	<b>11,717,773</b>			<b>11,717,773</b>

Prior Period

Item	Balance as at June 30, 2021	Increase in current period	Decrease in current period	Balance as at December 31, 2021
Share premium	11,649,804			11,649,804
Other capital reserves	67,969			67,969
<b>Total</b>	<b>11,717,773</b>			<b>11,717,773</b>

### 5.32 Other comprehensive income

Item	Balance as at December 31, 2021	Current period					Balance as at June 30, 2022
		Pre-tax amount incurred in current period	Less: the amount included in other comprehensive income in prior period and transferred to current profits or losses	Less: amount previously included in the other comprehensive income and currently transferred to the retained earnings	Less: income tax expenses	Amount after tax attributable to the parent company	
<b>1. Other comprehensive income that cannot be reclassified into profit or loss</b>	-3,823						-3,823
Including: changes in the fair value of other equity instruments investment	-3,823						-3,823
<b>Total of other comprehensive income</b>	<b>-3,823</b>						<b>-3,823</b>

### 5.33 Special reserves

Item	Balance as at December 31, 2021	Increase in current period	Decrease in current period	Balance as at June 30, 2022
Safety costs	219,182	575,168	219,794	574,556
<b>Total</b>	<b>219,182</b>	<b>575,168</b>	<b>219,794</b>	<b>574,556</b>

Note: In accordance with PRC regulations, the Group appropriated production safety fund of RMB575,168,000 to specific reserve for the six months ended June 30, 2022, which was recognised in the cost of related products and the Specific reserve. For the six months ended June 30, 2022, the Group utilised production safety fund amounting to RMB219,794,000 which was of expenditure nature.

## Section VIII Financial Reports

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

#### 5.34 Surplus reserves

Item	Balance as at December 31, 2021	Increase in current period	Decrease in current period	Balance as at June 30, 2022
Statutory surplus reserves	200,383			200,383
<b>Total</b>	<b>200,383</b>			<b>200,383</b>

#### 5.35 Retained earnings

Item	Current period	Prior period	Withdrawal or distribution proportion
Retained earnings as at the beginning of the period	-24,256,338	-24,436,139	
Plus: net profit attributable to owners of the parent company in the period	200,268	368,558	
Other comprehensive income carried forward to retained earnings		10	
Retained earnings as at the end of the period	-24,056,070	-24,067,571	

#### 5.36 Revenue and cost of sales

##### 5.36.1 Revenue and cost of sales

Item	Current period		Prior period	
	Revenue	Cost	Revenue	Cost
Major business	32,726,564	30,432,471	31,128,017	29,320,114
Other business	422,088	295,076	442,044	264,092
<b>Total</b>	<b>33,148,652</b>	<b>30,727,547</b>	<b>31,570,061</b>	<b>29,584,206</b>

##### 5.36.2 Revenue from contracts

The Group has six reportable segments, they are geophysics, drilling engineering, logging, and mud logging, special down-hole operations, engineering construction and others. The Group expects that classify and disclose revenue according to customer type, major business area and revenue recognition time can reflect the impact of relevant economic factors on the nature, amount, time distribution and uncertainty of enterprise income and cash flow.

The current revenue breakdown information is as follows:

Contract classification	Geophysics	Drilling engineering	Logging and mud logging	Special down-hole operations	Engineering construction	Others	Total
<b>Main business premise</b>							
Mainland China	1,199,674	12,468,892	1,182,967	3,802,379	7,862,412	560,187	27,076,511
Other countries or regions	312,551	4,166,906	19,499	490,491	463,737	196,869	5,650,053
<b>Total</b>	<b>1,512,225</b>	<b>16,635,798</b>	<b>1,202,466</b>	<b>4,292,870</b>	<b>8,326,149</b>	<b>757,056</b>	<b>32,726,564</b>
<b>Client type</b>							
Related parties	1,081,938	10,854,998	1,022,524	3,390,746	6,014,997	222,747	22,587,950
Third party	430,287	5,780,800	179,942	902,124	2,311,152	534,309	10,138,614
<b>Total</b>	<b>1,512,225</b>	<b>16,635,798</b>	<b>1,202,466</b>	<b>4,292,870</b>	<b>8,326,149</b>	<b>757,056</b>	<b>32,726,564</b>
<b>Recognition time of revenue</b>							
Goods (recognised at a certain time)		4,275			1,668	95,352	101,295
Service (recognised over time)	1,512,225	16,631,523	1,202,466	4,292,870	8,324,481	661,704	32,625,269
<b>Total</b>	<b>1,512,225</b>	<b>16,635,798</b>	<b>1,202,466</b>	<b>4,292,870</b>	<b>8,326,149</b>	<b>757,056</b>	<b>32,726,564</b>

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

### 5.36 Revenue and cost of sales (Continued)

#### 5.36.3 Notes to performance obligations

The Group's accounting policies for revenue is set out in Note 3.24. The Group signs petroleum engineering technical service contracts or construction engineering contracting contracts with customers to provide geophysical, drilling engineering, logging, and mud logging, special down-hole operations and engineering construction, and usually completes labor services or delivers construction within the agreed period. The customer settles the completed workload in installments during the contract performance period and pays the progress payment within 30-180 days after settlement. The final settlement and payment are made after the completion of the project and the completion acceptance.

According to the contractual stipulations and legal provisions, etc, the Group's engineering construction business provides quality assurance for the construction. This type of quality assurance is a guaranteed quality assurance to the customer that the construction meet the established standards and does not constitute an individual performance obligation. The Group accounts in accordance with the accounting policies described in Note 3.24.

The Group determines whether the Group's identity is the major principal or agent when engaging in a transaction based on whether it has control over the goods or services before transferring the goods or services to the customers. If the Group can control the goods or services before transferring goods or services to customers, the Group is the major principal and recognizes revenue according to the total amount received or receivable; otherwise, the Group is an agent and recognizes revenue in accordance with the amount of commission or poundage expected to be recognized. The amount is determined by the net amount of deducting to the payable of other related parties from the total amount received or receivable, or according to the established commission amount or proportion.

#### 5.36.4 Transaction price allocated to the remaining performance obligations

The Group signs engineering service contracts with several customers to provide petroleum engineering technical services and construction engineering contracting services and will perform them in a certain period. These contracts usually constitute an individual performance obligation. As at June 30, 2022, some of the Group's petroleum engineering technical services and construction projects are still in the course of performance, and the total transaction price allocated to the unfulfilled obligations is approximately RMB28,556,000,000. The amount is related to performance of each contract and will be recognized as revenue based on the progress of the performance in the future performance period of each contract.

### 5.37 Taxes and surcharges

Item	Current period	Prior period
Urban maintenance and construction tax	19,317	20,020
Educational surcharges	15,008	15,715
Overseas taxes and surcharges	32,160	15,462
Property taxes	5,281	4,420
Land use taxes	25,620	28,217
Vehicle and vessel usage tax	4,098	4,050
Stamp duty	18,874	15,811
Others	1,850	2,180
<b>Total</b>	<b>122,208</b>	<b>105,875</b>

### 5.38 Selling and distribution expenses

Item	Current period	Prior period
Staff costs	19,955	23,988
Depreciation cost	248	182
Expenses for business trips	1,272	1,906
Rental expenses	911	462
Office expenses	329	710
Others	3,928	4,793
<b>Total</b>	<b>26,643</b>	<b>32,041</b>

## Section VIII Financial Reports

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

#### 5.39 General and administrative expenses

Item	Current period	Prior period
Repair and maintenance	4,398	32,369
Staff costs	786,419	541,244
The information system runs maintenance fees	17,552	16,992
Business entertainment	7,835	10,137
Travel expenses	9,880	18,957
Rental expenses	31,295	16,970
Depreciation and amortization	69,819	54,959
Consultation	8,389	3,859
Property insurance	2,583	1,299
Others	153,848	107,163
<b>Total</b>	<b>1,092,018</b>	<b>803,949</b>

#### 5.40 Research and development expenses

Item	Current period	Prior period
Staff costs	228,396	179,357
Materials costs	186,354	73,817
Technical collaboration fee	55,640	13,387
Experimental expenses		49
Depreciation	20,120	11,866
Others	176,409	70,558
<b>Total</b>	<b>666,919</b>	<b>349,034</b>

#### 5.41 Financial expenses

Item	Current period	Prior period
Interest expenses on borrowings	286,732	319,806
Interest expenses on lease liabilities	25,681	30,886
Interest income	-4,430	-24,620
Exchange losses/(gains)	-47,529	56,379
Bank charges and others	21,434	25,731
<b>Total</b>	<b>281,888</b>	<b>408,182</b>

#### 5.42 Other income

Grant items (sources of other income)	Current period	Prior period
National research grants	6,291	13,265
Subsidies of enterprise development	1,692	910
Subsidies of stable post	499	7,970
Government incentives		73
Self-use consumption tax refund	10	45,823
National research grants	614	594
Additional input VAT credit	23,196	6,189
Return of individual income tax fee	2,865	3,407
<b>Total</b>	<b>35,167</b>	<b>78,231</b>

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

### 5.43 Investment income

Item	Current period	Prior period
Investment income from long-term equity	2,758	3,337
Investment income from debt restructuring	10,841	15,958
<b>Total</b>	<b>13,599</b>	<b>19,295</b>

### 5.44 Impairment of credit losses

Item	Current period	Prior period
Losses from impairment of accounts receivable	-56,676	-64,170
Losses from impairment of other receivables	-14,015	6,075
<b>Total</b>	<b>-70,691</b>	<b>-58,095</b>

### 5.45 Impairment of assets

Item	Current period	Prior period
Losses from impairment of contract assets	1,351	17,453
<b>Total</b>	<b>1,351</b>	<b>17,453</b>

### 5.46 Gains from disposal of assets

Item	Current period	Prior period	Amount included in the current non-recurring profit or loss
Gain on disposal of fixed assets ("-" for losses)	9,692	4,420	9,692
Others	4,091	1,080	4,091
<b>Total</b>	<b>13,783</b>	<b>5,500</b>	<b>13,783</b>

### 5.47 Non-operating income

Item	Current period	Prior period	Amount included in the current non-recurring profit or loss
Waived payables	547	14,511	547
Compensation received	5,400	6,055	5,400
Penalty income	2,115	494	2,115
Gains from assets counts		2,060	
Gains from disposal of non-current assets	13,322		13,322
Government grants	26,734	2,330	26,734
Others	6,006	10,318	6,006
<b>Total</b>	<b>54,124</b>	<b>35,768</b>	<b>54,124</b>

## Section VIII Financial Reports

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

#### 5.48 Non-operating expenses

Item	Current period	Prior period	Amount included in the current non-recurring profit or loss
Donation	1,100	350	1,100
Expected losses on pending claims	550	-79	550
Compensation	2,138	2,689	2,138
Penalty	1,134	1,591	1,134
Non-current assets written off	5,495	-7,734	5,495
"Three categories personnel" fees	24,922	13,816	24,922
Others	4,726	5,061	4,726
<b>Total</b>	<b>40,065</b>	<b>15,694</b>	<b>40,065</b>

#### 5.49 Income tax expenses

##### 5.49.1 Table of income tax expenses

Item	Current period	Prior period
Current tax in accordance with tax laws and related regulations	171,693	84,465
Deferred income tax	5,416	-2,507
<b>Total</b>	<b>177,109</b>	<b>81,958</b>

##### 5.49.2 Adjustment process of accounting profits and income tax expenses

Item	Current period
Total profits	377,377
Income tax expenses calculated at statutory tax rate	94,345
Effect of other tax rates used by certain subsidiaries	31,162
Adjustments of current tax in previous years	-2,151
Impact of non-taxable income	-100
Effect of non-deductible costs, expenses, and losses	28,937
Profits and losses of joint ventures and associates accounted for by the equity method	-651
Effect of unrecognized deferred income tax assets in prior periods	-20,520
Effect of deductible temporary differences or losses from deferred income tax assets unrecognized in current period	73,758
Tax effect of additional deduction of research and development expenses	-27,671
Income tax expenses	177,109

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

### 5.50 Items of statement of cash flows

#### 5.50.1 Cash received from other operating activities

Item	Current period	Prior period
Amount paid on behalf	277,204	277,803
Government grants	62,232	10,091
Temporary receipt and payment	370,065	120,790
Guarantee	171,083	263,544
Compensation	8,993	14,186
Others	101,030	60,417
<b>Total</b>	<b>990,607</b>	<b>746,831</b>

#### 5.50.2 Cash paid for other operating activities

Item	Current period	Prior period
Temporary receipt and payment	397,209	19,478
Guarantee	252,911	115,800
Research and development fee	418,403	157,811
Integrated service	30,421	311,880
Repair and maintenance expenses	144,647	116,950
Other period expenses	155,498	126,445
Others	37,700	28,545
<b>Total</b>	<b>1,436,789</b>	<b>876,909</b>

#### 5.50.3 Cash paid for other financing activities

Item	Current period	Prior period
Finance lease expense	2,944	30,886
Notes acceptance fee	647	839
Payment of guarantee and commitment fees	9,656	10,476
Principal and interest paid on lease liability	145,474	155,936
<b>Total</b>	<b>158,721</b>	<b>198,137</b>

## Section VIII Financial Reports

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

#### 5.51 Supplementary information to the statement of cash flows

##### 5.51.1 Supplementary information to the statement of cash flows

Supplementary information	Current period	Prior period
<b>1. Net profits adjusted to cash flows from operating activities</b>		
Net profit	200,268	368,558
Plus: Impairment of credit losses	-70,691	-58,095
Impairment losses on assets	1,351	17,453
Depreciation of fixed assets	1,506,676	1,467,395
Depreciation of right-of-use assets	259,928	255,193
Amortization of intangible assets	103,787	53,860
Amortization of long-term deferred expenses	1,069,531	1,053,122
Losses on disposal of fixed assets, intangible assets, and other long-term assets ("-" for gains)	-13,783	-5,500
Losses from scrapping of fixed assets ("-" for gains)	-7,827	-7,734
Financial expenses ("-" for gains)	248,543	364,607
Investment loss ("-" for gains)	-13,599	-19,295
Decreases in deferred income tax assets ("-" for increases)	5,641	268
Increases in deferred income tax liabilities ("-" for decreases)	-225	-2,775
Decreases in inventories ("-" for increases)	-433,245	-280,903
Decreases in operating receivables ("-" for increases)	-4,032,226	-5,779,501
Increases in operating payables ("-" for decreases)	280,018	2,608,580
Work safety expenses	355,374	325,688
Others	2,553	-2,060
Net cash flows from operating activities	-537,926	358,861
<b>2. Significant investing and financing activities not involving cash receipts and payments</b>		
<b>3. Net change in cash and cash equivalents</b>		
Ending balance of cash and cash equivalents	1,846,840	1,494,144
Less: beginning balance of cash and cash equivalents	2,475,307	1,523,352
Net increase in cash and cash equivalents	-628,467	-29,208

##### 5.51.2 Breakdowns of cash and cash equivalents

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
I. Cash	1,846,840	2,475,307
Including: cash on hand	3,682	5,230
Unrestricted bank deposits	1,842,678	2,469,601
Other unrestricted monetary funds	480	475
II. Cash equivalents		
III. Ending balance of cash and cash equivalents	1,846,840	2,475,307
Including: Restricted cash and cash equivalents by the parent company or its subsidiary subsidiaries		

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

### 5.52 Assets with restrictions on the ownership or use right

Item	Book value as at June 30, 2022	Reason for restriction
Cash at bank and on hand	93,804	Guarantee and funds that are blocked frozen
<b>Total</b>	<b>93,804</b>	

### 5.53 Foreign currency monetary items

#### 5.53.1 Foreign currency monetary items

Item	Balance in foreign currency as at June 30, 2022	Exchange rate for conversion	RMB amount translated as at June 30, 2022
<b>Monetary funds</b>			<b>1,604,552</b>
Including: USD	155,275	6.7114	1,041,086
KWD	12,895	21.9334	282,822
SAR	26,823	1.7889	47,984
DZD	400,132	0.0460	18,406
Others			214,254
<b>Accounts receivable</b>			<b>4,254,428</b>
Including: USD	499,096	6.7114	3,348,726
KWD	16,354	21.9334	358,707
SAR	145,878	1.7889	260,962
DZD	7,035	0.0460	324
Others			285,710
<b>Other receivables</b>			<b>1,821,135</b>
Including: USD	138,311	6.7114	928,249
KWD	8,320	21.9334	182,479
SAR	247,274	1.7889	442,351
DZD	51,137	0.0460	2,352
Others			265,704
<b>Accounts payable</b>			<b>1,034,333</b>
Including: USD	75,692	6.7114	507,982
KWD	5,070	21.9334	111,200
SAR	160,304	1.7889	286,769
DZD	213,823	0.0460	9,836
Others			118,546
<b>Other payables</b>			<b>463,565</b>
Including: USD	30,531	6.7114	204,911
KWD	2,915	21.9334	63,943
SAR	23,044	1.7889	41,223
DZD	598,464	0.0460	27,529
Others			125,959
<b>Interest payable</b>			<b>1,731</b>
Including: USD	258	6.7114	1,731
<b>Short-term borrowings</b>			<b>2,241,608</b>
Including: USD	334,000	6.7114	2,241,608
<b>Long-term borrowings</b>			<b>550,335</b>
Including: USD	82,000	6.7114	550,335

## Section VIII Financial Reports

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

#### 5.54 Government grants

Grant item	Category	Balance as at December 31, 2021	New grants in current period	Amount carried forward and included in profit or loss in current period	Balance as at June 30, 2022	Presented items carried forward and included in profit or loss in current period	Assets-related/Income-related
Relocation compensation	Financial allocations		26,734	26,734		Other income	Income-related
Withholding tax fee refund	Financial allocations		2,866	2,866		Other gains	Income-related
Special funds for national scientific research	Financial allocations	7,054	6,215	6,291	6,978	Other gains	Income-related
Additional VAT deduction	Financial allocations		24,218	23,196	1,022	Other gains	Income-related
Grants for enterprise development	Financial allocations		1,692	1,692		Other gains	Income-related
Subsidy for job stabilization	Financial allocations	102	497	499	100	Other gains	Income-related
Refunds of consumption tax related to self-use refined oil	Financial allocations		10	10		Other gains	Income-related
Grants for enterprise development – Asset-related	Financial allocations	2,132		614	1,518	Other gains	Asset-related
<b>Total</b>		<b>9,288</b>	<b>62,232</b>	<b>61,902</b>	<b>9,618</b>		

#### 5.55 Lease

##### 5.55.1 As the lessee

Item	Current period
Interest expenses on lease liabilities	25,681
Expense on short-term lease under simplified treatment and included in relevant asset costs or the current profit or loss	379,742
Total cash outflows relevant to lease	668,776

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

Remaining lease term	Lease payment undiscounted
Within 1 year	130,743
1 – 2 years	37,859
2 – 3 years	24,995
Over 3 years	857
<b>Total</b>	<b>194,454</b>

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

### 5.55 Lease (Continued)

#### 5.55.2 As the lessor

##### (1) Operating lease

	Current period	Prior period
Revenue from operating lease	26,500	18,898
Including: Revenue relevant to variable lease payment not included in lease receipts		

Undiscounted lease receipts that will be collected after June 30, 2022:

Remaining lease term	Current period	Prior period
Within 1 year	47,943	45,832
1 – 2 years	47,545	53,455
2 – 3 years	23,952	45,034
3 – 4 years	7,110	22,485
4 – 5 years	5,579	6,193
Over 5 years	11,011	17,264
<b>Total</b>	<b>143,140</b>	<b>190,263</b>

#### 5.55.3 Effect on implementation of the Accounting Treatment of Rent Concessions Related to the COVID-19 Epidemic

For rent concessions such as rent reductions and deferred payment for rent concessions that meet the conditions and are directly triggered by the COVID-19 epidemic, the Company chose to adopt the simplified method of accounting in accordance with the *Accounting Treatment of Rent Concessions Related to the COVID-19 Epidemic*.

The Company, as the lessee, disposed of relevant rent concessions under the above simplified method, there are no rental concessions that meet the relevant conditions in the current period; offsetting the operating costs, general and administrative expenses and selling and distribution expenses in the prior period, totaling RMB173,000.

## 6 CHANGE OF CONSOLIDATION SCOPE

There was no change in the scope of consolidation during the reporting period.

## Section VIII Financial Reports

### 7 EQUITY IN OTHER ENTITIES

#### 7.1 Equity in the subsidiaries

##### 7.1.1 Structure of enterprise group

Name of subsidiary	Principal place of business	Registration place	Business nature	Shareholding ratio (%)		Way of acquisition
				Direct	Indirect	
Sinopec Oilfield Service Corporation	China	Beijing	Oilfield technical service	100		Business combination under the common control
Sinopec Shengli Petroleum Engineering Corporation	China	Dongying, Shandong	Oilfield technical service	100		Business combination under the common control
Sinopec Zhongyuan Petroleum Engineering Corporation	China	Puyang, Henan	Oilfield technical service	100		Business combination under the common control
Sinopec Jiangnan Petroleum Engineering Corporation	China	Qianjiang, Hubei	Oilfield technical service	100		Business combination under the common control
Sinopec East China Petroleum Engineering Corporation	China	Nanjing, Jiangsu	Oilfield technical service	100		Business combination under the common control
Sinopec North China Petroleum Engineering Corporation	China	Zhengzhou, Henan	Oilfield technical service	100		Business combination under the common control
Sinopec South West Petroleum Engineering Corporation	China	Chengdu, Sichuan	Oilfield technical service	100		Business combination under the common control
Sinopec Geophysical Corporation	China	Beijing	Geophysical exploration	100		Business combination under the common control
Sinopec Petroleum Engineering and Construction Corporation	China	Beijing	Engineering construction	100		Business combination under the common control
Sinopec Offshore Petroleum Engineering Corporation	China	Shanghai	Offshore oilfield technical service	100		Business combination under the common control
Sinopec International Petroleum Service Corporation	China	Beijing	Oilfield technical service	100		Business combination under the common control
Sinopec Jingwei Co., Ltd.	China	Qingdao, Shandong	Specialized mining and ancillary activities	100.00		Established

#### 7.2 Equity in joint venture arrangements or associates

##### 7.2.1 Major joint ventures or associates

Name of joint ventures or associates	Principal place of business	Registered place	Business nature	Shareholding ratio (%)		Accounting treatment method for investments in joint ventures or associates
				Direct	Indirect	
<b>Zhong Wei Energy Service Co. Ltd. (A Sinopec – Weatherford Joint Venture)</b>	China	Beijing	Oilfield technical services	50.00		Equity method

## 7 EQUITY IN OTHER ENTITIES (Continued)

## 7.2 Equity in joint venture arrangements or associates (Continued)

## 7.2.2 Principal financial information of major joint ventures

	Zhong Wei Energy Services Co., Ltd.	
	Balance as at June 30, 2022/Current period	Balance as at December 31, 2021/Prior period
Current assets	33,804	31,934
Including: cash and cash equivalents	3,926	5,949
Non-current assets	3,501	3,817
<b>Total assets</b>	<b>37,305</b>	<b>35,751</b>
Current liabilities	21,138	19,002
Non-current liabilities		
<b>Total liabilities</b>	<b>21,138</b>	<b>19,002</b>
Net assets	16,167	16,749
Equity attributable to shareholders of the Company	8,083	8,374
Adjusted matters	8,083	
<b>Carrying amount of equity investment in joint ventures</b>	<b>15,024</b>	<b>8,374</b>
Revenue	15,024	26,207
Financial expenses	-55	-70
Income tax expenses		
Net profit	-582	118
Other comprehensive income		
<b>Total comprehensive income</b>	<b>-582</b>	<b>118</b>
Dividends received from joint ventures		

## 7.2.3 Summary of financial information on insignificant joint ventures or associates

	Balance as at June 30, 2022/Current period	Balance as at December 31, 2021/Prior period
<b>Joint ventures:</b>		
Total book value of investments	16,135	15,748
Total amount calculated based on the following shareholding proportions		
– Net profit	387	1,408
– Other comprehensive income		
– Total comprehensive income	387	1,408
<b>Associates:</b>		
Total book value of investments	22,280	22,926
Total amount calculated based on the following shareholding proportions		
– Net profit	2,662	5,813
– Other comprehensive income		
– Total comprehensive income	2,662	5,813

## Section VIII Financial Reports

### 8 RISKS RELATED TO FINANCIAL INSTRUMENTS

The major financial instruments of the Group include cash at bank and on hand, bills receivable, accounts receivable financing, accounts receivable, other receivables, non-current assets due within one year, other current assets, trading financial assets, debt investments, other debt investments, other equity instrument investments, other non-current financial assets, long-term receivables, bills payable, accounts payable, other payables, short-term loans, financial liabilities at fair value through profit or loss, non-current liabilities due within one year, long-term loans, lease liabilities, long-term payables. The details of these financial instruments are disclosed in the respective notes. The financial risk of these financial instruments and financial management policies used by the Group to minimize the risk are disclosed as below. The management manages and monitors the exposure of these risks to ensure the above risks are controlled in the limited range.

#### Risk management objectives and policies

The Group's objective in risk management is to obtain an appropriate equilibrium between risk and return. It also focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Based on the objectives of financial risk management, certain policies are made to recognize and analyze risk and internal control is designed according to proper acceptable in order to monitor the risk position of the Group. Both the policies and internal control will be reviewed and revised regularly to adapt the changes of the market and business activities of the Group. The performance of internal control will be reviewed regularly or randomly in accordance with the financial management policies.

The Group's financial instrument risks mainly include credit risk, liquidity risk and market risk. (Including currency risk and interest rate risk.)

The board of directors is responsible for planning and establishing the risk management structure of the Group, formulating the Group's risk management policies and related guidelines, supervising the implementation of risk management measures. The Group has established risk management policies to identify and analyze the risks faced by the Group. These risk management policies clearly define specific risks, covering market risk, credit risk and liquidity risk. The Group regularly assesses changes in the market environment and the Group's operating activities to determine whether update risk management policies and systems. The risk management of the Group is carried out by the Risk Management Committee in accordance with the policies approved by the Board of Directors. The Risk Management Committee identifies, evaluates and circumvents related risks through close cooperation with other departments of the Group. The internal audit department of the Group reviews regularly on risk management controls and procedures, then reports the audit results to the audit committee of the Group.

The Group diversifies the risk of financial instruments through appropriate diversified investments and business combinations, and reduces the risk of concentration in a single industry, a specific region or a specific counterparty by developing appropriate risk management policies.

#### 8.1 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group.

Credit is managed on the grouping basis. Credit risk is mainly arises from cash at bank, bills receivable, accounts receivable, other receivables, contract assets, long-term receivables etc.

The Group expects that there is no significant credit risk associated with cash at bank since it is deposited or will be accepted by the state-owned banks and other medium or large size listed banks.

In addition, the Group has policies to limit the credit risk exposure on bills receivable and accounts receivable, other receivables, contract assets and long-term receivables. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

The highest credit risk exposed to the Group is limited to the carrying amount of each financial instrument illustrated in the balance sheet. The Group would not provide any guarantee that might cause credit risk to the Group.

Among the bills receivable and accounts receivable of the Group, the bills receivable and accounts receivable of the top five customers accounted for 52.20% (in 2021: 49.54%); among the other receivable of the Group, the other receivable of the top five customers accounted for 36.77% (2021: 43.83%).

#### 8.2 Liquidity risk

Liquidity risk refers to the risks that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets.

Cash flow forecasting is performed by Group's finance department. The Group's finance management monitors cash and cash equivalents to meet operational needs and reduce the effect of floating cash flow. The department monitors the usage of bank loan so that the Group does not breach borrowing limits or covenants while maintaining sufficient headroom on its undrawn committed borrowing facilities from Sinopec Finance Co., LTD and major financial institute to meet the short-term and long-term liquidity requirements. In addition, the Group will also consider negotiating with suppliers to reduce the amount of debt to reduce the company's cash flow pressure.

The Group raises working capital from its operations, bank and other borrowings. As at June 30, 2022, the amount of bank loans not yet used by the Group is RMB16,029,290,000 (as at December 31, 2021: RMB15,937,997,000).

## 8 RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

### Risk management objectives and policies (Continued)

#### 8.2 Liquidity risk (Continued)

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

Item	Balance as at June 30, 2022				Total
	Within 1 year	1 – 2 years	2 – 5 years	Over 5 years	
<b>Financial assets:</b>					
Cash and cash equivalents	1,940,644				1,940,644
Accounts receivable	8,541,458				8,541,458
Accounts receivable financing	743,385				743,385
Other receivables	3,137,547				3,137,547
Other current assets	2,252,960				2,252,960
<b>Total financial assets</b>	<b>16,615,994</b>				<b>16,615,994</b>
<b>Financial liabilities:</b>					
Short-term loans	18,961,773				18,961,773
Bills payable	9,269,973				9,269,973
Accounts payable	20,657,680				20,657,680
Other payables	2,539,740				2,539,740
Non-current liabilities due within 1 year	434,616				434,616
Long-term borrowings	41,718	1,550,335			1,592,053
Lease liabilities		350,983	220,669	54,248	625,900
Long-term payables		50,656			50,656
<b>Total financial liabilities and contingent liabilities</b>	<b>51,905,500</b>	<b>1,951,974</b>	<b>220,669</b>	<b>54,248</b>	<b>54,132,391</b>

## Section VIII Financial Reports

### 8 RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

#### Risk management objectives and policies (Continued)

##### 8.2 Liquidity risk (Continued)

Item	Balance as at December 31, 2021				Total
	Within 1 year	1 – 2 years	2 – 5 years	Over 5 years	
<b>Financial assets:</b>					
Cash and cash equivalents	2,508,224				2,508,224
Accounts receivable	8,151,019				8,151,019
Accounts receivable financing	1,295,971				1,295,971
Other receivables	2,552,292				2,552,292
Other current assets	2,238,006				2,238,006
<b>Total financial assets</b>	<b>16,745,512</b>				<b>16,745,512</b>
<b>Financial liabilities:</b>					
Short-term loans	17,878,057				17,878,057
Bills payable	8,334,086				8,334,086
Accounts payable	21,556,262				21,556,262
Other payables	2,355,823				2,355,823
Non-current liabilities due within 1 year	337,691				337,691
Long-term borrowings		1,639,014			1,639,014
Lease liabilities		224,724	195,470	10,835	431,029
Long-term payables					
<b>Total financial liabilities and contingent liabilities</b>	<b>50,461,918</b>	<b>1,863,738</b>	<b>195,470</b>	<b>10,835</b>	<b>52,531,961</b>

##### 8.3 Market risk

Market risk, includes interest rate risk and foreign currency risk, refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of the changes in market price.

###### 8.3.1 Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of the floating rate. Interest rate risk arises from recognized interest-bearing financial instrument and unrecognized financial instrument (e.g. loan commitments).

The Group's interest rate risk arises from long-term bank loans and other interest-bearing liabilities. Financial liabilities issued at floating rate expose the Group to cash flows interest rate risk. Financial liabilities issued at fixed rate expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. At the same time, the Group monitors and maintains the combined financial instruments of fixed rate and floating rate.

The Group closely monitors the impact of changes in interest rates on the Group's interest rate risk. The Group currently does not adopt an interest rate hedging policy. However, management is responsible for monitoring interest rate risk and will consider hedging significant interest rate risk when it will be needed. Increase in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group's management will make decisions with reference to the latest market conditions. The Group may enter into interest swap agreement to mitigate its exposure to the interest rate risk. For the period ended June 30, 2022 and year ended December 31, 2021, the Company did not enter into any interest rate swap arrangements. The fair value interest rate risk of the deposit with bank was not principal because the fixed term deposits are short-term deposits etc.

## 8 RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

### Risk management objectives and policies (Continued)

#### 8.3 Market risk (Continued)

##### 8.3.1 Interest rate risk (Continued)

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

As at June 30, 2022, if the borrowing interest rate calculated at the floating interest rate rises or falls by 50 basis points, while other factors remain unchanged, the Group's net profit and shareholders' equity will decrease or increase by approximately RMB14,220,000 (as at December 31, 2021: RMB13,218,000).

The financial instruments held by the Group at the date of balance sheet expose the Group to fair value interest rate risk. Under the hypothesis of a floating interest rate at the date of balance sheet, the effect to the net profit and shareholder's equity illustrated in the sensitivity analysis as above is arisen from the recalculation of these financial instrument issued at new interest rates. The non-derivative tools issued at floating interest rate held by the Group at the date of balance sheet expose the Group to cash ow interest rate risk. The effect to the net profit and shareholder's equity illustrated in the sensitivity analysis as above is arisen from the effect to the annual estimate amount of interest expenses or revenues at the floating interest rate. The analysis of the previous period is based on the same hypothesis and method.

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
<b>Fixed interest rate financial instruments</b>		
<b>Financial assets:</b>	<b>30,325</b>	3,000
Monetary funds	30,325	3,000
Long-term receivables		
<b>Financial liabilities:</b>	<b>17,190,704</b>	16,236,811
Short-term borrowings	16,200,000	15,550,000
Lease liabilities	987,904	681,211
Long-term payables	2,800	5,600
<b>Floating interest rate financial instruments</b>		
<b>Financial assets:</b>	<b>1,910,319</b>	2,505,224
Monetary funds	1,910,319	2,505,224
<b>Financial liabilities:</b>	<b>3,791,943</b>	3,524,777
Short-term borrowings	2,241,608	1,970,091
Long-term borrowings	1,550,335	1,554,686

##### 8.3.2 Exchange rate risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. Foreign currency risk arises from the functional currency denominated financial instrument measured at individual entity.

The Group's major operational activities are carried out in Mainland China and most of the transactions are denominated in RMB. However, the Group's recognized foreign currency assets and liabilities and future foreign currency transactions (foreign currency assets and liabilities and foreign currency transactions are mainly denominated in US dollar, Saudi riyal and Kuwaiti dinar) still have foreign exchange risks.

As at June 30, 2022, the foreign currency financial assets and liabilities held by the Group were converted to RMB. The amounts are listed as follows:

Item	Foreign currency liabilities		Foreign currency assets	
	Amount as at June 30, 2022	Amount as at December 31, 2021	Amount as at June 30, 2022	Amount as at December 31, 2021
<b>USD</b>	<b>3,506,567</b>	3,149,773	<b>5,318,061</b>	4,672,781
<b>SAR</b>	<b>327,992</b>	204,400	<b>751,297</b>	675,033
<b>KWD</b>	<b>175,143</b>	171,614	<b>824,008</b>	920,504
<b>Other foreign currencies</b>	<b>281,870</b>	276,935	<b>786,750</b>	941,375
<b>Total</b>	<b>4,291,572</b>	3,802,722	<b>7,680,116</b>	7,209,693

The Group closely monitors the impact of changes in interest rates on the Group's interest rate risk. The Group's management is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies. The Group may consider entering into forward exchange agreements or currency swap agreements to mitigate the foreign currency risk.

## Section VIII Financial Reports

### 8 RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

#### Risk management objectives and policies (Continued)

##### 8.3 Market risk (Continued)

###### 8.3.2 Exchange rate risk (Continued)

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

Increase (decrease) in after-tax profit	Current year		Prior year	
USD exchange rate rises	5%	67,931	5%	57,113
USD exchange rate declines	-5%	-67,931	-5%	-57,113
SAR exchange rate rises	5%	15,874	5%	17,649
SAR exchange rate declines	-5%	-15,874	-5%	-17,649
KWD exchange rate rises	5%	24,332	5%	28,083
KWD exchange rate declines	-5%	-24,332	-5%	-28,083

### 9 DISCLOSURE OF FAIR VALUE

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

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

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

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

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

#### 9.1 Fair value of assets and liabilities measured at fair value as at June 30, 2022

Item	Fair value as at June 30, 2022			Total
	Measurement of fair value at level 1	Measurement of fair value at level 2	Measurement of fair value at level 3	
<b>9.1.1 Continuous measurement at fair value</b>				
◆ Receivables at FVTOCI			743,385	743,385
◆ Other equity instrument investments			21,760	21,760
<b>Total assets with continuous measurement at fair value</b>			765,145	765,145

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

Item	Fair value as at June 30, 2022	Valuation techniques	Unobservable input values	Range (weighted average value)
Receivables at FVTOCI	743,385	Asset-based valuation or Discounted Cash Flow Model	N/A	N/A
Other equity instrument investments	21,760	Net value of assets	N/A	N/A

## Section VIII Financial Reports

### 9 DISCLOSURE OF FAIR VALUE (Continued)

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

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

Item	Balance as at December 31, 2020	Total gains or losses in the current period		Balance as at December 31, 2021	For the assets held at the end of the reporting period, the current unrealized gains or changes included in profit or loss
		Included in the profit or loss	Included in the other comprehensive income		
◆ Other equity instrument investments	21,760			21,760.00	
<b>Total</b>	21,760			21,760.00	

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

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

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

## 10 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS

### 10.1 Parent company of the Company

Name of parent company	Registration place	Business nature	Registered capital (RMB100 million)	Shareholding ratio of the parent company in the Company (%)	Voting ratio of the parent company in the Company (%)
China Petrochemical Corporation	22 Chaoyangmen North Street, Chaoyang District Beijing	Petroleum and natural gas exploration, exploitation and sales; petroleum refining; production, sales, storage and transportation of petrochemical, chemical fiber and other chemical products; pipeline transportation of oil and natural gas; research, development, and application of technology and information.	3,265.47	56.51	70.18

The ultimate controller of the Company is China Petrochemical Corporation.

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

### 10.2 Information on subsidiaries of the Company

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

### 10.3 Joint ventures and associates of the Company

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

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

Name of joint venture or associate	Relationship with the Company
Sinopec Bayshore Petroleum Service Co., LTD	Joint venture
Qianjiang Hengyun Motor Vehicle Performance Testing Corporation	Joint venture
Huabei Ruida Oil Service Company Limited	Associate
Xinjiang North China Tianxiang Oil Service Company Limited	Associate
Zhenjiang Huajiang Oil & Gas Engineering Technology Service Co., Ltd	Associate
Henan Zhongyuan Oil & Gas Engineering Technology Service Co., Ltd	Associate
Oil & Gas Engineering Technology Service Co., Ltd	Associate

## Section VIII Financial Reports

### 10 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (Continued)

#### 10.4 Other related parties

Name of other related parties	Relationship between other related parties and the Company
China Petroleum & Chemical Corporation	Under the common control of Sinopec Group
Sinopec Shengli Petroleum Administrative Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Zhongyuan Petroleum Exploration Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Jiangnan Petroleum Administrative Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Henan Petroleum Exploration Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Jiangsu Petroleum Prospecting Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Star Co., Ltd.	Under the common control of Sinopec Group
Sinopec East China Petroleum Bureau	Under the common control of Sinopec Group
Sinopec North China Petroleum Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Southwest Petroleum Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Northeast Petroleum Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Pipeline Storage and Transportation Company	Under the common control of Sinopec Group
Sinopec Offshore Petroleum Bureau Co., Ltd.	Under the common control of Sinopec Group
Sinopec Finance Co., Ltd.	Under the common control of Sinopec Group
Sinopec Century Bright Capital Investment Limited	Under the common control of Sinopec Group
Sinopec Assets Operation and Management Co., Ltd.	Under the common control of Sinopec Group
China CITIC Group Co., Ltd.	Shareholder holding more than 5% of the Company's voting right in previous year. As of December 31, 2021, holding 3.56% equity of the Company
CITIC Bank	Subsidiaries of China CITIC Group Co., Ltd.
Taiping & Sinopec Financial Leasing Co., Ltd.	Joint venture of Sinopec
Sinopec International Petroleum Exploration and Production Corporation	Associate of Sinopec
China Oil & Gas Pipeline Network Group	Associate of Sinopec
Directors, managers, chief accountant and secretary of the Board of Directors	Key management personnel

#### 10.5 Related-party transactions

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

###### 10.5.1.1 Purchase of goods

Related party	Content of related transaction	Pricing and decision-making process of related transactions	Current period	Prior period
Sinopec Group and its subsidiaries	Purchase of materials and equipment	According to normal commercial terms or related agreements	5,183,876	4,141,305
Joint ventures and associates of the Group	Purchase of materials and equipment	According to normal commercial terms or related agreements	107,152	104,267

## Section VIII Financial Reports

### 10 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (Continued)

#### 10.5 Related-party transactions (Continued)

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

###### 10.5.1.2 Sales of goods

Related party	Content of related transaction	Pricing and decision-making process of related transactions	Current period	Prior period
Sinopec Group and its subsidiaries	Sales of products	According to normal commercial terms or related agreements	20,309	11,013

###### 10.5.1.3 Rendering of services

Related party	Content of related transaction	Pricing and decision-making process of related transactions	Current period	Prior period
Sinopec Group and its subsidiaries	Petroleum engineering technology service	According to normal commercial terms or related agreements	20,755,730	20,537,866
Joint ventures and associates of the Group	Petroleum engineering technology service	According to normal commercial terms or related agreements	1,701,371	1,503,582
Joint ventures and associates of the Group	Petroleum engineering technology service	According to normal commercial terms or related agreements	124,991	172

###### 10.5.1.4 Receipt of labor services

Related party	Content of related transaction	Pricing and decision-making process of related transactions	Current period	Prior period
Joint ventures and associates of the Group	Receipt of labor services	According to normal commercial terms or related agreements	898,095	954,509

###### 10.5.1.5 Rendering of comprehensive services services

Related party	Content of related transaction	Pricing and decision-making process of related transactions	Current period	Prior period
Sinopec Group and its subsidiaries	Rendering of comprehensive services services	According to normal commercial terms or related agreements	48,106	

###### 10.5.1.6 Receipt of comprehensive services services

Related party	Content of related transaction	Pricing and decision-making process of related transactions	Current period	Prior period
Sinopec Group and its subsidiaries	Receipt of community comprehensive services	According to normal commercial terms or related agreements	4,420	5
Sinopec Group and its subsidiaries	Receipt of others comprehensive services	According to normal commercial terms or related agreements	192,458	235,969
Joint ventures and associates of the Group	Receipt of others comprehensive services	According to normal commercial terms or related agreements	217	70,631

###### 10.5.1.7 Rendering sci-tech R&D services

Related party	Content of related transaction	Pricing and decision-making process of related transactions	Current period	Prior period
Sinopec Group and its subsidiaries	Rendering sci-tech R&D services	According to normal commercial terms or related agreements	51,312	31,870

## Section VIII Financial Reports

### 10 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (Continued)

#### 10.5 Related-party transactions (Continued)

##### 10.5.2 Related-party lease

The Company as the lessor:

Name of lessee	Type of leased assets	Pricing and decision-making process of related transactions	Lease revenue recognized in the current period	Lease revenue recognized in the previous period
Sinopec Group and its subsidiaries	Equipments	According to normal commercial terms or related agreements	95	234
Sinopec Group and its subsidiaries	Housing	According to normal commercial terms or related agreements	105	918

The Company as the lessee:

Name of the lessor	Type of leased assets	Pricing and decision-making process of related transactions	Current period	Prior period
			Rental fees paid in the current period	Rental fees paid in the prior period
Sinopec Group and its subsidiaries	Land and real estate	According to normal commercial terms or related agreements	428,809	99,673
	Including: short-term lease	According to normal commercial terms or related agreements	24,344	13,129
	Right-of-use assets	According to normal commercial terms or related agreements	404,465	86,545
Joint ventures and associates of the Group	Land and real estate	According to normal commercial terms or related agreements		780
	Including: short-term lease	According to normal commercial terms or related agreements		780
	Equipment	According to normal commercial terms or related agreements	2,046	96,943
Sinopec Group and its subsidiaries	Including: short-term lease	According to normal commercial terms or related agreements	2,046	95,992
	Right-of-use assets	According to normal commercial terms or related agreements		951
	Equipment	According to normal commercial terms or related agreements	9,823	64,711
Joint ventures and associates of the Group	Including: short-term lease	According to normal commercial terms or related agreements	9,823	
	Right-of-use assets	According to normal commercial terms or related agreements		64,711
Name of the lessor	Type of leased assets	Pricing and decision-making process of related transactions	Interest expense on lease liabilities assumed in the current period	
Sinopec Group and its subsidiaries	Land and real estate	According to normal commercial terms or related agreements	9,121	
Joint ventures and associates of the Group	Equipment	According to normal commercial terms or related agreements	6,982	

##### 10.5.3 Related-party guarantees

The Company acted as guarantor:

The guaranteed	Guarantee type	Guarantee amount	Guarantee commencement date	Guarantee expiry date	Guarantee performance completed or not
Sinopec Group	Anti-guarantee	RMB300,000 thousand	September 2021	September 2024	No
Sinopec International Petroleum Service Corporation	Performance guarantee	USD61,830 thousand	September 2015	December 2024	No
Sinopec International Petroleum Service Corporation	Performance guarantee	USD588,000 thousand	December 2015	December 2022	No
Sinopec International Petroleum Service Corporation	Performance guarantee	THB 3,142,900 thousand; USD103,929 thousand	April 2017	May, 2023	No
Sinopec International Petroleum Service Corporation	Performance guarantee	USD4,079 thousand	April 2019	December 2022	No
Sinopec International Petroleum Service Corporation	Performance guarantee	USD67,000 thousand	April 2019	January 2023	No
Sinopec International Petroleum Service Corporation	Performance guarantee	USD611,000 thousand	June 2021	June 2030	No

## Section VIII Financial Reports

### 10 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (Continued)

#### 10.5 Related-party transactions (Continued)

##### 10.5.4 Loans to and from related parties

Related party	Content of related-party transaction	Pricing and decision-making process of related-party transactions	Current period	Prior period
Sinopec Group and its subsidiaries	Revenue from deposit interest	Based on normal commercial terms	408	560
	Loan interest expense	Based on normal commercial terms	263,629	278,688
	Obtaining the borrowing	Based on normal commercial terms	12,154,500	29,118,868
	Payment of the loan	Based on normal commercial terms	11,380,482	28,632,419

##### 10.5.5 Assets transfer and debt restructuring of related parties

Related party	Content of related-party transaction	Pricing and decision-making process of related-party transactions	Current period	Prior period
Sinopec Group	Security fund expenditure	Based on normal commercial terms or relevant agreements	40,100	37,800
	Return on security fund	Based on normal commercial terms or relevant agreements	36,821	52,118

##### 10.5.6 Remuneration of key management personnel

There are 18 key management personnel who received remuneration from the Company in the current period, and 15 key management personnel in the previous period.

Item	Current period	Prior period
Remuneration	7,447	6,899
Retirement scheme contribution	286	283

#### 10.6 Receivables from and payables to related parties

##### 10.6.1 Receivables

Item	Related party	Balance as at June 30, 2022	Balance as at December 31, 2021
		Book balance	Book balance
Bank deposits	Sinopec Finance Co., Ltd.	32,921	902,678
	Sinopec Century Bright Capital Investment Limited	1,057,995	690,991
	CITIC Bank	51,587	
Accounts receivable	Sinopec Group and its subsidiaries	2,929,750	2,361,677
	Joint ventures of the Group	20,375	31,673
	Joint ventures and associates of Sinopec Group	838,428	899,769
Contract assets	Sinopec Group and its subsidiaries	6,841,689	5,604,733
	Joint ventures and associates of Sinopec Group	2,058,664	1,769,973
Prepayments	Sinopec Group and its subsidiaries	110,289	88,584
	Joint ventures and associates of Sinopec Group	7,910	143
Other receivables	Sinopec Group and its subsidiaries	147,353	200,891
	Joint ventures and associates of the Group	1,351	246
	Joint ventures and associates of Sinopec Group	346,624	384,649

## Section VIII Financial Reports

### 10 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (Continued)

#### 10.6 Receivables from and payables to related parties (Continued)

##### 10.6.2 Payables

Item	Related party	Balance as at June 30, 2022	Balance as at December 31, 2021
<b>Accounts payable</b>	Sinopec Group and its subsidiaries	2,427,096	1,242,578
	Joint ventures and associates of the Group	43,936	52,175
	Joint ventures and associates of Sinopec Group	20	12,054
<b>Contract liabilities</b>	Sinopec Group and its subsidiaries	1,842,138	2,127,395
	Joint ventures and associates of Sinopec Group	443,899	433,982
<b>Other payables</b>	Sinopec Group and its subsidiaries	27,567	47,788
	Joint ventures and associates of the Group	140	468
	Joint ventures and associates of Sinopec Group	36,507	23,410
<b>Short-term borrowings</b>	Sinopec Finance Co., Ltd.	5,200,000	4,550,000
	Sinopec Century Bright Capital Investment Limited	2,241,608	1,970,091
	Sinopec Group and its subsidiaries	11,000,000	11,000,000
<b>Interest payable</b>	Sinopec Group and its subsidiaries	12,619	19,364
<b>Non-current liabilities maturing within one year</b>	Joint ventures and associates of Sinopec Group	2,800	5,600
<b>Lease liabilities</b>	Sinopec Group and its subsidiaries	363,858	40,504
	Joint ventures and associates of Sinopec Group	324,325	16,453
<b>Long-term borrowings</b>	Sinopec Finance Co., Ltd.	1,000,000	1,000,000

#### 10.7 Centralized management of funds

10.7.1 The main contents of the centralized management of funds that the company participates in and implements are as follows:

In order to regulate the capital operation of its subsidiaries, accelerate capital turnover, improve capital operation efficiency, improve internal control mechanism, and ensure the maximization of the group's overall benefits, China Petrochemical Corporation (hereinafter referred to as "Sinopec Group") implemented centralized and unified management of the funds of the Sinopec Group and its member units through Sinopec Finance Co., Ltd. ("Sinopec Finance") and Sinopec Century Bright Capital Investment Limited. ("Century Bright") according to relevant laws and regulations.

##### 10.7.2 Funds collected by the Company to the Group

Funds deposited by the Group is directly deposited into the Sinopec Finance and Century Bright without being collected into the account of the parent company of the Group:

As of June 30, 2022, the total amount deposited by the Group in Sinopec Finance and Century Bright was RMB1,090,916,000 (December 31, 2021: RMB1,593,669,000), which was listed as "Cash at bank and on hand", and there was no withdrawal restriction or impairment.

##### 10.7.3 Funds borrowed by the Company from the parent company or member units of the group

As of June 30, 2022, the balance of funds borrowed by the Group from Sinopec Finance and Century Bright was RMB7,441,608,000 (December 31, 2021: RMB6,520,091,000), and the balance of funds borrowed by the Group from the parent company Sinopec Group was RMB12,000,000,000 (December 31, 2021: 12,000,000,000).

## 11 COMMITMENTS AND CONTINGENCIES

### 11.1 Significant commitments

#### 11.1.1 Significant commitments existed on the balance sheet date

Capital commitments contracted for but not yet necessary to be recognized on the balance sheet	As at June 30, 2022	As at December 31, 2021
Construction of long-term assets commitments	31,415	74,473
Investment commitments	129,625	129,625

#### 11.1.2 Performance of prior commitments

The Group has fulfilled the capital and operating lease commitments as at June 30, 2022.

### 11.2 Contingencies

#### 11.2.1 Significant contingencies existed on the balance sheet date

##### (1) Pending litigation and arbitration matters

The Group might involve in disputes, litigations and claims for compensation with customers, sub-contractors, and suppliers in the ordinary course of business. The Management has assessed the possibility of adverse results of these contingencies, litigations or other proceedings and believes that any resulting liabilities will not have material adverse effect on the financial position, operating results, or cash flow of the Group, and thus accrues no provision.

- China National Chemical Engineering No.11 Construction Co., Ltd. ("No.11 Chemical Construction") as a subcontractor of the Group undertook the construction of the "Package C project" of "Saudi Yanbu-Medina Phase III Pipeline Project" in August 2012. On May 29, 2018, No.11 Chemical Construction submitted an arbitration application to the China International Economic and Trade Arbitration Commission for contract dispute, requesting the Group to pay RMB456,810 thousand for the project fee and the accrued interest, RMB145,968 thousand for the loss due to stoppage of work and the accrued interest, RMB38,018 thousand for the advance payment under the letter of guarantee and the accrued interest, and RMB500 thousand for attorney fee and the arbitration fees for the case. The China International Economic and Trade Arbitration Commission accepted the case on June 15, 2018. The hearing was held on January 24, 2019. Both parties made statements on the focus of the dispute and the main factual issues and answered the questions of the arbitral tribunal. In November 2019, the arbitral tribunal determined the project cost appraisal agency in accordance with the procedures and started the appraisal work. The hearing will be held again on July 3, 2022. The two parties raised questions to the appraisal agency on issues such as cost appraisal, and stated and debated other major issues related to the arbitration. Till the date of this report, the appraisal institution is conducting the final appraisal review and improvement work, and the arbitral tribunal has extended the time limit for the award to October 24, 2022. As this case is still under trial, the possible outcome of this case is yet to be reasonably expected. As of June 30, 2022, only the legal fees expected to be incurred in the arbitration process has been accrued in accordance with the SWCC arbitration agency agreement of RMB4 million. Other than that, no estimated liabilities were accrued. The company will actively respond to this arbitration case and safeguard the legitimate rights and interests of the company.
- On October 8, 2014, Sinopec Group International Petroleum Engineering Banyaduli Company, a subsidiary of the Company, signed a service contract with Petroecuador (hereinafter referred to as "PAM") to provide obligatory workload operations such as capacity optimization, recovery enhancement and exploration operations for the three oil fields of I-L-Y to enhance oil field production. Due to different interpretations of the supplemental clauses by both parties during project operation, two parties had disputes over the identification of oilfield production and payment amount from 2016 to 2017, and repeated negotiations were unsuccessful. In October 2018, the Company initiated an international legal arbitration plan. In April 2019, in accordance with the relevant regulations of the I-L-Y oilfield project contract, the company submitted a "Notice of Application for Legal Arbitration" to PAM for contract disputes to initiate legal arbitration procedures. In May 2020, the Company filed a statement of claim for arbitration for approximately USD79.22 million, including the amount of claims and interest. On February 22, 2022, Banyaduli Company has received the international arbitration award on the dispute over the payment of oil production increase for the I-L-Y oilfield comprehensive service project issued by the arbitral tribunal. The verdict is overall in favor of the Banyaduli Company. However, since the place of arbitration is Chile, the parties to the arbitration have the right to apply for annulment of the arbitral award according to the relevant laws of Chile. On August 11, Ecuador time, Banyaduli Company received an official notice from the Santiago Court of Chile that PAM has hired a local Chilean law firm to apply for revocation of the arbitration award to the court in late July. Submit the statement of defense within 10 working days after receiving the notification. We have hired local cooperative law firms in Chile to provide litigation support in accordance with Chilean laws and will carry out relevant litigation work in accordance with relevant legal procedures. After receiving the notice, Banyaduli has hired a local cooperative law firm in Chile to provide litigation support in accordance with Chilean law, and submitted a statement of defense on August 24, Ecuadorian time, and will conduct relevant litigation in accordance with relevant legal procedures.

## Section VIII Financial Reports

### 11 COMMITMENTS AND CONTINGENCIES (Continued)

#### 11.2 Contingencies (Continued)

##### 11.2.1 Significant contingencies existed on the balance sheet date (Continued)

###### **(2) Judicial reorganization of the Brazil subsidiary and its financial impact**

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

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

To obtain approval from creditors’ meeting and the Court of Rio in Brazil, the Brazil Subsidiary’s reorganization plan shall include full settlement of the amount due to employees in respect of the Project, repaying a proportion of debt due to Three Suppliers, and paying legal fees, fees on judicial authorities and other services fees in relation to the implementation of legal reorganization procedure. Such payments amount is estimated to be approximately RMB475,276 thousand.

During the implementation of the judicial restructuring plan, the Brazilian subsidiary actively fulfilled its judicial restructuring obligations, and the restructuring work was progressing smoothly. Because of the fact that the Brazilian third fertilizer plant project lawsuit has obtained favorable expert appraisal opinions for the Brazilian subsidiary, the devaluation of the Brazilian currency due to the epidemic and the effective reduction of the cost of reorganization and operation, the Company expects that the total expenses actually paid by the Brazilian subsidiary due to the reorganization plan will be USD58.42 million (equivalent to approximately RMB389 million). As of June 30, 2022, the remaining balance of estimated liabilities was RMB149,539,000.

###### **(3) Contingent liabilities arising from overseas tax penalties and their financial impacts**

On August 3, 2021, the Ghana subsidiary of Sinopec Group International Petroleum Engineering Co., Ltd. (referred to as the “Ghana subsidiary” of the “International Company”) received a tax audit notification letter from the Large Enterprise Taxation Department of the Ghana Taxation Bureau, requesting for an income tax audit of the Ghana subsidiary’s holding company, International Company, execution of the Ghana Gas Engineering EPCC project for the period 2012-2020. After receiving the income tax audit letter, the Ghana subsidiary and International Company sorted out the relevant business according to the audit requirements of the Ghana Tax Bureau and analyzed the future risks of the audit matters, conducted a business self-inspection on the provisions of Ghana’s 2015 Income Tax Act concerning resident institutions. Due to the long implementation cycle of the project and frequent personnel exchanges during the implementation of the project, there may be relevant personnel working in Ghana exceeding the 90-day requirement. This results in a permanent establishment mechanism being touched, and therefore a tax risk. The Ghana subsidiary has made provision for estimated liabilities based on the best estimate of relevant income tax and penalty interest. As of June 30, 2022, the balance of estimated liabilities was RMB18,534,000.

###### **(4) Contingent liabilities arising from guarantees provided for debt of other entities and their financial effects**

As at June 30, 2022, Sinopec Oilfield Service Limited, the subsidiary of the Company, has provided guarantee amount of USD1,435,838 thousand and THB 3,142,900 thousand to its subsidiaries.

The Group provides guarantees for the performance obligations under the Production Sharing Contract for the EBANO project in Mexico signed by DS Servicios Petroleros, S.A.de C.V. (“DS Mexico”) and the beneficiary, the Mexican National Oil and Gas Commission, to ensure that the Group will perform the contract on its behalf when DS Mexico loses its ability to perform. As of June 30, 2022, the maximum amount of joint and several guaranteed liabilities assumed by the Group during this guarantee period shall not exceed an amount equivalent to USD274,950,000.

###### **(5) Other contingent liabilities**

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (GSH [200] No. 644) issued by the State Administrative of Taxation in June 2007, the Company has been informed the relevant tax authority to settle the enterprise income tax for 2007 at a rate of 33%. To date, the Company has not been requested to pay additional enterprise income tax in respect of any years prior to 2007. There is no further development of this matter as at June 30, 2022. No provision has been made in the financial statements for this uncertainty for tax year prior to 2007, because the management believes it cannot reliably estimate the amount of the obligation, if any, that might exist.

### 12 POST BALANCE SHEET EVENTS

As at August 25, 2022, there are no post balance sheet events to be disclosed by the Group.

### 13 CAPITAL MANAGEMENT

The objective of the Group's capital management policy is to safeguard the Group's ability to continue as a going concern, thereby providing returns to shareholders and benefits to other stakeholders, while maintaining an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the method of financing, adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares and other equity instruments or sell assets to reduce debt.

The Group monitors its capital using the debt-to-capital ratio, which is calculated as net debt divided by total capital. The net debt is total borrowings (including short-term borrowings, long-term borrowings maturing within one-year, long-term borrowings, and long-term payables) less the cash balance shown in the statement of cash flows. Total capital is the sum of shareholders' equity and net debt as presented in the consolidated balance sheet. Total shareholders' equity includes the shareholders' equity attributable to the parent company and the minority interests.

As at the balance sheet date, the Group's debt-to-capital ratio is as follows:

Item	Balance as at June 30, 2022	As at December 31, 2021
Short-term borrowings	18,441,608	17,520,091
Lease liabilities maturing within one year	413,733	290,345
Long-term payables maturing within one year	2,872	5,600
Long-term borrowings	1,550,335	1,554,686
Lease liabilities	574,171	390,866
Less: cash balances as shown in the statement of cash flows	1,846,838	2,475,306
<b>Net debt</b>	<b>19,135,881</b>	<b>17,286,282</b>
Shareholders' equity	7,417,159	6,861,517
<b>Total capital</b>	<b>26,553,040</b>	<b>24,147,799</b>
<b>Debt-to-capital ratio</b>	<b>72.07%</b>	<b>71.59%</b>

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## 14 OTHER SIGNIFICANT EVENTS

### 14.1 Correction of prior accounting errors

There were no corrections of accounting errors in prior periods during the reporting period.

### 14.2 Debt restructuring

The Group restructured its debts with the creditors in the current period by modifying the debt principal. The total amount of profits recognized in the current period due to debt restructuring was RMB10,589,000. The amount of losses which cash back below the book value of the claims is RMB18,000. There is no individually significant debt restructuring during the current period.

### 14.3 Assets replacement

There was no asset replacement during the reporting period.

### 14.4 Annuity plan

For details about the main components of the annuity plans, please refer to the Note “3.21.3 Accounting treatment of dismissal benefits”.

### 14.5 Discontinued operation

There is no discontinued operation during the reporting period.

### 14.6 Segment information

#### 14.6.1 Determination criteria and accounting policies for reportable segments

The Group has identified five reportable segments based on its internal structure, management requirements and internal reporting policy. The reportable segments are: geophysics, drilling engineering, logging and mud logging, special down-hole operations, and engineering construction. The segment information is prepared based on the financial information of the Company's daily management requirements. The Group's management reviews reportable segments' financial information periodically for the purposes of allocating resources and assessing the performance.

The Group's reportable segments include:

- (1) Geophysics, which provides geophysical exploration, development and technical services;
- (2) Drilling engineering, which provides customers with drilling construction, technical services and drilling instrumentation;
- (3) Logging and mud logging, which provides logging and mud logging technology services;
- (4) Special down-hole operations, which provides oil engineering technical and construction, including oil (gas) testing, well repair, lateral drilling, fracturing, acidising and oil assignments;
- (5) Engineering construction, which provides a package of services, including feasibility studies, design, procurement, construction for projects of onshore and offshore oil and gas fields, long-distance pipeline projects.

The segment information is disclosed in accordance with the accounting policies and measurement standards reported to management by each segment. These accounting policies and measurement standards are consistent with the accounting policies and measurement standards of preparation of the financial statements.

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

The resources related to long-term equity investment and investment (loss)/income on joint venture, income tax expenses as well as shared assets of all segments are centrally managed and accounted for by the Company, and thus are not allocated among segments.

## 14 OTHER SIGNIFICANT EVENTS (Continued)

### 14.6 Segment information (Continued)

#### 14.6.2 Financial information of reportable segments

Current period or As at June 30, 2022	Geophysics	Drilling engineering	Logging and mud logging	Special down-hole operations	Engineering construction	Others	Offset	Total
Operating revenue	1,539,266	17,837,177	1,585,710	4,449,432	8,353,849	3,976,364	-4,593,146	33,148,652
Including: income from external transactions	1,512,225	16,635,798	1,202,466	4,292,870	8,326,149	1,179,144		33,148,652
Income from inter-segment transactions	27,041	1,201,379	383,244	156,562	27,700	2,797,220	-4,593,146	
Including: income from primary business	1,539,266	17,837,177	1,585,710	4,449,432	8,353,849	3,447,902	-4,486,772	32,726,564
Operating costs	1,530,794	16,657,314	1,360,377	4,170,695	7,720,137	3,881,376	-4,593,146	30,727,547
Including: costs of primary business	1,530,794	16,657,314	1,360,377	4,170,695	7,720,137	3,479,926	-4,486,772	30,432,471
Operating expenses	114,883	733,289	144,747	109,371	494,325	523,721		2,120,336
Operating profit (loss)	-94,974	456,860	91,101	170,975	150,968	-411,612		363,318
Total assets	4,032,095	41,123,961	3,802,736	7,119,192	21,245,665	27,143,313	-38,795,436	65,671,526
Total liabilities	3,058,409	29,321,012	2,900,395	4,218,791	20,719,124	36,832,072	-38,795,436	58,254,367
Supplementary information:								
1.Capital expenditure	101,585	182,899	39,719	55,084	284,224	344,242		1,007,753
2.Depreciation and amortization expenses	203,008	1,750,664	164,749	361,021	147,752	312,728		2,939,922
3.Losses from impairment of assets	-872	-18,436	-634	-5,312	-47,983	3,897		-69,340

Prior period or As at December 31, 2021	Geophysics	Drilling engineering	Logging and mud logging	Special down-hole operations	Engineering construction	Others	Offset	Total
Operating revenue	1,813,378	17,441,610	1,714,454	4,113,888	7,876,353	3,103,695	-4,493,317	31,570,061
Including: income from external transactions	1,800,634	15,712,885	1,150,738	3,941,443	7,868,764	1,095,597		31,570,061
Income from inter-segment transactions	12,744	1,728,725	563,716	172,445	7,589	2,008,098	-4,493,317	
Including: income from primary business	1,813,378	17,441,610	1,714,454	4,113,888	7,876,353	3,103,695	-4,493,317	31,570,061
Operating costs	1,752,793	16,520,101	1,424,494	3,896,790	7,370,287	3,113,058	-4,493,317	29,584,206
Including: costs of primary business	1,752,793	16,520,101	1,424,494	3,896,790	7,370,287	2,848,966	-4,493,317	29,320,114
Operating expenses	87,652	614,740	103,558	146,966	371,491	334,032		1,658,439
Operating profit (loss)	-2,961	335,888	187,152	78,567	150,419	-318,623		430,442
Total assets	3,723,539	39,221,203	3,779,683	6,533,605	21,629,673	30,042,028	-40,950,021	63,979,710
Total liabilities	2,580,199	30,026,255	3,155,322	3,828,237	21,291,996	36,630,603	-40,950,021	56,562,591
Supplementary information:								
1. Capital expenditure	23,215	149,085	65,197	19,366	144,845	82,970		484,678
2. Depreciation and amortization expenses	226,663	1,755,241	182,324	379,038	136,549	149,757		2,829,572
3. Losses from impairment of assets	249	-15,369	4,741	13,095	-44,585	1,227		-40,642

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### 14 OTHER SIGNIFICANT EVENTS (Continued)

#### 14.6 Segment information (Continued)

##### 14.6.3 Other segment information

###### 14.6.3.1 Revenue from external transactions of products and services

Item	Current period	Prior period
Geophysics	1,512,225	1,800,634
Drilling engineering	16,635,798	15,712,885
Logging and mud logging	1,202,466	1,150,738
Special down-hole operations	4,292,870	3,941,443
Engineering construction	8,326,149	7,868,764
Others	1,179,144	1,095,597
<b>Total</b>	<b>33,148,652</b>	<b>31,570,061</b>

###### 14.6.3.2 Area information

Current period or As at June 30, 2022	China	Other countries	Offset	Total
Operating revenue	27,076,511	5,650,053		32,726,564
Non-current assets	25,827,942	4,660,173		30,488,115
Prior period or As at December 31, 2021	China	Other countries	Offset	Total
Operating revenue	26,771,744	4,356,273		31,128,017
Non-current assets	24,351,041	4,901,220		29,252,261

###### 14.6.3.3 Dependence to principal customers:

The Group obtained over 50% of the total geophysics, drilling engineering, logging, and mud logging, special down-hole operations and engineering construction revenue from a single customer.

## 15 NOTES TO MAIN ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY

### 15.1 Other receivables

Item	Balance as at June 30, 2022	Balance as at December 31, 2021
Other receivables	4,380,391	4,380,622
<b>Total</b>	<b>4,380,391</b>	<b>4,380,622</b>

#### 15.1.1 Other receivables

##### (1) Disclosure of other receivables by aging

Aging	Balance as at June 30, 2022	Balance as at December 31, 2021
Within 1 year	4,380,391	4,380,622
Sub-total	4,380,391	4,380,622
Less: provision for bad debts		
<b>Total</b>	<b>4,380,391</b>	<b>4,380,622</b>

## Section VIII Financial Reports

### 15 NOTES TO MAIN ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

#### 15.1 Other receivables (Continued)

##### 15.1.1 Other receivables (Continued)

###### (2) Details of provision for bad debts

Category	Balance as at June 30, 2022					Balance as at December 31, 2021				
	Book balance		Provision for bad debts		Book value	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss rate in the next 12 months (%)		Amount	Proportion (%)	Amount	Expected credit loss rate in the next 12 months (%)	
Provision for bad debts accrued on a combination basis	4,380,391	100.00			4,380,391	4,380,622	100.00			4,380,622
Including: Receivables from wholly-owned subsidiaries	4,380,391				4,380,391	4,380,622				4,380,622
<b>Total</b>	<b>4,380,391</b>	<b>100.00</b>			<b>4,380,391</b>	<b>4,380,622</b>	<b>100.00</b>			<b>4,380,622</b>

Provision for bad debts accrued on a combination basis:

Portfolio provision items:

Category	Balance as at June 30, 2022		
	Book balance	Provision for bad debts	Proportion (%)
Other receivables from related parties	4,380,622		
<b>Total</b>	<b>4,380,622</b>		

###### (3) Classification by nature

Category	Balance as at June 30, 2022	Balance as at December 31, 2021
Other receivables from wholly-owned subsidiaries	4,380,391	4,380,622
<b>Total</b>	<b>4,380,391</b>	<b>4,380,622</b>

###### (4) Top 5 of other receivables as at June 30, 2022, presented by debtor

Company	Nature	Balance as at June 30, 2022	Aging	Proportion in the total ending balance of other receivables (%)	Ending balance of provision for bad debts
Sinopec Oilfield Service Limited	Current account	4,380,391	Within 1 year	100.00	
<b>Total</b>		<b>4,380,391</b>		<b>100.00</b>	

#### 15.2 Long-term equity investments

Item	Balance as at June 30, 2022			Balance as at December 31, 2021		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investments in subsidiaries	27,891,662		27,891,662	27,891,662		27,891,662
Investments in associates and joint ventures						
<b>Total</b>	<b>27,891,662</b>		<b>27,891,662</b>	<b>27,891,662</b>		<b>27,891,662</b>

##### 15.2.1 Investments in subsidiaries

Investee	Balance as at December 31, 2021	Increase in the current period	Decrease in the current period	Balance as at June 30, 2022	Provision for impairment made in the current period	Balance of provision for impairment as at December 31, 2021
Sinopec Oilfield Service Limited	27,891,662			27,891,662		
<b>Total</b>	<b>27,891,662</b>			<b>27,891,662</b>		

## Section VIII Financial Reports

### 16 SUPPLEMENTARY INFORMATION

#### 16.1 Breakdown of non-recurring profit or loss in the current period

Item	Amount	Remark
Profit or loss from disposal of non-current assets	21,611	
Government grants included in the current profit or loss (except for government grants closely related to the enterprise business, obtained by quota or quantity at unified state standards)	59,025	
Profit or loss from debt restructuring	10,841	
Other items of profit or loss subject to the definition of non-recurring profit or loss	-20,502	
<b>Sub-total</b>	<b>70,975</b>	
Affected amount of income tax	14,709	
<b>Total</b>	<b>56,266</b>	

#### 16.2 ROE and earnings per share

Profit during the reporting period	Weighted average ROE (%)	Earnings per share (RMB)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	2.88	0.011	
Net profit attributable to ordinary shareholders of the Company after deducting the non-recurring profit or loss	2.07	0.008	

#### 16.3 Accounting data difference between the domestic and overseas accounting standards

##### 16.3.1 Reconciliation of differences between CASBE and IFRS financial statements

	Net profit		Net assets	
	Current period	Prior period	Balance as at June 30, 2022	Balance as at December 31, 2021
Based on CASBE	200,268	368,558	7,417,159	6,861,517
Adjusted items and amounts in accordance with IFRS:				
Special reserves	355,374	325,687		
Based on IFRS	555,642	694,245	7,417,159	6,861,517

##### 16.3.2 Related notes

In accordance to CASBE, provision of safety fund according to the PRC regulation is recognised to the profit or loss in the current period and at the same time included in the "special reserve" account. When safety costs and maintenance funds provided are used according to the specified scope, payment of expenses is directly offset against the special reserve; payment in formation of fixed assets is first imputed through "construction in progress" account, then recognised as fixed assets when the project is completed to its intended use state; meanwhile, offset the special reserve according to the cost in formation of the fixed assets and recognize the same amount of accumulated depreciation. The fixed assets will no longer depreciate in the subsequent accounting periods. According to IFRSs, expenditure in cost nature is recognised in the profit or loss and expenditure in capital nature is recognised as fixed assets when incurred and depreciate in the corresponding depreciation method.

Sinopec Oilfield Service Corporation

(Official seal)

August 25, 2022

## 2. PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS



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## REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### TO THE BOARD OF DIRECTORS OF SINOPEC OILFIELD SERVICE CORPORATION

(established in the People's Republic of China with limited liability)

### INTRODUCTION

We have reviewed the interim financial information of Sinopec Oilfield Service Corporation (the "Company") and its subsidiaries set out on pages 127 to 155, which comprises the condensed consolidated statement of financial position as at 30 June 2022, and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34.

Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

#### BDO Limited

*Certified Public Accountants*

#### Chan Tsz Hung

Practising Certificate no. P06693

Hong Kong, 25 August 2022

## Section VIII Financial Reports

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Notes	For the six months ended 30 June	
		2022	2021
		RMB' 000 (Unaudited)	RMB' 000 (Unaudited)
<b>Revenue</b>	4	33,148,652	31,570,061
Cost of sales and taxes and surcharges		(30,494,380)	(29,277,815)
<b>Gross profit</b>		2,654,272	2,292,246
Selling expenses		(26,643)	(34,037)
General and administrative expenses		(1,092,018)	(888,531)
Research expenses		(666,919)	(349,034)
Finance expenses – net	5	(281,888)	(408,182)
Reversal of/(provision for) expected credit loss (“ECL”) – net	6	69,340	40,642
Share of profit from joint ventures		96	47
Share of profit from associates		2,662	3,290
Other income	7	113,915	135,457
Other expenses	8	(40,066)	(15,694)
<b>Profit before income tax</b>	9	732,751	776,204
Income tax expense	10	(177,109)	(81,958)
<b>Profit for the period</b>		555,642	694,246
<b>Other comprehensive income for the period, net of tax</b>			
<b>Item that will not be reclassified subsequently to profit or loss:</b>			
<b>Net movement in fair value of financial assets at fair value through other comprehensive income (“FVTOCI”)</b>		-	10
<b>Total comprehensive income for the period</b>		555,642	694,256
<b>Earnings per share for profit attributable to owners of the Company (presented in RMB per share)</b>	11	RMB	RMB
Basic and diluted		0.029	0.037

# Section VIII Financial Reports

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

	Notes	As at 30 June 2022 RMB' 000 (Unaudited)	As at 31 December 2021 RMB' 000 (Audited)
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	24,110,829	24,924,711
Other non-current assets	14	5,673,201	6,595,302
Intangible assets		298,531	400,130
Interest in joint ventures		24,218	24,122
Interest in associates		22,280	22,926
Financial assets at FVTOCI	15	21,760	21,760
Deferred tax assets		305,123	310,764
<b>Total non-current assets</b>		<b>30,455,942</b>	<b>32,299,715</b>
<b>Current assets</b>			
Inventories	19	933,543	1,009,166
Financial assets at FVTOCI	15	743,386	1,295,971
Trade receivables	16	8,541,458	8,151,019
Prepayments and other receivables	17	6,126,101	5,162,319
Contract assets and cost to fulfill contracts	18	16,930,452	13,626,033
Restricted cash		93,804	32,917
Cash and cash equivalents		1,846,840	2,475,307
<b>Total current assets</b>		<b>35,215,584</b>	<b>31,752,732</b>
<b>Total assets</b>		<b>65,671,526</b>	<b>64,052,447</b>
<b>Equity</b>			
Share capital	20	18,984,340	18,984,340
Reserves		(11,567,181)	(12,122,823)
<b>Total equity</b>		<b>7,417,159</b>	<b>6,861,517</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long-term borrowings	23	2,124,506	1,945,552
Deferred income		9,619	9,288
Deferred tax liabilities		9,213	9,438
Provisions		189,346	205,771
<b>Total non-current liabilities</b>		<b>2,332,684</b>	<b>2,170,049</b>
<b>Current liabilities</b>			
Notes and trade payables	21	29,927,653	29,890,348
Other payables	22	3,627,982	3,555,046
Contract liabilities	18	3,251,499	3,547,938
Short-term borrowings	23	18,858,212	17,816,036
Current income tax payable		256,337	211,513
<b>Total current liabilities</b>		<b>55,921,683</b>	<b>55,020,881</b>
<b>Total liabilities</b>		<b>58,254,367</b>	<b>57,190,930</b>
<b>Total equity and liabilities</b>		<b>65,671,526</b>	<b>64,052,447</b>
<b>Net current liabilities</b>		<b>(20,706,099)</b>	<b>(23,268,149)</b>
<b>Total assets less current liabilities</b>		<b>9,749,843</b>	<b>9,031,566</b>

On behalf of the board of directors

CHEN Xikun

Chairman

YUAN Jianqiang

Executive Director and General Manager

## Section VIII Financial Reports

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2022

For the six months ended 30 June 2022 (Unaudited)

	Attributable to owners of the Company							Total equity RMB' 000
	Share capital	Share premium	Other capital reserve	Surplus reserve	Specific reserve	Other comprehensive income reserve (non-recycling)	Accumulated losses	
	RMB' 000 (Note 20)	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	
<b>At 1 January 2022</b>	18,984,340	11,622,283	95,490	200,383	219,182	(3,823)	(24,256,338)	6,861,517
Profit for the period	-	-	-	-	-	-	555,642	555,642
Other comprehensive income for the period:								
Net movement in fair value of financial assets at FVTOCI	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	-	555,642	555,642
<b>Transactions with owners:</b>								
Appropriation of specific reserve	-	-	-	-	575,168	-	575,168	-
Utilisation of specific reserve	-	-	-	-	(219,794)	-	(219,794)	-
Transfer of other comprehensive income reserve	-	-	-	-	-	-	-	-
<b>Total transactions with owners</b>	-	-	-	-	355,374	-	(355,374)	-
<b>At 30 June 2022</b>	18,984,340	11,622,283	95,490	200,383	574,556	(3,823)	(24,056,070)	7,417,159

For the six months ended 30 June 2021 (Unaudited)

	Attributable to owners of the Company							Total equity RMB' 000
	Share capital	Share premium	Other capital reserve	Surplus reserve	Specific reserve	Other comprehensive income reserve (non-recycling)	Accumulated losses	
	RMB' 000 (Note 20)	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	
<b>At 1 January 2021</b>	18,984,340	11,622,283	95,490	200,383	258,523	(2,014)	(24,436,139)	6,722,866
Profit for the period	-	-	-	-	-	-	694,246	694,246
Other comprehensive income for the period:								
Net movement in fair value of financial assets at FVTOCI	-	-	-	-	-	10	-	10
Total comprehensive income for the period	-	-	-	-	-	10	694,246	694,256
<b>Transactions with owners:</b>								
Appropriation of specific reserve	-	-	-	-	568,834	-	(568,834)	-
Utilisation of specific reserve	-	-	-	-	(243,146)	-	243,146	-
Transfer of other comprehensive income reserve	-	-	-	-	-	(10)	10	-
<b>Total transactions with owners</b>	-	-	-	-	325,688	(10)	(325,678)	-
<b>At 30 June 2021</b>	18,984,340	11,622,283	95,490	200,383	584,211	(2,014)	(24,067,571)	7,417,122

## Section VIII Financial Reports

### CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	For the six months ended 30 June	
	2022	2021
	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)
<b>Cash flows from operating activities</b>		
Cash flows (used in)/generated from operations	(415,488)	441,299
Interest received	4,430	24,620
Income tax paid	(126,868)	(107,058)
<b>Net cash (used in)/generated from operating activities</b>	<b>(537,926)</b>	<b>358,861</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(359,072)	(178,761)
Purchases of intangible assets	(579)	(1,434)
Purchases of other non-current assets	(148,875)	(228,321)
Proceeds from disposal of property, plant and equipment	12,079	11,500
Proceeds from disposal of other non-current assets	–	5,684
Proceeds from financial assets at FVTOCI	–	10
Dividends received from associates	3,856	690
<b>Net cash used in investing activities</b>	<b>(492,591)</b>	<b>(390,632)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	12,154,500	29,118,868
Repayments of borrowings	(11,415,907)	(28,611,789)
Placement of restricted cash	(60,887)	–
Payment of lease liabilities	(97,834)	(186,822)
Interests paid	(274,029)	(310,990)
<b>Net cash generated from financing activities</b>	<b>305,843</b>	<b>9,267</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(724,674)</b>	<b>(22,504)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	96,207	(6,704)
<b>Cash and cash equivalents at the beginning of the period</b>	<b>2,475,307</b>	<b>1,523,352</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>1,846,840</b>	<b>1,494,144</b>

# Section VIII Financial Reports

## NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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### 1. GENERAL INFORMATION

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 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.

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

This interim financial information is presented in RMB, unless otherwise stated. This interim financial information has been approved and authorised for issue by the Board of Directors on 25 August 2022.

### 2. BASIS OF PRESENTATION AND PREPARATION

#### 2.1 Basis of presentation

As at 30 June 2022, the Group had net current liabilities of approximately RMB20,703,299,000 and capital commitments of approximately RMB31,415,000. These conditions may cast significant doubt about the Group’s ability to continue as a going concern. The directors of the Company have performed an assessment covering a period of 12 months from the six months ended 30 June 2022, taking account of the following events and measures:

- (i) As at 30 June 2022, the Group obtained a line of credit of RMB16 billion and USD0.6 billion (Total: approximately RMB20.9 billion), and a line of credit promissory note and letter of guarantee of RMB11.8 billion from the Sinopec Group’s subsidiaries;
- (ii) As disclosed in Note 23, the Group’s borrowings amounted to approximately RMB18.5 billion 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;
- (iii) To obtain additional credits facilities, the Group will diversify its source of finance by exploring and developing good relationship with listed and state-owned financial institutions; and
- (iv) The Group is expected to generate operating cash inflows in the next twelve months.

The directors of the Company are in the opinion that the above measures are sufficient to meet with the expected liquidity, daily operation and capital requirements and considered that going concern basis is appropriate for the preparation of these consolidated financial statements.

#### 2.2 Basis of preparation

This interim financial information for the six months ended 30 June 2022 has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The interim financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVTOCI, which are carried at fair value.

The preparation of an interim financial information in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

The Group has applied the same accounting policies and methods of computation in its interim financial information as in its annual financial statements for the year ended 31 December 2021, except that in the current interim period, the Group has applied, for the first time, the following amendments to IFRSs which are mandatory effective for the annual period beginning on or after 1 January 2022:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendment to IFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018-2020

The adoption of the amendments to IFRSs had no material impact on the Group's results and financial position.

## 4. REVENUE AND SEGMENT INFORMATION

The Group's revenue is as follows:

	For the six months ended 30 June	
	2022	2021
	RMB' 000 (Unaudited)	RMB' 000 1 (Unaudited)
Geophysics	1,512,225	1,800,634
Drilling engineering	16,635,798	15,712,885
Logging and mud logging	1,202,466	1,150,738
Special downhole operations	4,292,870	3,941,443
Engineering construction	8,326,149	7,868,764
Others	1,179,144	1,095,597
	<b>33,148,652</b>	<b>31,570,061</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.

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.

## Section VIII Financial Reports

### 4. REVENUE AND SEGMENT INFORMATION (Continued)

#### Segment information (Continued)

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

All assets are allocated to reportable segments other than certain property, plant and equipment, certain intangible assets, certain other non-current assets, certain inventories, certain contract assets, certain trade receivables, certain prepayments and other receivables, certain cash and cash equivalents, certain deferred tax assets, certain financial assets at FVTOCI and interests in joint venture and associates.

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

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

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

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

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

For the six months ended 30 June 2022 and as at that date, 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>For the six months ended 30 June 2022 (Unaudited)</b>								
<b>Segment revenue and results</b>								
Revenue from external customers	1,512,225	16,635,798	1,202,466	4,292,870	8,326,149	1,179,144	-	33,148,652
Inter-segment revenue	27,041	1,201,379	383,244	156,562	27,700	2,690,846	(4,486,772)	-
<b>Reportable segment revenue</b>	<b>1,539,266</b>	<b>17,837,177</b>	<b>1,585,710</b>	<b>4,449,432</b>	<b>8,353,849</b>	<b>3,869,990</b>	<b>(4,486,772)</b>	<b>33,148,652</b>
<b>Reportable segment (loss)/profit</b>	<b>(101,305)</b>	<b>623,980</b>	<b>119,914</b>	<b>217,338</b>	<b>160,210</b>	<b>(361,235)</b>	<b>-</b>	<b>658,902</b>
Other income	11,772	32,675	10,578	2,730	38,442	17,718	-	113,915
Other expenses	(1,588)	(20,281)	(2,059)	(2,438)	(8,456)	(5,244)	-	(40,066)
<b>(Loss)/Profit before income tax</b>	<b>(91,121)</b>	<b>636,374</b>	<b>128,433</b>	<b>217,630</b>	<b>190,196</b>	<b>(348,761)</b>	<b>-</b>	<b>732,751</b>
Income tax expense								(177,109)
<b>Profit for the period</b>								<b>555,642</b>
<b>Supplementary information</b>								
<b>Depreciation and amortisation</b>								
- Property, plant and equipment	168,118	899,040	93,979	262,317	135,408	209,351	-	1,768,213
- Other non-current assets	34,796	851,341	70,049	94,622	6,072	12,652	-	1,069,531
- Intangible assets	94	283	721	4,082	6,272	90,725	-	102,177
<b>Capital expenditure</b>								
- Property, plant and equipment	101,585	182,899	39,719	55,084	283,644	344,242	-	1,007,173
- Intangible assets	-	-	-	-	580	-	-	580
Provision for/(Reversal of) ECL on trade receivables, net	2,374	(19,670)	(3,249)	(7,025)	(37,811)	8,705	-	(56,676)
(Reversal of)/Provision for ECL on other receivables, net	(1,274)	1,086	62	378	(13,985)	(282)	-	(14,015)
(Reversal of)/Provision for ECL on contract assets, net	(1,972)	148	2,553	1,335	3,813	(4,526)	-	1,351
<b>As at 30 June 2022 (Unaudited)</b>								
<b>Assets</b>								
Segment assets	4,032,095	41,123,961	3,802,736	7,119,192	21,245,665	27,143,313	(38,795,436)	65,671,526
<b>Liabilities</b>								
Segment liabilities	3,058,409	29,321,012	2,900,395	4,218,791	20,719,124	36,832,072	(38,795,436)	58,254,367

## Section VIII Financial Reports

### 4. REVENUE AND SEGMENT INFORMATION (Continued)

#### Segment information (Continued)

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

For the six months ended 30 June 2021 and as at that date, 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>For the six months ended 30 June 2021 (Unaudited)</b>								
<b>Segment revenue and results</b>								
Revenue from external customers	1,800,634	15,712,885	1,150,738	3,941,443	7,868,764	1,095,597	–	31,570,061
Inter-segment revenue	12,744	1,728,725	563,716	172,445	7,589	2,008,098	(4,493,317)	–
<b>Reportable segment revenue</b>	<b>1,813,378</b>	<b>17,441,610</b>	<b>1,714,454</b>	<b>4,113,888</b>	<b>7,876,353</b>	<b>3,103,695</b>	<b>(4,493,317)</b>	<b>31,570,061</b>
<b>Reportable segment (loss)/profit</b>	<b>(19,982)</b>	<b>460,512</b>	<b>246,599</b>	<b>121,776</b>	<b>153,944</b>	<b>(306,408)</b>	<b>–</b>	<b>656,441</b>
Other income	24,240	48,886	1,294	8,577	27,973	24,487	–	135,457
Other expenses	(2,795)	(1,270)	(2,991)	(1,202)	(7,334)	(102)	–	(15,694)
<b>(Loss)/Profit before income tax</b>	<b>1,463</b>	<b>508,128</b>	<b>244,902</b>	<b>129,151</b>	<b>174,583</b>	<b>(282,023)</b>	<b>–</b>	<b>776,204</b>
Income tax expense								(81,958)
<b>Profit for the period</b>								<b>694,246</b>
<b>Supplementary information</b>								
<b>Depreciation and amortisation</b>								
– Property, plant and equipment	179,636	930,661	106,521	249,437	126,067	131,813	–	1,724,135
– Other non-current assets	47,018	783,879	75,083	125,846	6,028	15,268	–	1,053,122
– Intangible assets	9	40,701	720	3,755	4,454	2,674	–	52,313
<b>Capital expenditure</b>								
– Property, plant and equipment	8,926	112,879	65,637	21,365	117,512	88,818	–	415,137
– Intangible assets	–	–	–	–	–	1,434	–	1,434
Provision for/(Reversal of) ECL on trade receivables, net	(266)	(21,643)	294	8,389	(54,807)	3,863	–	(64,170)
Provision for/(Reversal of) ECL on other receivables, net	1,036	1,916	62	2,699	3,289	(2,927)	–	6,075
Provision for/(Reversal of) ECL on contract assets, net	(521)	4,358	4,385	2,007	6,933	291	–	17,453
<b>As at 31 December 2021 (Audited)</b>								
<b>Assets</b>								
Segment assets	4,524,519	38,958,384	3,541,026	6,425,152	20,252,666	29,111,052	(38,760,352)	64,052,447
<b>Liabilities</b>								
Segment liabilities	3,427,097	28,862,019	2,978,969	3,475,883	19,867,388	37,339,926	(38,760,352)	57,190,930

## Section VIII Financial Reports

### 4. REVENUE AND SEGMENT INFORMATION (Continued)

#### Segment information (Continued)

##### (b) Geographical information

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

	Revenue from external customers For the six months ended 30 June	
	2022	2021
	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)
The PRC	27,450,310	27,175,580
Middle East	3,949,932	3,369,391
Other countries	1,748,410	1,025,090
	33,148,652	31,570,061

	Specified non-current assets	
	As at 30 June 2022	As at 31 December 2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
The PRC	25,514,575	26,965,860
Other countries	4,614,484	5,001,331
	30,129,059	31,967,191

##### (c) Major customer

For the six months ended 30 June 2022 and 2021, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	For the six months ended 30 June	
	2022	2021
	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)
Customer A	20,875,657	20,581,901

Revenue from this customer was derived from the operating segments of geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction which accounted for 63% (2021: 65%) of the Group's revenue.

## Section VIII Financial Reports

### 4. REVENUE AND SEGMENT INFORMATION (Continued)

#### Segment information (Continued)

##### (d) Analysis on revenue from contracts

For the six months ended 30 June 2022 and 2021, the Group derives revenue from the transfer of goods and service at a point in time and over time in the following operating segments of geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction service:

	Geophysics	Drilling engineering	Logging and mud logging	Special downhole operations	Engineering construction	Unallocated	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
<b>For the six months ended 30 June 2022 (Unaudited)</b>							
<b>Timing of revenue recognition:</b>							
– At a point in time	–	4,275	–	–	1,667	95,351	101,293
– Over time	1,512,225	16,631,523	1,202,466	4,292,870	8,324,482	1,083,793	33,047,359
<b>Total</b>	<b>1,512,225</b>	<b>16,635,798</b>	<b>1,202,466</b>	<b>4,292,870</b>	<b>8,326,149</b>	<b>1,179,144</b>	<b>33,148,652</b>
<b>For the six months ended 30 June 2021 (Unaudited)</b>							
<b>Timing of revenue recognition:</b>							
– At a point in time	–	2,248	4,270	176	3,815	54,912	65,421
– Over time	1,800,634	15,710,637	1,146,468	3,941,267	7,864,949	1,040,685	31,504,640
<b>Total</b>	<b>1,800,634</b>	<b>15,712,885</b>	<b>1,150,738</b>	<b>3,941,443</b>	<b>7,868,764</b>	<b>1,095,597</b>	<b>31,570,061</b>

### 5. FINANCE EXPENSES – NET

	For the six months ended 30 June	
	2022 RMB' 000 (Unaudited)	2021 RMB' 000 (Unaudited)
<b>Finance income</b>		
Interest income		
– Sinopec Group's subsidiaries	408	560
– Third parties and other financial institutions	4,022	24,060
	4,430	24,620
<b>Finance expenses</b>		
Interest expenses on loans wholly repayable within 5 years		
– Sinopec Group and its subsidiaries	(263,629)	(278,688)
– Third parties and other financial institutions	(6,059)	(40,830)
Interest expenses on lease liabilities		
– Sinopec Group and its subsidiaries	(9,545)	(12,173)
– Associates and joint ventures of Sinopec Group	(6,982)	(10,073)
– Third parties	(9,155)	(8,928)
Exchange gains/(losses), net	47,529	(56,379)
Bank and other charges	(38,477)	(25,731)
	(286,318)	(432,802)
	(281,888)	(408,182)

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### 6. REVERSAL OF/(PROVISION FOR) ECL – NET

	For the six months ended 30 June	
	2022	2021
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
Reversal of ECL on trade and other receivables, net	70,691	58,095
Provision for ECL on contract assets, net	(1,351)	(17,453)
	69,340	40,642

### 7. OTHER INCOME

	For the six months ended 30 June	
	2022	2021
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
Gain on disposal of property, plant and equipment, net	13,783	4,420
Gain on disposal of other non-current assets, net	13,322	1,080
Government grants (Note)	35,829	74,824
Waived payables	–	14,511
Penalty income	2,115	494
Compensation received	5,400	6,055
Gain on debt restructuring	10,840	15,958
Others	32,626	18,115
	113,915	135,457

Note:

For the six months ended 30 June 2022 and 2021, government grants primarily represent financial appropriation income and non-income tax refunds received from respective government agencies without conditions or other contingencies attached to the receipts of the grants.

### 8. OTHER EXPENSES

	For the six months ended 30 June	
	2022	2021
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
Penalty pay	1,134	1,591
Compensation	2,138	2,689
Others	36,794	11,414
	40,066	15,694

## 9. PROFIT BEFORE INCOME TAX

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

	For the six months ended 30 June	
	2022 RMB' 000 (Unaudited)	2021 RMB' 000 (Unaudited)
Staff costs, including directors and supervisors emoluments	7,146,661	6,914,213
Retirement benefit plan contribution (including in the above mentioned staff costs)		
– Municipal retirement scheme costs	680,149	699,978
– Supplementary retirement scheme costs	338,800	335,335
Changes in inventories of finished goods and work in progress	30,267	(54,505)
Raw materials and consumables used	8,889,820	8,873,355
Depreciation and amortisation		
– Property, plant and equipment	1,768,213	1,724,135
– Other non-current assets	1,069,531	1,053,122
– Intangible assets	102,177	52,313
Short-term leases and leases with lease term of 12 months or less	379,742	783,557
(Reversal of)/Provision for ECL – net		
– Trade and other receivables	(70,691)	(58,095)
– Contract assets	1,351	17,453
Rental income from property, plant and equipment after relevant expenses	(26,500)	(4,992)
(Gain on disposal)/write-off of property, plant and equipment, net	(9,692)	(4,420)
(Gain on disposal)/write-off of other non-current assets, net	(4,091)	(1,080)
Exchange (gains)/losses, net	(47,529)	56,379
COVID-19 related rent concessions	–	(174)

## 10. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2022 RMB' 000 (Unaudited)	2021 RMB' 000 (Unaudited)
<b>Current tax</b>		
PRC enterprise income tax	91,201	68,550
Overseas enterprise income tax	80,492	15,915
	171,693	84,465
<b>Deferred tax</b>		
Origination and reversal of temporary differences	5,416	(2,507)
<b>Income tax expense</b>	177,109	81,958

According to the Corporate Income Tax Law of the PRC, the applicable income tax for the six months ended 30 June 2022 and 2021 is 25%.

According to the normal statutory PRC corporate income tax and relevant rules, apart from certain subsidiaries of the Company subjected to the relevant development zone policy or participation in technology development and the PRC's western development project that can enjoy a 15% preferential tax rate during the six months ended 30 June 2022 and 2021, the majority of the companies of the Group are subject to 25% income tax rate.

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

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### 11. EARNINGS PER SHARE

#### (a) Basic

For the six months ended 30 June 2022 and 2021, the basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue.

	For the six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Profit for the period attributable to owners of the Company (RMB' 000)	555,642	694,246
Weighted average number of ordinary shares in issue (Shares)	18,984,340,033	18,984,340,033
Basic earnings per share (RMB)	0.029	0.037

#### (b) Diluted

For the six months ended 30 June 2022 and 2021, the diluted earnings per share was the same as the basic earnings per share as the exercise price of those share options is higher than the average market price for shares during both periods.

### 12. DIVIDENDS

The Board of Directors of the Company did not recommend the payment of any interim dividends for the six months ended 30 June 2022 (2021: Nil).

### 13. EMPLOYEE BENEFITS

	For the six months ended 30 June	
	2022 RMB' 000 (Unaudited)	2021 RMB' 000 (Unaudited)
Salaries, wages and other benefits	6,127,712	5,908,880
Retirement benefit plan contribution (note)		
– Municipal retirement scheme costs	680,149	669,978
– Supplementary retirement scheme costs	338,800	335,355
	7,146,661	6,914,213

Note :

#### Retirement benefits

As stipulated by the regulations of the PRC, the Group participates in basic defined contribution retirement schemes organised by respective municipal government under which it is governed. As at 30 June 2022, the Group and the employees pay 16% and 8% (31 December 2021: 16% and 8%) of salary respectively to basic defined contribution plan.

In addition, the Group provides a supplementary defined contribution retirement plan for its staff at rates not exceeding 8% (31 December 2021: 8%) of the salaries. Employees who have served the Group for one year or more are entitled to participating in this plan. The funds of this plan are held separately from the Group in an independent fund administered by a committee consisting of representatives from the employees and the Group.

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

## Section VIII Financial Reports

### 14. PROPERTY, PLANT AND EQUIPMENT AND OTHER NON-CURRENT ASSETS

#### (a) Property, Plant and Equipment

For the six months ended 30 June 2022 (Unaudited)

	Buildings RMB' 000	Oil engineering equipment and others RMB' 000	Land RMB' 000	Prepaid and leases RMB' 000	Construction in progress RMB' 000	Total RMB' 000
<b>Cost</b>						
Balance at 1 January 2022	2,356,118	64,958,562	164,030	137,876	671,866	68,288,452
Additions	520,804	20,365	38,547	–	422,405	1,002,121
Remeasurement of leases	2,887	2,197	(33)	–	1	5,052
Disposals/Write-off	(158,423)	(605,341)	(21,385)	–	–	(785,149)
Transferred from construction in progress	–	488,019	–	–	(488,019)	–
<b>At 30 June 2022</b>	<b>2,721,386</b>	<b>64,863,802</b>	<b>181,159</b>	<b>137,876</b>	<b>606,253</b>	<b>68,510,476</b>
<b>Accumulated depreciation</b>						
Balance at 1 January 2022	1,128,447	40,840,373	112,286	31,410	–	42,112,516
Depreciation	163,396	1,582,879	20,329	1,609	–	1,768,213
Disposals/Write-off	(145,299)	(557,035)	(19,470)	–	–	(721,804)
<b>At 30 June 2022</b>	<b>1,146,544</b>	<b>41,866,217</b>	<b>113,145</b>	<b>33,019</b>	<b>–</b>	<b>43,158,925</b>
<b>Accumulated impairment loss</b>						
Balance at 1 January 2022	654	1,247,069	–	–	3,502	1,251,225
Disposals/Write-off	–	(10,503)	–	–	–	(10,503)
<b>At 30 June 2022</b>	<b>654</b>	<b>1,236,566</b>	<b>–</b>	<b>–</b>	<b>3,502</b>	<b>1,240,722</b>
<b>Carrying amounts</b>						
<b>At 30 June 2022 (Unaudited)</b>	<b>1,574,188</b>	<b>21,761,019</b>	<b>68,014</b>	<b>104,857</b>	<b>602,751</b>	<b>24,110,829</b>
<b>At 31 December 2021 (Audited)</b>	<b>1,227,017</b>	<b>22,871,120</b>	<b>51,744</b>	<b>106,466</b>	<b>668,364</b>	<b>24,924,711</b>

Note:

As at 30 June 2022, right-of-use assets with carrying amounts of RMB1,123,283,000 are included in property, plant and equipment (31 December 2021: RMB827,404,000).

	Carrying amounts		Depreciation
	As at 30 June 2022	As at 1 January 2022	During the six months ended 30 June 2022
	RMB' 000	RMB' 000	RMB' 000
Buildings	599,208	224,143	135,673
Oil engineering equipment and others	351,202	445,051	103,926
Land	68,015	51,744	20,329
Prepaid land leases	104,858	106,466	1,608
	1,123,283	827,404	261,536

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### 14.PROPERTY, PLANT AND EQUIPMENT AND OTHER NON-CURRENT ASSETS (Continued)

#### (a) Property, Plant and Equipment (Continued)

For the six months ended 30 June 2021 (Unaudited)

	Buildings	Oil engineering equipment and others	Land	Prepaid land leases	Construction in progress	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
<b>Cost</b>						
Balance at 1 January 2021	2,574,128	63,146,900	229,773	136,660	356,026	66,443,487
Additions	48,846	71,585	55,291	–	175,391	351,113
Remeasurement of leases	52,374	2,670	8,980	–	–	64,024
Disposals/Write-off	(125,565)	(347,742)	(17,762)	–	–	(491,069)
Transferred from construction in progress	–	195,228	–	–	(195,228)	–
<b>At 30 June 2021</b>	<b>2,549,783</b>	<b>63,068,641</b>	<b>276,282</b>	<b>136,660</b>	<b>336,189</b>	<b>66,367,555</b>
<b>Accumulated depreciation</b>						
Balance at 1 January 2021	978,471	39,361,809	99,134	28,305	–	40,467,719
Depreciation	144,536	1,553,992	24,060	1,547	–	1,724,135
Disposals/Write-off	(57,182)	(334,336)	(10,311)	–	–	(401,829)
<b>At 30 June 2021</b>	<b>1,065,825</b>	<b>40,581,465</b>	<b>112,883</b>	<b>29,852</b>	<b>–</b>	<b>41,790,025</b>
<b>Accumulated impairment loss</b>						
Balance at 1 January 2021	8,436	1,319,930	–	–	71,734	1,400,100
Disposals/Write-off	–	(839)	–	–	–	(839)
<b>At 30 June 2021</b>	<b>8,436</b>	<b>1,319,091</b>	<b>–</b>	<b>–</b>	<b>71,734</b>	<b>1,399,261</b>
<b>Carrying amounts</b>						
<b>At 30 June 2021 (Unaudited)</b>	<b>1,475,522</b>	<b>21,168,085</b>	<b>163,399</b>	<b>106,808</b>	<b>264,455</b>	<b>23,178,269</b>

## 14. PROPERTY, PLANT AND EQUIPMENT AND OTHER NON-CURRENT ASSETS (Continued)

### (b) Other Non-Current Assets

For the six months ended 30 June 2022

	Special tools of petroleum engineering	Other tools of Petroleum engineering	Camping house	Other long-term deferred expenses	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
<b>Cost</b>					
At 1 January 2022	14,196,612	1,942,128	2,142,874	51,214	18,332,828
Additions	75,591	55,562	16,795	628	148,576
<b>At 30 June 2022</b>	<b>14,272,303</b>	<b>1,997,690</b>	<b>2,159,669</b>	<b>51,842</b>	<b>18,481,404</b>
<b>Accumulated depreciation</b>					
At 1 January 2022	8,804,286	1,418,358	1,482,990	31,892	11,737,526
Depreciation	833,412	117,776	114,605	3,738	1,069,531
Other decrease				1,146	1,146
<b>At 30 June 2022</b>	<b>9,637,698</b>	<b>1,536,134</b>	<b>1,597,595</b>	<b>36,776</b>	<b>12,808,203</b>
<b>Carrying amounts</b>					
<b>At 30 June 2022 (Unaudited)</b>	<b>4,634,505</b>	<b>461,556</b>	<b>562,074</b>	<b>15,066</b>	<b>5,673,201</b>
<b>At 31 December 2021 (Audited)</b>	<b>5,392,326</b>	<b>523,770</b>	<b>659,884</b>	<b>19,322</b>	<b>6,595,302</b>

For the six months ended 30 June 2021

	Special tools of petroleum engineering	Other tools of Petroleum engineering	Camping house	Other long-term deferred expenses	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
<b>Cost</b>					
At 1 January 2021	11,938,311	1,609,042	1,823,188	44,576	15,415,117
Additions	359,410	90,147	36,463	2,280	488,300
<b>At 30 June 2021</b>	<b>12,297,721</b>	<b>1,699,189</b>	<b>1,859,651</b>	<b>46,856</b>	<b>15,903,417</b>
<b>Accumulated depreciation</b>					
At 1 January 2021	7,163,913	1,099,821	1,272,641	23,828	9,560,203
Depreciation	786,669	162,701	99,671	4,081	1,053,122
Other decrease	25,134	2,685	14,904	-	42,723
<b>At 30 June 2021</b>	<b>7,975,716</b>	<b>1,265,207</b>	<b>1,387,216</b>	<b>27,909</b>	<b>10,656,048</b>
<b>Carrying amounts</b>					
<b>At 30 June 2021 (Unaudited)</b>	<b>4,322,005</b>	<b>433,982</b>	<b>472,435</b>	<b>18,947</b>	<b>5,247,369</b>

## Section VIII Financial Reports

### 15. FINANCIAL ASSETS AT FVTOCI

	As at 30 June 2022	As at 31 December 2021
	RMB' 000	RMB' 000
	(Unaudited)	(Audited)
<b>Financial assets at FVTOCI (non-recycling)</b>		
<b>Non-current assets:</b>		
Equity securities – the PRC	21,760	21,760
<b>Current assets:</b>		
Notes receivables	743,386	1,295,971

Notes:

(a) Unlisted investments represent the Groups' equity interests in the unlisted entities in the PRC. They are mainly engaged in drilling and technical services operations.

The Group designated its investment in unlisted investment as financial assets at FVTOCI (non-recycling), as the investment is held for strategic purpose.

(b) As at 30 June 2022 and 31 December 2021, notes receivables were classified as financial assets at FVTOCI, as the Group's business model is achieved both by collecting contractual cash flows and by selling of these assets.

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

As at 30 June 2022 and 31 December 2021, none of the Group's notes receivables were pledged as collateral or overdue.

(c) All financial assets at FVTOCI are denominated in RMB.

## 16. TRADE RECEIVABLES

	As at 30 June 2022	As at 31 December 2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
<b>Trade receivables</b>		
– Sinopec Group and its subsidiaries	2,929,750	2,361,677
– Joint ventures of the Group	20,375	31,673
– Joint ventures and associates of Sinopec Group	838,428	31,943
– Third parties	7,196,185	8,141,221
	<b>10,984,738</b>	<b>10,566,514</b>
Less: ECL allowance	<b>(2,443,280)</b>	<b>(2,415,495)</b>
<b>Trade receivables – net</b>	<b>8,541,458</b>	<b>8,151,019</b>

As at 30 June 2022 and 31 December 2021, the Group's trade receivables were approximately their fair values.

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

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

	As at 30 June 2022	As at 31 December 2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
<b>Within 1 year</b>	<b>7,871,696</b>	<b>7,356,037</b>
1 to 2 years	345,906	455,345
2 to 3 years	160,611	185,164
Over 3 years	163,245	154,473
	<b>8,541,458</b>	<b>8,151,019</b>

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

	2022	2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
<b>At the beginning of the period/year</b>	<b>2,415,495</b>	<b>2,474,538</b>
ECL allowance	54,444	93,248
Reversal	(111,120)	(91,906)
Others	84,461	(31,649)
Receivables write-off as uncollectible	–	(28,736)
<b>At the end of the period/year</b>	<b>2,443,280</b>	<b>2,415,495</b>

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### 17. PREPAYMENT AND OTHER RECEIVABLES

	As at 30 June 2022	As at 31 December 2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Prepayments (note (a))	707,322	342,419
Other receivables (note (b))		
Petty cash funds	40,347	3,304
Guarantee deposits	1,265,811	1,247,723
Disbursement of funds	1,192,354	870,202
Temporary payment	918,019	697,197
Escrow payments	4,756	6,430
Deposits	133,002	127,035
Export tax refund receivables	6,589	21,405
Excess value-added tax paid	1,164,087	1,281,654
Value added tax to be certified	32,579	22,671
Prepaid value-added tax	1,053,524	931,596
Prepaid income tax	2,770	2,085
Others	427,782	417,701
	6,948,942	5,971,422
Less: ECL allowance	(822,841)	(809,103)
<b>Prepayments and other receivables – net</b>	<b>6,126,101</b>	<b>5,162,319</b>

Notes:

- As at 30 June 2022, prepayments included related party balances: Sinopec Group and its subsidiaries amounting to RMB110,289,000 (31 December 2021: RMB88,584,000), the associates and joint ventures of Sinopec Group amounting to RMB7,910,000 (31 December 2021: Nil).
- As at 30 June 2022, other receivables included related party balances: Sinopec Group and its subsidiaries amounting to RMB147,353,000 (31 December 2021: RMB200,891,000), the joint ventures of the Group amounting to RMB1,351,000 (31 December 2021: RMB246,000) and the associates and joint ventures of Sinopec Group amounting to RMB346,624,000 (31 December 2021: RMB294,411,000).
- The amounts due from related parties are unsecured, interest free and repayable on demand.
- The carrying amounts of the Group's prepayments and other receivables as at 30 June 2022 and 31 December 2021 approximate their fair value.

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

	2022	2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
At the beginning of the period/year	809,103	761,013
ECL allowance	40,012	122,076
Reversal	(54,027)	(100,926)
Receivables write-off as uncollectible	–	(4,151)
Others	27,753	31,091
<b>At the end of the period/year</b>	<b>822,841</b>	<b>809,103</b>

### 18.CONTRACT ASSETS AND COST TO FULFIL CONTRACTS/CONTRACT LIABILITIES

#### (a) Contract assets and cost to fulfil contracts

	As at 30 June 2022	As at 31 December 2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Contract assets arising from construction and service contracts	16,446,305	13,647,488
Cost to fulfil contracts	588,122	79,138
Less: ECL allowance	(103,975)	(100,593)
	<b>16,930,452</b>	<b>13,626,033</b>

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

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

The amount of contract assets that is expected to be recovered after more than one year is RMB337,172,000 (31 December 2021: RMB350,834,000).

#### (b) Contract liabilities

	As at 30 June 2022	As at 31 December 2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Contract liabilities arising from construction and service contracts	3,251,499	3,547,938

The balance of contract liabilities as at 1 January 2022 is RMB3,547,938,000, in which RMB2,035,572,000 was recognised as revenue during the period.

#### Unsatisfied performance obligation:

The Group has signed engineering service contracts with several customers to provide petroleum engineering and technical service and construction engineering contracts, which will be completed within the agreed period and regarded as a single performance obligation as a whole. As at 30 June 2022, part of the Group's petroleum engineering and technical service and construction engineering contracts were still in the process, and the total transaction price apportioned to the unsatisfied performance obligation was RMB28.56 billion (31 December 2021: RMB27.46 billion), the amount of which was related to the progress of the performance of each contract, and will be recognised as revenue in accordance with the percentage of work performed in the future, which is expected to be completed in the coming 60 months.

### 19.INVENTORIES

	As at 30 June 2022	As at 31 December 2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Raw materials	812,347	919,795
Finished goods	110,164	96,481
Work in progress	22,151	5,567
Turnover materials	15,046	13,604
	<b>959,708</b>	<b>1,035,447</b>
<b>Less: Inventories write-down</b>	<b>(26,165)</b>	<b>(26,281)</b>
	<b>933,543</b>	<b>1,009,166</b>

For the six months ended 30 June 2022 and 2021, cost of inventories recognised as expenses and included in "cost of sales" amounting to RMB8,920,087 and RMB8,818,850,000 respectively. For the six months ended 30 June 2022, reversal of inventories write-down of RMB116,000 (For the six months ended 30 June 2021: Nil) was made.

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### 20.SHARE CAPITAL

	As at 30 June 2022		As at 31 December 2021	
	Number of shares (Share)	Share capital RMB' 000 (Unaudited)	Number of shares (Share)	Share capital RMB' 000 (Audited)
<b>Registered, issued and paid:</b>				
– Domestic non-public legal person shares of RMB1.00 each	11,786,045,218	11,786,046	11,786,045,218	11,786,046
– Social public A shares of RMB1.00 each	1,783,333,333	1,783,333	1,783,333,333	1,783,333
– H shares of RMB1.00 each	5,414,961,482	5,414,961	5,414,961,482	5,414,961
	<b>18,984,340,033</b>	<b>18,984,340</b>	18,984,340,033	18,984,340

### 21.NOTES AND TRADE PAYABLES

	As at 30 June 2022	As at 31 December 2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Trade payables		
– Sinopec Group and its subsidiaries	2,427,096	1,242,579
– Joint ventures of the Group	43,936	52,175
– Joint ventures and associates of Sinopec Group	20	12,054
– Third parties	18,186,628	20,249,454
	<b>20,657,680</b>	21,556,262
Notes payables	9,269,973	8,334,086
	<b>29,927,653</b>	29,890,348

As at 30 June 2022 and 31 December 2021, the carrying amount of Group's notes and trade payables were approximately their fair values.

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

	As at 30 June 2022	As at 31 December 2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Within 1 year	29,397,080	29,450,316
1 to 2 years	231,179	161,590
2 to 3 years	107,054	87,803
Over 3 years	192,340	190,639
	<b>29,927,653</b>	29,890,348

## 22. OTHER PAYABLES

	As at 30 June 2022	As at 31 December 2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Salaries payables	707,248	644,026
Other tax payables	330,337	526,212
Interest payables (note (a))	32,178	19,476
Other payables (note (b))		
Guarantee deposits	697,719	617,945
Deposits	143,786	138,024
Disbursement of funds	650,318	671,505
Temporary receipts	401,246	224,384
Escrow payments	47,146	38,852
Withheld payments	49,817	56,341
Others	568,187	618,281
	<b>3,627,982</b>	<b>3,555,046</b>

Notes:

- (a) As at 30 June 2022, interest payables include related party balances with Sinopec Group and its subsidiaries amounting to RMB30,448,000 (31 December 2021: RMB19,364,000).
- (b) As at 30 June 2022, other payables include related party balances with Sinopec Group and its subsidiaries amounting to RMB27,567,000 (31 December 2021: RMB47,788,000), associates of the Group amounting to RMB36,507,000 (31 December 2021: RMB23,410,000).
- (c) The above amounts due to related parties are unsecured, interest free and repayable on demand.

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### 23.BORROWINGS

	As at 30 June 2022	As at 31 December 2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
<b>Current liabilities</b>		
Loans from Sinopec Finance Company Limited (note (a))	5,200,000	4,550,000
Loans from Sinopec Century Bright Capital Investment Limited (note (a))	2,241,608	1,970,091
Loans from Sinopec Group (note (a))	11,000,000	11,000,000
Lease liabilities (note (b))	416,533	295,945
Others	71	–
	<b>18,858,212</b>	<b>17,816,036</b>
<b>Non-current liabilities</b>		
Bank borrowings (note (a))	1,550,335	1,554,686
Lease liabilities (note (b))	574,171	390,866
	<b>2,124,506</b>	<b>1,945,552</b>
	<b>20,982,718</b>	<b>19,761,588</b>

Notes:

(a) The borrowings of the Group are repayable as follows:

	As at 30 June 2022	As at 31 December 2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Within 1 year	18,441,608	17,520,091
1 to 2 years	1,550,335	1,554,686
	<b>19,991,943</b>	<b>19,074,777</b>

As at 30 June 2022, annual interest rate of credit loans from related parties and bank ranged from 1.43% to 3.92% (31 December 2021: 1.42% to 3.92%).

(b) Lease liabilities

	As at 30 June 2022	As at 31 December 2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Total minimum lease payments		
– Within 1 year	434,616	308,806
– 1 to 2 years	350,983	224,724
– 2 to 5 years	220,669	195,470
– Over 5 years	54,249	10,834
	<b>1,060,517</b>	<b>739,834</b>
Future finance charges on lease liabilities	(69,813)	(53,023)
<b>Present value of lease liabilities</b>	<b>990,704</b>	<b>686,811</b>

## 23. BORROWINGS (Continued)

(b) Lease liabilities (Continued)

	As at 30 June 2022	As at 31 December 2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Present value of minimum lease payments		
– Within 1 year	416,533	295,945
– 1 to 2 years	323,775	202,509
– 2 to 5 years	201,308	178,013
– Over 5 years	49,088	10,344
	990,704	686,811
Less: Portion due within one year included under current liabilities	(416,533)	(295,945)
<b>Portion due after one year included under non-current liabilities</b>	<b>574,171</b>	<b>390,866</b>

As at 30 June 2022, the Group leases various residential properties, office and equipment. The leases run for an initial period of 1 to 30 years (31 December 2021: 1 to 30 years), with an option to renew the leases and renegotiate the terms at the expiry date or at dates mutually agreed between the Group and respective landlords/lessors.

For the six months ended 30 June 2022, total cash outflow for the lease payment is RMB668,776,000 (30 June 2021: RMB705,425,000).

## 24. COMMITMENTS

### (a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding as at 30 June 2022 and 31 December 2021 are as follows:

	As at 30 June 2022	As at 31 December 2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Contracted but not provided for	31,415	74,473

### (b) Lease commitments

The lease commitments for short-term leases as at 30 June 2022 and 31 December 2021 are as follows:

	As at 30 June 2022	As at 31 December 2021
	RMB' 000 (Unaudited)	RMB' 000 (Audited)
Within 1 year	21,064	89,085

As at 30 June 2022 and 31 December 2021, the Group leases various residential properties, office and equipment with a lease period of 6 to 12 months, which are qualified to be accounted for under short-term lease exemption under IFRS 16.

### (c) Investment commitments

As at 30 June 2022, the Group has outstanding commitments of RMB129,625,000 (31 December 2021: RMB129,625,000) in respect of its investment in joint ventures.

### (d) Fulfilment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 30 June 2022.

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### 25. CONTINGENCIES AND GUARANTEES

In preparing this interim financial information, except for described below, there were no further developments of those contingencies as at 30 June 2022, which were disclosed in the 2021 annual report.

#### (a) Contingent liabilities and financial impacts due to pending litigation

The Group is the defendant of certain lawsuits and also the third party or the designated party of other proceedings arising in the ordinary course of business. Management has assessed the possibility of adverse results of these contingencies, lawsuits or other proceedings and believes that any resulting liabilities will not have significant negative impact on the financial position, operating results or cash flow of the Group. Therefore, the management does not make provision for the foresaid matters.

China National Chemical Engineering No. 11 Construction Co., Ltd. (the "Applicant") and Sinopec International Petroleum Services Corporation ("International services Corporation" or the "Respondent"), a wholly-owned subsidiary of the Group, has entered into the "Works Contract for the Package C Construction of the Saudi Yanbu-Medina Phase III Pipeline Project" (the "Construction Works Contract") with International Services Corporation on 16 August 2012. Pursuant to the Construction Works Contract, International Services Corporation subcontracted to the Applicant the construction of the "Package C Project" of the "Saudi Yanbu-Medina Phase III Pipeline Project". On 29 May 2018, the Applicant submitted to the China International Economic and Trade Arbitration Commission in Beijing the "Application for Arbitration" in respect of the contract dispute between the Applicant and the Respondent during the performance of the Construction Works Contract, requesting the Respondent to pay approximately RMB456,810,000 for the project fee and the accrued interest, approximately RMB145,968,000 for the loss due to stoppage of work and the accrued interest, approximately RMB38,018,000 for the advance payment under the letter of guarantee and the accrued interest, and approximately RMB500,000 for attorney fee and the arbitration fee for the case (the "Arbitration"). The China International Economic and Trade Arbitration Commission accepted the case on 15 June 2018. At the report date, the arbitration tribunal has selected a professional to conduct cost confirmation on the disputed costs in this case. The hearing was held again on 3 July 2022 and the arbitral tribunal has extended the time limit for final decision to 24 October 2022. As at 30 June 2022, only the legal fees expected to be incurred in the arbitration process of RMB4,000,000 have been accrued in accordance with the related service agreement from lawyer.

As the case is still under trial, the Group does not make any other provision for the pending litigation since the management considered that an outflow of recourses embodying economic benefits required to settle the obligation is not probable.

#### (b) Performance guarantee

As at 30 June 2022, the Group agreed to provide performance guarantee for DS Servicios Petroleros, S.A.de C.V. ("Mexico DS Company") for the performance obligations under the production sharing contract for the EBANO project entered into between Mexican National Hydrocarbons Commission, being the beneficiary, and the Mexico DS Company. During the guarantee period, when Mexico DS Company loses contract performance capabilities, the Group shall undertake to perform the contracts on its behalf to an amount not exceed USD274,950,000.

### 26. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

In addition to the related party transactions and balances shown elsewhere in this interim financial information, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, for the six months ended 30 June 2022 and 2021.

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

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

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### 26. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

	For the six months ended 30 June	
	2022 RMB' 000 (Unaudited)	2021 RMB' 000 (Unaudited)
<b>Purchases of materials</b>		
– Sinopec Group and its subsidiaries	5,183,876	4,141,305
<b>Sale of products</b>		
– Sinopec Group and its subsidiaries	20,309	11,013
<b>Rendering of engineering services</b>		
– Sinopec Group and its subsidiaries	20,755,730	20,537,866
<b>Receiving of community services</b>		
– Sinopec Group and its subsidiaries	4,420	5
<b>Receiving of integrated services</b>		
– Sinopec Group and its subsidiaries	192,458	235,969
<b>Rendering of integrated services</b>		
– Sinopec Group and its subsidiaries	48,106	–
<b>Rendering of technology research and development services</b>		
– Sinopec Group and its subsidiaries	51,312	31,870
<b>Rental income – Buildings</b>		
– Sinopec Group and its subsidiaries	105	918
<b>Rental income – Equipment</b>		
– Sinopec Group and its subsidiaries	95	234
<b>Lease payment – Lands and buildings</b>		
– Sinopec Group and its subsidiaries	428,809	99,673
<b>Lease payment – Equipment</b>		
– Sinopec Group and its subsidiaries	2,046	96,943
<b>Deposits interest income</b>		
– Sinopec Group's subsidiaries	408	560
<b>Loans interest expenses</b>		
– Sinopec Group and its subsidiaries	263,629	278,688

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### 26.SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

	For the six months ended 30 June	
	2022 RMB' 000 (Unaudited)	2021 RMB' 000 (Unaudited)
<b>Interest expenses on lease liabilities</b>		
– Sinopec Group and its subsidiaries	9,121	12,173
<b>Borrowings obtained</b>		
– Sinopec Group and its subsidiaries	12,154,500	29,118,868
<b>Borrowings repaid</b>		
– Sinopec Group and its subsidiaries	11,380,482	28,632,419
<b>Safety and insurance fund expenses</b>		
– Sinopec Group	40,100	37,800
<b>Safety and insurance fund refund</b>		
– Sinopec Group	36,821	52,118

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

	For the six months ended 30 June	
	2022 RMB' 000 (Unaudited)	2021 RMB' 000 (Unaudited)
<b>Rendering of engineering services</b>		
– Associates and joint ventures of the Group	124,991	172
<b>Receiving of engineering services</b>		
– Associates and joint ventures of the Group	898,095	954,509
<b>Lease payment – Lands and buildings</b>		
– Associates and joint ventures of the Group	–	780

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### 26.SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

	For the six months ended 30 June	
	2022 RMB' 000 (Unaudited)	2021 RMB' 000 (Unaudited)
<b>Purchases of materials</b>		
– Associates and joint ventures of Sinopec Group	107,152	104,267
<b>Rendering of engineering services</b>		
– Associates and joint ventures of Sinopec Group	6,536	622,306
<b>Receiving of integrated services</b>		
– Associates and joint ventures of Sinopec Group	217	70,631
<b>Lease payment – Equipment</b>		
– Associates and joint ventures of Sinopec Group	9,823	64,711
<b>Interest expenses on lease liabilities</b>		
– Associates and joint ventures of Sinopec Group	6,982	10,073

#### (d) Remuneration of key management personnel

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

	For the six months ended 30 June	
	2022 RMB' 000 (Unaudited)	2021 RMB' 000 (Unaudited)
Fee	300	300
Salaries, allowances and bonus	7,147	6,599
Contributions to pension plans	286	283
	7,733	7,182

#### (e) Provision for counter guarantee

As at 30 June 2022, the Group has provided the counter guarantee to Sinopec Group, amounting to RMB300,000,000 (30 June 2021: RMB500,000,000). The counter guarantee will be ended in September 2024.

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### 27. FAIR VALUE

Other than noted as below, the carrying value of the Group's financial assets and liabilities stated at the condensed consolidated statement of financial position are not materially different from their fair values.

Fair value is the price that would be received to sell assets or paid to transfer liabilities in an orderly transaction between market participants at the measurement date. The Group discloses fair value measurements of financial instruments by level of the following fair value measurement hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### (a) Recurring fair value measurement of the Group's financial assets measured at fair value

The financial assets measured at fair value in the condensed consolidated statement of financial position on a recurring basis are grouped into the fair value hierarchy as follows:

	Level 3	
	As at 30 June 2022 RMB' 000 (Unaudited)	As at 31 December 2021 RMB' 000 (Audited)
<b>Financial assets at FVTOCI (non-recycling)</b>		
– Unlisted equity investments	21,760	21,760
<b>Financial assets at FVTOCI</b>		
– Notes receivables	743,386	1,295,971
	765,146	1,317,731

The reconciliation of the carrying amounts of assets classified within Level 3 of the fair value hierarchy is as follows:

	Six months ended 30 June 2022 RMB' 000 (Unaudited)	Year ended 31 December 2021 RMB' 000 (Audited)
Opening balance	1,317,731	1,346,260
Addition/(Settlement), net	(552,585)	(26,377)
Movement in fair value recognised in other comprehensive income	–	(2,152)
Closing balance	765,146	1,317,731

The fair value of the unlisted equity investments and notes receivables is measured using valuation techniques with reference to the net asset value and discounted cash flows, respectively. The Directors believe that the change in fair value (which is included in other comprehensive income) derived from the valuation technique is reasonable and is the most appropriate value at the end of the reporting period. There have been no transfers into or out of Level 3 during the six months period ended 30 June 2022 (2021: Nil).

#### (b) Fair values of financial assets and liabilities carried at other than fair value

The carrying value of the Group's financial instruments carried at amortised cost are not materially different from fair value as at 30 June 2022 and 31 December 2021.

## Section IX Documents Available for Inspection

The following documents will be available for inspection at the legal address of the Company from 26 August 2022 (Friday) upon requests from related supervisory institutes and shareholders in accordance with the Articles of Association of the Company and the relevant regulations:

1. The original copy of the interim report for the six months ended 30 June 2022 signed by the Chairman of the Company;
  2. The financial report of the Company for the six months ended 30 June 2022 signed by the Chairman, General Manager, Chief Financial Officer and the person in charge of the accounts;
  3. The Articles of Association of the Company;
  4. The original manuscripts of all the documents and announcements disclosed by the Company in the newspapers designated by the CSRC during the report period.
- \* This interim report has been drafted in both English and Chinese. In the event that different interpretation occurs, with the exception of the interim financial report prepared in accordance with IFRS, the Chinese version shall prevail.