



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)



2023

Interim Report

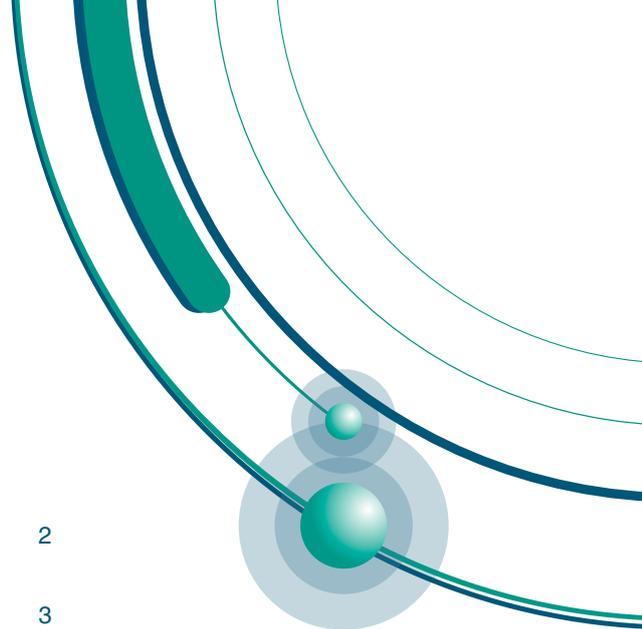
IMPORTANT NOTES

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 2023 Interim Report has been approved at the sixteenth meeting of the tenth session of the Board. A total of 7 directors of the Company attended the meeting. Mr. Wei Ran, Director, was absent from the meeting due to official affairs, but had authorized Mr. Zheng Weijun, an independent director, to attend the meeting and exercise his rights.
3. The interim financial reports of the Company for 2023, 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 report of the Company for 2023 which has 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, the Board resolved that no interim cash dividend was paid for the year ended 31 December 2023, and no issue of bonus shares by way of capitalization of common reserves.
6. The Company's forward-looking statement about the development strategy in the future and operation plan does not constitute its 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 2023 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 (中石油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 Main Board of 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 or China Petrochemical Corporation | 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 and SSE, the subsidiary of CPC |
| A Share(s) | Means | Domestic Share(s) in the share capital of the Company of par value at RMB1.00 each which is(are) listed on the the Main Board of the SSE |
| H Share(s) | 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. |
| 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 exploration 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 |
| 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 various to acquire the downhole information and fast analysis and interpretation. |
| Downhole operation service | Means | Providing all oil and gas wellbore operations for oil and gas field exploration and development, except drilling, logging and recording, mainly including oil and gas testing, acid fracturing, workover and completion, etc. |
| Two dimensional geophysical or 2D | 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 or 3D | 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, efficiency, service speed, and production |
| Five transformations | Means | Standardized design, factory prefabrication, modular construction, mechanized operation and informatization management |
| 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 | http://ssc.sinopec.com |
| 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 | www.sse.com.cn www.hkexnews.hk |
| 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 |
| Address: | 20th Floor, Fortune Financial Center, No.5 Dong San Huan Central Road, Chaoyang District, Beijing |
| Hong Kong: | Zhong Lun Law Firm |
| Address: | 4/F, Jardine House, 1 Connaught Place, Central, Hong Kong |

Share registrars and transfer office

| | |
|----------|---|
| H Share: | Hong Kong Registrars Limited |
| Address: | 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 |
| Address: | 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 | For the six months ended | | Increase/(Decrease) (%) |
|---|------------------|--------------------------|-------------------|----------------------------|
| | six months ended | 30 June 2022 | | |
| | 30 June 2023 | After Adjustment | Before Adjustment | |
| | RMB' 000 | RMB' 000 | | (%) |
| Operating income | 37,133,528 | 33,148,652 | 33,148,652 | 12.0 |
| Operating profit | 534,827 | 363,318 | 363,318 | 47.2 |
| Profit before income tax | 541,574 | 377,377 | 377,377 | 43.5 |
| Net profit attributable to equity shareholders of the Company | 325,904 | 206,310 | 200,268 | 58.0 |
| Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company | 285,044 | 150,044 | 144,002 | 90.0 |
| Net cash inflow from operating activities ("-" for outflow) | 421,612 | -537,926 | -537,926 | Not applicable |

| | As at | As at | | Increase(Decrease) (%) |
|--|--------------|------------------|-------------------|---------------------------|
| | 30 June 2023 | 31 December 2022 | | |
| | RMB' 000 | After Adjustment | Before Adjustment | |
| | RMB' 000 | RMB' 000 | | (%) |
| Total equity attributable to equity shareholders of the Company | 8,078,854 | 7,429,734 | 7,427,319 | 8.7 |
| Total assets | 72,830,971 | 71,208,061 | 71,200,517 | 2.3 |

Section II Company Profile and Principal Financial Indicators

(2) Key financial indicators

| | For the six months ended 30 June 2023 | For the six months ended 30 June 2022 | | Increase/(Decrease) (%) |
|--|---------------------------------------|---------------------------------------|-------------------|-------------------------------------|
| | | After Adjustment | Before Adjustment | |
| Basic earnings per share (RMB/share) | 0.017 | 0.011 | 0.011 | 54.5 |
| Diluted earnings per share (RMB/share) | 0.017 | 0.011 | 0.011 | 54.5 |
| Basic earnings per share deducted extraordinary gain and loss (RMB/share) | 0.015 | 0.008 | 0.008 | 87.5 |
| Weighted average return on net assets | 4.29% | 2.96% | 2.88% | Increased by 1.33 percentage points |
| Weighted average return on net assets deducted extraordinary gain and loss | 3.75% | 2.15% | 2.07% | Increased by 1.60 percentage points |

Explanations for key financial data and key financial indicators

√ Applicable □ Not Applicable

The Ministry of Finance of the People's Republic of China issued the Notice on Issuing the Interpretation of Accounting Standards for Business Enterprises No.16 ("Interpretation No.16") in 2022, and the deferred income tax related to assets and liabilities arising from a single transaction in the Interpretation No.16 shall not be subject to the accounting treatment of initial recognition exemption since 1 January 2023. The cumulative effect is adjusted to the opening retained earnings and other relevant financial statement items of the earliest period for which the financial statements are presented. For the single transaction in accordance with Interpretation No.16 existing between 1 January 2022 and the implementation date, the Company has made retrospective adjustments, and the comparative financial statements for 2022 have been restated accordingly. Other than the impact described above, the above amendments have had no material impact on the Company's financial statements.

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 2023 | For the six months ended 30 June 2022 | As at 30 June 2023 | As at 1 January 2023 |
| | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 |
| PRC ASBE | 325,904 | 206,310 | 8,078,854 | 7,429,734 |
| Adjustment of items and amount in accordance with the IFRS: | | | | |
| Specific reserve (a) | 323,216 | 355,374 | – | – |
| IFRS | 649,120 | 561,686 | 8,078,854 | 7,429,734 |

(a) Specific reserve

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

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

| Extraordinary gain and loss items | Amount (RMB' 000) |
|--|-------------------|
| Disposal of non-current assets | 31,642 |
| Government grants recognized in profit or loss during the current period | 51,265 |
| Gain or loss on debt restructuring | 14,649 |
| Except for the effective hedging business related to the normal business of the company, the fair value change gains and losses arising from the holding of trading financial assets, derivative financial assets, trading financial liabilities and derivative financial liabilities, as well as the investment income from the disposal of trading financial assets, derivative financial assets and derivative financial liabilities and other creditor's rights investment | -1,020 |
| Other non-operating income and expenses excluding the aforesaid items | -44,377 |
| Effect of income tax | -11,299 |
| Total | 40,860 |

Section II Company Profile and Principal Financial Indicators

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

| | As at | As at | Increase/(Decrease) |
|--|--------------|------------------|---------------------|
| | 30 June 2023 | 31 December 2022 | From last year |
| | RMB' 000 | RMB' 000 | (%) |
| Total assets | 72,830,971 | 71,208,061 | 2.3 |
| Total Liabilities | 64,752,117 | 63,778,327 | 1.5 |
| Total equity attributable to equity shareholders of the Company | 8,078,854 | 7,429,734 | 8.7 |
| Net assets per share attributable to equity shareholders of the Company (RMB) | 0.43 | 0.39 | 10.3 |

| | For the | For the | Increase/(Decrease) |
|--|------------------|------------------|-------------------------------------|
| | six months ended | six months ended | from corresponding |
| | 30 June 2023 | 30 June 2022 | period of last year |
| | RMB' 000 | RMB' 000 | (%) |
| Profit attributable to equity shareholders of the Company | 649,120 | 561,684 | 15.6 |
| Basic and diluted earnings per share | RMB0.034 | RMB0.030 | 13.3 |
| Net cash generated from/(used in) operating activities | 421,612 | -537,926 | Not applicable |
| Return on net assets | 8.03% | 7.56% | Increased by 0.47 percentage points |
| Net cash generated from/(used in) operating activities per share | RMB0.022 | RMB -0.028 | Not applicable |

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 a large-scale, integrated, and professional oil and gas engineering and technical service company in China and a leader in providing integrated and full industrial-chain oilfield services. As at 30 June 2023, the Company provided oilfield services with more than 70 basins and 550 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 oil, 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 the leading shale gas oilfield supporting technologies in China and has completed the ultra-deep shale gas well Qiyeshen 1, with a reservoir vertical depth of 4,881 meters, and the ultra-long horizontal shale gas well Jiaoye 18-S12HF, with a horizontal section length of 4,286 meters. Five major technological series of drilling, logging, fracturing and testing, equipment manufacturing, and engineering and construction have been formed and the localization of most key and core technologies have been realized.

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 technology leading oilfield service company.

In the first half of 2023, the oilfield service industry continued to recover. From a macro perspective, the world economy continues to recover slowly, China's economy has stabilized and rebounded, market expectations have improved significantly, and the gross domestic product (GDP) has increased by 5.5% year-on-year, which has strongly promoted the sustained growth of domestic market demand for refined oil and natural gas. From the perspective of the industry, although the international oil price fluctuated downward, it remained at a relatively high level as a whole. The average spot price of Brent crude oil in the North Sea was 79.8 US dollars per barrel, down 25.6% from the same period in 2022, and the domestic production of crude oil and natural gas increased steadily. From the perspective of the Company itself, driven by the national energy security strategy and the "seven-year action plan" for increasing reserves and production, the Company's main professional workload and team utilization rate have increased to varying degrees.

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 2023, the Company has 628 onshore drilling rigs (among them, 335 units above 7,000 meters), 11 offshore drilling platforms, 61 sets of seismic acquisition equipment and 133 sets of imaging logging tools, 612 sets of logging instruments, 319 sets of Model 2500 and above fracturing trucks, 77 sets of 750 HP and above workover rigs and 1,573 professional teams for drilling and geophysical exploration. The Company has been ranked high in the comprehensive ranking of drilling contractors for Saudi Aramco, Kuwait Petroleum Company and Ecuadorian National Oil Company for consecutive years, and is the important international geophysical contractor in Algeria.

The Company is the large-scale 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, Shengli Jiyang shale oil national demonstration zone, 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, shale oil, high-acidic oil & gas reservoirs, ultra-deep drilling and completion etc, which can bring sustainable high added-value to its services.

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

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

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

3. Discussion and Analysis of Operation

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

Interim results

In the first half of 2023, the Company seized the favorable opportunities arising from the continuous recovery of the oilfield service industry, continued to optimize the production operation and market layout, accurately matched equipment resources and production capacity, continued to strengthen market development, strived to create integrated service value for customers, strictly controlled investment and costs, and made stable and efficient production and operation. Despite the year-on-year decline in international oil prices, business performance maintained good growth, with a good start in the first quarter and continued growth in the second quarter. During the first half of 2023, the consolidated revenue of the Company was RMB37,133,528,000, representing an increase of 12% over RMB33,148,652,000 in the same period of the previous year, and reached the best level in the same period since the "13th Five-Year Plan". Net profit attributable to shareholders of the Company amounted to RMB325,904,000, representing an increase of 58% from RMB206,310,000 in the same period of the previous year. Basic earnings per share was RMB0.017, representing an increase of RMB0.006 over the same period of the previous year.

Section III Discussion and Analysis of Management

Operation review

In the first half of 2023, the Company further promoted high-quality development actions, and continuously strengthened the awareness of market competition, business efficiency, risk prevention and control and quality service. Supported by optimizing production operation and project management, the Company focused on changes in domestic and foreign market situations, fully strengthened market development, and achieved a more optimized market structure and a more controlled risk management. Production and operation indicators grew well. In the first half of the year, the amount of newly signed contracts reached the best level in the same period since the "13th Five-Year Plan", and our accumulated value of newly signed contracts amounted to RMB53.44 billion, representing a year-on-year growth of 1.0%. Among which, the value of our newly signed contracts in the market of China Petrochemical Corporation reached RMB31.4 billion, representing a year-on-year decrease of 0.7%; the value of our newly signed contracts in the domestic external markets reached RMB10.47 billion, representing a year-on-year growth of 10.8%; and the value of our newly signed contracts in the overseas markets reached RMB11.57 billion, representing a year-on-year decrease of 2.1%.

A. Geophysical service

In the first half of 2023, the Company's operation revenue from the principal business of geophysical service was RMB2,019,633,000, representing an increase of 33.6% from RMB1,512,225,000 in the same period of the previous year. The completed 2D seismic exploration accumulated for 2,215 kilometers, representing a year-on-year decrease of 18.5%; while the completed 3D seismic exploration accumulated for 4,920 square kilometers, representing a year-on-year decrease of 29.3%. In the first half of the year, the Company regarded service exploration and development as its core responsibility, always insisted that "creating value for Party A is our greatest value", and focused on improving technical support capabilities, equipment support capabilities, team management level, and basic management level, our seismic data acquired with first grade quality reached 91.3%, representing a year-on-year increase of 3.8 percentage points. We actively participated in oil and gas exploration in key domestic regions, including Sichuan Basin, Junggar Basin and Tarim Basin. In 2023, we have signed with Sinopec Northwest Oilfield Branch Company a new 3D seismic exploration data acquisition project for the middle section of Shunbei No. 10 belt in the Shuntuogole Area of Tarim Basin with a contract value of RMB260 million, and signed a new 3D seismic exploration data acquisition project in Chengdao of Shengli Oilfield in 2023 with a contract value of RMB280 million.

B. Drilling service

In the first half of 2023, the Company's operation revenue from the principal business of drilling service was RMB18,867,989,000, representing an increase of 13.4% from RMB16,635,798,000 in the same period of the previous year. Our completed drilling footage reached 5,610 kilometers, representing a year-on-year increase of 15.2%, which completed 56.1% of the annual plan and exceeded the planned progress of operation. The Company continued to optimize team size, and the team layout became more reasonable. Through comprehensively deepening the integrated operation of Party A and Party B, focusing on organizational support, operation management and technical support of key wells and demonstration wells, the quality and efficiency of service assurance continued to improve. In the first half of the year, with an increase of 121.4 meters in average well depth, the average drilling cycle of wells completed in China Petrochemical Corporation decreased by 6.7% year-on-year, the time efficiency of complicated failures in drilling decreased by 7.5% year-on-year, and the utilization rate of the drilling team was 90.1%, good results have been achieved in the "Four Improvements" tasks. In the Shunbei industrial zone. The vertical depth of Shunbei 84X well was 8,956.25 meters, it became the "thousand-ton well" with deepest vertical depth on land in Asia. After reported by all media including China Central Television, drilling of 3-3XC well started with rapid progress, the expected drilling depth of the well was 9,472 meters, which will set a new record on the deepest oil and gas well in Asia.

C. Logging and mud logging service

In the first half of 2023, the Company's operation revenue from the principal business of logging and mud logging service was RMB1,564,589,000, representing an increase of 30.1% from RMB1,202,466,000 in the same period of the previous year. Our completed logging projects accumulated for 156,990,000 standard meters, representing a year-on-year increase of 17.3%, whereas our completed mud logging projects accumulated for 4,600 kilometers, representing a year-on-year increase of 13.0%. The index was kept in good condition, and the qualified rate of data was 100%. Technical indicators such as one-time success rate of logging and excellent rate of logging data have been improved, key technologies such as high temperature logging and complex reservoir processing and interpretation have made significant progress, and the ability of oil and gas exploration and development has been continuously improved.

D. Downhole operation service

In the first half of 2023, the Company's operation revenue from the principal business of downhole operation service was RMB4,699,568,000, representing a year-on-year increase of 9.5% as compared with RMB4,292,870,000 in the same period of the previous year. We completed downhole operation for 3,574 wells times, with a year-on-year increase of 3.2%, where the fracturing construction efficiency in key industrial zones in "Northwest China, North China, Northeast China and Sichuan" was improved by 12.6% year-on-year. The Company assisted Sinopec in the test acquisition of a number of wells with daily production capacity of 1,000 tons in the Shunbei industrial zone, and the tested daily output of 426,000 cubic meters of Leiye 1 Well in Sichuan Basin achieved a breakthrough in the exploration of Permian deep marine shale gas, and the tested daily output of 1,056,000 cubic meters of Xinshen 105 Well made significant progress in the exploration of natural gas in the Leikoupo Formation in Xinjiang, and the efficient operation of large-platform dual-electrical driven fracturing units was realized in the Shengli Jiyang Shale Oil National Demonstration Area. The oil reservoir business of the Company realized the 2.0 cooperative development model in the cooperative development of Shengli difficult-to-recover reserves, cooperation on the development of difficult-to-recover reserves was further promoted.

Section III Discussion and Analysis of Management

E. Engineering and construction service

In the first half of 2023, the Company's operation revenue from the principal business of engineering and construction service was RMB8,830,866,000, representing a year-on-year growth of 6.1% from RMB8,326,149,000 in the same period of the previous year. We completed projects with an accumulated contract value of RMB9.03 billion, representing a year-on-year improvement of 5.9%, where the accumulated value of our newly signed contracts amounted to RMB14.9 billion, representing a year-on-year decrease of 35.7%. The transportation pipeline of the "Qilu Petrochemical-Shengli Oilfield Million-ton CCUS" project constructed by the Company was fully connected and successfully commenced operation in one go, this supported the realization of long-distance dense-phase pipeline transportation of liquefied carbon dioxide for the first time in China, and complemented the shortcomings in the scale development of the whole chain of CCUS in China, and had great significance on reducing the transportation cost of carbon dioxide, increasing the competitiveness of the entire industrial chain of CCUS projects, and achieving the goal of "double carbon". Five pipeline projects were newly signed under the National Pipeline Network Group's West-to-East Natural Gas Pipeline Project (Turpan-Zhongwei) project, with a contract value of RMB1.58 billion; and the pipeline project of the Sichuan-Chongqing-Hubei Section for the Second Line of the Sichuan-to-East China Natural Gas Pipeline Project was newly signed with a contract value of RMB520 million.

International business

In the first half of 2023, the Company's operation revenue from the principal business of international business was RMB7,795,859,000, representing a year-on-year growth of 38.0% from RMB5,650,053,000 in the same period of the previous year, accounting for 21.2% of the revenue from our principal business in the first half of the year. During the first half of the year, the overseas business of the Company as a whole showed a positive and upward favorable trend. We newly signed a contract of US\$540 million in relation to rig drilling (workover) projects and renewed the contract for the US\$60 million 3D seismic data acquisition project with Saudi Aramco, we renewed the contract of US\$400 million in relation to rig drilling (workover) project with Kuwait Petroleum Corporation, and we successfully renewed the Ecuador SACHA general contracting project with further works on 11 wells in addition to the original contract basis amounted to US\$60 million in contract value. The annual drilling plan of the EBANO oilfield in Mexico was initiated in advance, research studies on the deployment of 2 deep-level KTS reservoir evaluation wells were conducted. Long-term ground operation projects, such as Uganda, were progressing well.

Technology research & development

In the first half of 2023, the Company continued to stimulate innovation vitality and improve innovation efficiency. Efforts were intensified on problem-solving and application of key technologies for increasing deep and ultra-deep drilling speed, and multiple self-developed technologies, such as high temperature and high pressure measurement while drilling, strong suppression and strong plugging of drilling fluids, were integrated and demonstrated their application in the Shunbei 10 inclined well. The field test application of high temperature and high pressure series logging instruments created many construction records, which effectively guaranteed the construction of "deep level works". We made rapid breakthroughs in key core technologies. Since the beginning of this year, our self-developed rotary geosteering system has been applied in 68 wells with a footage of 97,000 meters, which has undertaken 65% of the works on the horizontal section of Shengli shale oil, and the system stability and adaptability to complicated working conditions were improved continuously. The National Petroleum Drilling Instrumentation Industry Metrology and Testing Center was officially approved for establishment and construction. In the first half of the year, the Company applied for 431 patents, including 217 invention patents.

Internal reform and management

In the first half of 2023, the Company continued to consolidate the foundation for high-quality development by focusing on the building of project-based management system and the development of businesses with characteristics. The "talent pool, fund pool, equipment warehouse and material warehouse" with project-based management as the core have been operating effectively on the Sinopec Integrated Cloud Platform. The ancillary operational management system continued updating and improving, the regional project division was further consolidated and optimized, the profitability of projects continued to improve, and the efficiency of coordination, optimization and allocation of resources was significantly improved. For the five major industrial chains of geophysical prospecting, drilling, downhole, surveying and logging, and engineering construction, the Company prepared characteristic business development implementation plans, focusing on market, manpower, equipment, technology and investment aspects to improve the ancillary and assurance measures, concentration of the characteristic businesses and the efficacy of economies of scale continued to improve. Sinopec Jingwei Co., Ltd., a wholly-owned subsidiary of the Company, was selected into the list of the State-owned Assets Supervision and Administration Commission of the State Council for "the creation of a world-class, specialized, refined and new model enterprise" and "a scientifically and technologically reformed enterprise". In the first half of the year, the Company completed a cost reduction of RMB314 million.

Capital expenditure

In the first half of 2023, the Company had a capital expenditure of RMB350 million, with a year-on-year decrease of 65.2%. 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 purchase of 11 new drilling rigs and the upgrading and transformation of 1 drilling rig, purchasing 6 drilling rig top drives, 11 high-pressure mud pumps, 37 sets of power catwalks, 9 cementing cement trucks, 6 fracturing trucks, 2 sets of pressure operation equipment, 8 electric workover rigs, 6 sets of high temperature measurement while drilling instruments, 6,100 underwater node acquisition instruments, etc.

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 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 2023 | For the six months ended 30 June 2022 | Change |
|---|--|--|----------------|
| | RMB' 000 | RMB' 000 | (%) |
| Operating income | 37,133,528 | 33,148,652 | 12.0 |
| Operating costs | 34,406,386 | 30,727,547 | 12.0 |
| Selling and distribution expenses | 31,421 | 26,643 | 17.9 |
| General and administrative expenses | 1,038,184 | 1,092,018 | -4.9 |
| Net financial expense | 373,817 | 281,888 | 32.6 |
| Research and development expenditure | 815,114 | 666,919 | 22.2 |
| Net cash inflow from operating activities ("-" for outflow) | 421,612 | -537,926 | Not applicable |
| Net cash inflow from investing activities ("-" for outflow) | -1,633,442 | -492,591 | Not applicable |
| Net cash inflow from financing activities | 1,100,090 | 305,843 | 259.7 |

Reasons for the changes:

- (a) The change in operating revenue was mainly due to the increase in exploration and development workload.
- (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 increase in investment in market development of self-developed products.
- (d) The change in administrative expenses was mainly due to the decrease in labor costs as a result of the organizational adjustment of the subordinate company.
- (e) The change in financial expense was mainly due to the year-on-year increase in interest expenses as a result of the increase in the scale of loans.
- (f) The change in research and development expenditure was mainly due to the acceleration of the implementation of research and development projects.
- (g) The change in net cash inflow from operating activities was mainly due to Party A's payment of the unsettled project funds of the previous year.
- (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

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(3) Statement of assets and liabilities analysis

A. Assets and liabilities

| Item | Amount at 30 June 2023 | Percentage of amount at 30 June 2023 in total assets | Amount at 31 December 2022 | Percentage of amount at 31 December 2022 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 | 1,833,084 | 2.5 | 1,838,229 | 2.6 | -0.3 |
| Accounts receivable | 9,227,260 | 12.7 | 10,537,217 | 14.8 | -12.4 |
| Receivable financing | 1,757,756 | 2.4 | 1,468,340 | 2.1 | 19.7 |
| Prepayment | 501,489 | 0.7 | 406,578 | 0.6 | 23.3 |
| Inventories | 1,853,358 | 2.5 | 1,116,341 | 1.6 | 66.0 |
| Contractual Assets | 19,161,033 | 26.3 | 15,613,899 | 21.9 | 22.7 |
| Other current assets | 2,623,651 | 3.6 | 2,362,863 | 3.3 | 11.0 |
| Long-term equity investments | 36,850 | 0.1 | 50,215 | 0.1 | -26.6 |
| Investment in other equity instruments | 134,492 | 0.2 | 134,492 | 0.2 | 0.0 |
| Fixed assets | 23,445,366 | 32.2 | 24,896,607 | 35.0 | -5.8 |
| Construction in progress | 466,813 | 0.6 | 467,385 | 0.7 | -0.1 |
| Right-of-use assets | 888,723 | 1.2 | 1,012,350 | 1.4 | -12.2 |
| Intangible assets | 413,393 | 0.6 | 481,490 | 0.7 | -14.1 |
| Long-term deferred and prepaid expenses | 6,309,741 | 8.7 | 7,255,439 | 10.2 | -13.0 |
| Short-term borrowings | 19,716,870 | 27.1 | 17,923,208 | 25.2 | 10.0 |
| Bill payable | 9,046,723 | 12.4 | 7,990,225 | 11.2 | 13.2 |
| Accounts payable | 24,265,129 | 33.3 | 25,601,228 | 36.0 | -5.2 |
| Contractual liabilities | 4,459,447 | 6.1 | 5,115,819 | 7.2 | -12.8 |
| Other payables | 3,262,601 | 4.5 | 2,728,144 | 3.8 | 19.6 |
| Non-current liabilities due within one year | 1,468,991 | 2.0 | 1,517,190 | 2.1 | -3.2 |
| Long-term borrowings | 440,774 | 0.6 | 480,557 | 0.7 | -8.3 |
| Lease liabilities | 366,761 | 0.5 | 497,045 | 0.7 | -26.2 |
| Long-term payable | 96,425 | 0.1 | 74,657 | 0.1 | 29.2 |
| Deferred income | 15,640 | 0.0 | 11,576 | 0.0 | 35.1 |
| Other comprehensive income | 5,232 | 0.0 | 5,232 | 0.0 | 0.0 |
| Specific reserve | 650,199 | 0.9 | 326,983 | 0.5 | 98.8 |
| Taxes payable | 697,733 | 1.0 | 998,894 | 1.4 | -30.1 |

Reasons for the changes:

- Inventories increased by RMB737,017,000 as compared with the beginning of the fiscal year, mainly due to the increase in newly commenced and uncompleted labor projects.
- Taxes payable decreased by RMB301,161,000 as compared with the beginning of the fiscal year, mainly due to the payment of corporate income tax and value-added tax.
- Deferred income increased by RMB4,064,000 as compared with the beginning of the fiscal year, mainly due to the increase in special funding for scientific research.
- The special reserve increased by RMB323,216,000 as compared with the beginning of the fiscal year, mainly due to the increase in exploration workload and the amount of provision was greater than the amount of expenditure.

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B. Situation about overseas assets:

(a) Asset scale

On 30 June 2023, the Company's overseas assets was RMB22,800,146,000, accounting for 31.3% of total assets of the Company.

(b) Relevant statement about the higher proportion of overseas assets

Applicable Not applicable

Unit: RMB' 000

| Overseas assets | Cause of formation | Mode of operation | Operating income during the reporting period | Net profit during the reporting period |
|--|--|-------------------|--|--|
| Drilling rig, workover rig, geophysical acquisition instrument, ground construction equipment, project receivables, monetary funds, etc. | Undertaking overseas oilfield engineering projects | Self-operation | 7,824,642 | 641,578 |

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

On 30 June 2023, the Company's funds with restricted use such as margin deposit, etc. was RMB73,276,000 (On 31 December 2022: RMB37,079,000).

(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 Shengli Oil Engineering Company Limited * | RMB700,000,000 | 100 | 11,755,625 | 11,241,371 | 514,254 | 133,631 | Petroleum engineering technical service |
| Sinopec Zhongyuan Oil Engineering Company Limited * | RMB450,000,000 | 100 | 12,786,311 | 12,517,826 | 268,485 | 15,287 | Petroleum engineering technical service |
| Sinopec Jiangnan Oil Engineering Company Limited * | RMB250,000,000 | 100 | 5,136,122 | 3,804,460 | 1,331,662 | 35,047 | Petroleum engineering technical service |
| Sinopec East China Oil Engineering Company Limited * | RMB860,000,000 | 100 | 4,806,019 | 4,229,288 | 576,731 | 6,785 | Petroleum engineering technical service |
| Sinopec North China Oil Engineering Company Limited * | RMB890,000,000 | 100 | 4,537,268 | 2,611,059 | 1,926,209 | 10,656 | Petroleum engineering technical service |
| Sinopec Southwest Oil Engineering Company Limited * | RMB300,000,000 | 100 | 5,959,591 | 2,501,090 | 3,458,501 | 10,692 | Petroleum engineering technical service |
| Sinopec Oil Engineering Geophysical Company Limited * | RMB300,000,000 | 100 | 4,509,406 | 4,346,848 | 162,558 | -131,506 | Geophysical exploration |
| Sinopec Oil Engineering and Construction Corporation * | RMB500,000,000 | 100 | 22,382,756 | 21,497,517 | 885,239 | 167,845 | Construction |
| Sinopec Jingwei Company Limited | RMB1,000,000,000 | 100 | 4,735,676 | 3,305,982 | 1,429,694 | 129,000 | testing, logging and locating service |
| Sinopec Shanghai Offshore Oil Engineering Company Limited * | RMB2,000,000,000 | 100 | 4,326,642 | 593,988 | 3,732,654 | 15,032 | Offshore Oil Engineering |
| Technology Service Sinopec International Petroleum Service Corporation * | RMB700,000,000 | 100 | 2,867,201 | 1,723,136 | 1,144,065 | 70,986 | Petroleum engineering technical service |

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| Name of company | Revenue | Operating profit |
|---|-----------|------------------|
| | RMB' 000 | RMB' 000 |
| Sinopec Shengli Oil Engineering Company Limited* | 7,866,294 | 167,460 |
| Sinopec Zhongyuan Oil Engineering Company Limited * | 5,845,342 | 96,660 |
| Sinopec Jiangnan Oil Engineering Company Limited * | 2,574,198 | 35,131 |
| Sinopec East China Oil Engineering Company Limited * | 1,723,289 | 4,910 |
| Sinopec North China Oil Engineering Company Limited* | 2,244,313 | 22,385 |
| Sinopec Southwest Oil Engineering Company Limited * | 2,891,530 | 12,245 |
| Sinopec Oil Engineering Geophysical Company Limited * | 1,788,262 | -106,701 |
| Sinopec Oil Engineering and Construction Corporation * | 9,086,230 | 166,806 |
| Sinopec Jingwei Company Limited | 2,527,443 | 146,476 |
| Sinopec Shanghai Offshore Oil Engineering Company Limited * | 927,083 | 15,044 |
| Sinopec International Petroleum Service Corporation * | 868,382 | 111,952 |

(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 2023 | Operating cost for the first half of 2023 | Gross profit margin | Increase/ (decrease) in operating income of main business as compared with last year | Increase/ (decrease) in operating cost of main business as compared with last year | Gross profit margin compared with last year |
|------------------------------|---|---|---------------------|--|--|---|
| | RMB' 000 | RMB' 000 | (%) | (%) | (%) | |
| Geophysical | 2,019,633 | 2,014,142 | 0.3 | 33.6 | 33.9 | decreased by 0.3 percentage points |
| Drilling | 18,867,989 | 17,471,751 | 7.4 | 13.4 | 13.0 | increased by 0.3 percentage points |
| Logging/Mud logging | 1,564,589 | 1,270,447 | 18.8 | 30.1 | 30.0 | increased by 0.1 percentage points |
| Downhole operation | 4,699,568 | 4,389,224 | 6.6 | 9.5 | 9.3 | increased by 0.1 percentage points |
| Engineering and Construction | 8,830,866 | 8,159,679 | 7.6 | 6.1 | 6.1 | – |
| Other | 805,822 | 927,351 | -15.1 | 6.4 | 17.5 | decreased by 10.9 percentage points |
| Total | 36,788,467 | 34,232,594 | 6.9 | 12.4 | 12.5 | decreased by 0.1 percentage points |

B. Statement of operation by regions

| Region | Operating income for the first half of 2023 | Increase/(decrease) as compared with the corresponding period of last year |
|---------------------------------------|---|--|
| | RMB' 000 | (%) |
| Mainland China | 28,992,608 | 7.1 |
| Hong Kong, Macau, Taiwan and overseas | 7,795,859 | 38.0 |

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5. Market prospects and operation arrangements in the second half of 2023

Market Forecast for the Second Half of 2023

Looking forward to the second half of 2023, the oilfield service industry will continue to recover, but there are still many unstable, uncertain and unpredictable factors. Due to geopolitical conflicts, OPEC production cuts and other factors, international oil prices are expected to fluctuate in a wide range of medium and high levels. The “Seven-Year Action Plan” for increasing domestic oil and gas reserves and production has been promoted in depth, Oil companies will continue to increase investment in oil and gas exploration and development, and increasing oil and gas reserves, production and efficiency will remain the main theme of the petroleum and petrochemical industry. The overall workload of the oilfield service market and the demand for drilling rigs will remain stable and rising. However, we also see that the international political and economic situation is complex, the recovery of the world economy is weak, the sustained recovery of China’s economy still needs to be strengthened, the trend of oil prices is uncertain, and domestic and foreign oil companies will have stricter requirements on engineering costs, technical level, service quality, safety and environmental protection at the same time.

Operation Plans for the Second Half of 2023

In the second half of 2023, in the face of a more complex and severe operating environment, the Company will fully seize the opportunity of market demand recovery, continue to enhance its engineering and technical service capabilities, efficiently coordinate and optimize market layout and resource allocation, give full play to its comprehensive oil and gas service capabilities and unique technological advantages, and spare no effort to develop the external market while ensuring the exploration and development of CPC. The Company will insist on taking efficiency as the center, strengthen scientific and technological innovation and application, promote the continuous improvement of management level, grasp all kinds of risk prevention, and strive to improve the quality of the company’s development. The Company expects to achieve a newly signed contract value over RMB24.6 billion, among which over RMB17.7 billion will be from the CPC market, over RMB3.5 billion from domestic external market, and over RMB3.4 billion from overseas market. The Company expects to achieve a newly signed contract value more than RMB78 billion for the whole year.

A. Geophysical service

In the second half of 2023, the Company will support high-quality exploration with high-quality geophysical prospecting, strengthen coordination and linkage with oil companies, accelerate the release of workload and organize the operation of key projects, and increase the research on geophysical prospecting technology in key areas such as the eastern old area, the piedmont zone, the southeastern Sichuan and shale oil and gas. We will be a pioneer and vanguard in increasing oil and gas reserves and production; continue to increase the upgrading of geophysical prospecting equipment, accelerate the mechanization and intelligent level of core equipment such as high-density node instrument acquisition, and deepen the benchmarking improvement and the retrospective evaluation of seismic data in key work areas. We will improve the quality and efficiency of geophysical prospecting in all aspects, and make every effort to be a good geologist’s eyes. In the second half of the year, it is planned to complete geophysical prospecting of 1,600 kilometers for 2D seismic and 11,100 square kilometers for 3D seismic prospecting.

B. Drilling service

In the second half of 2023, the Company will adhere to the operation coordination mechanism of Party A and Party B, actively and effectively communicate and coordinate to improve the operation quality and efficiency; further enhance the team’s ability to create efficiency, strengthen the “Four Improvements”, and maintain high utilization rate of the team; and steadily expand the “factory-based” construction model for well drilling; vigorously promoted the pilot operation of the professional “daily fee system” for drilling and fracturing of demonstration wells and risk exploration wells to improve service quality and efficiency. Focusing on the management of key wells, we will vigorously promote the application of new technologies and new processes, and tackled typical construction technical difficulties in major work areas to form a construction template for speeding up and improving efficiency. We will accelerate breakthroughs in problem-solving of key technologies and equipment for “10,000-meter deep wells” to promote the speed and efficiency of deep wells and exploratory wells. In the second half of the year, it is planned to complete the drilling footage of 5.05 million meters.

C. Logging and mud logging service

In the second half of 2023, the Company will adhere to demand-oriented, problem-oriented and goal-oriented principles, aiming at first-class technology, first-class equipment, first-class management and first-class team, to strengthen technology and improve efficiency, striving to build a technology-oriented and specialized and refined new model enterprise, and continue to promote integration and high-quality development of the logging and mud logging profession; while stabilizing the market of China Petrochemical Corporation, we actively expanded domestic and external markets and overseas service businesses to accelerate the development of large-scale and effective markets. In the second half of the year, we plan to complete logging footage of 149,000,000 standard meters and mud logging footage of 4.3 million meters.

D. Downhole operation service

In the second half of 2023, the Company will continue to improve the ability of the technical service and assurance capacity of our downhole operation service. We will continue to enhance the standard of our integrated reservoir services, focus on the improving the speed and efficiency of fracturing for shale gas in Sichuan and Chongqing, efficient fracturing for shale oil in Shengli Jiyang and northern Jiangsu, engineering technical services for acid fracturing testing of ultra-deep wells in Sichuan Basin and oil and gas testing of Shunbei ultra-deep formations, continue to promote electrical driven fracturing for shale oil and gas, accelerate the research and testing of ultra-high temperature and high pressure well completion test packer technology, and assist Sinopec’s “deep ground engineering” to advance smoothly. We will establish technical reserves, cultivate professional teams, accelerate the construction of production capacity in key areas, such as Shengli, Zhongyuan and Southwest Xinchang, which are difficult to use in cooperation, and strive to achieve major breakthroughs and major developments to create a new economic growth area for the Company. In the second half of the year, we plan to complete downhole operation service of 3,326 wells times.

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E. Engineering and construction service

In the second half of 2023, the Company will continue to focus on the key engineering projects of exploration and development of ground construction, focus on the application and optimization of the achievements of the “five modernizations” in terms of system, design, construction, procurement and management, and further promote the comprehensive progress of standardized design and factory prefabrication capabilities. The R&D and application of integrated devices and the development and promotion of multi-project platforms for intelligent construction sites will accelerate the normal operation of “five modernizations” in ground projects and ensure high-quality start-up of projects; continue to consolidate traditional advantageous markets, and make every effort to strengthen new businesses such as new energy, reduction of carbon emission, digitalization and intelligence businesses to create low-cost advantages, and achieved leading positions in high-quality external markets such as national pipeline network and local gas market, water conservancy, and highway sectors. In the second half of the year, we plan to sign new contracts with value of RMB7.6 billion and complete contracts with value of RMB8.5 billion.

F. International business

In the second half of 2023, the Company will focus on economic benefits, continue to increase the layout and development of target markets such as Saudi Arabia, Kuwait, Ecuador, Mexico and Uganda, pay close attention to the management and control on the progress of key projects and the operation and management of oil reservoir projects, and create a high profit and efficiency for the Company. We will continue to pay attention to the progress of key projects such as Saudi Aramco’s unconventional drilling, 3D seismic data acquisition and processing in Mexico, surface construction in Uganda, and pipelines in Thailand to ensure project compliance and efficient operation. We will also give full play to the leading role of advantageous professions, accelerate the pace of “go global” in special technologies and products such as drilling fluid, fracturing, and cementing, to strengthen and optimize the overseas industrial chain and value chain.

G. Technology research & development

In the second half of 2023, the Company will closely tackle with the bottleneck technical problems that restrict oil and gas exploration and development, and focus on project selection, technical research, achievement transformation and industrial application, and information development, so as to accelerate the improvement of core competitiveness. We will concentrate on tackling key and core technology issues, strengthen coordination and joint innovation among all staff, systematically conduct research on technologies for 10,000-meter deep wells, and ensure that Sinopec advances to 10,000-meter deep wells with high quality; ensure further progress in the “rotary geosteering core technology research and application”. We will vigorously promote the development of product industrialization, strengthen standardized construction and management and control on product quality, accelerate the construction of industrialization bases and upgrading and transformation of product lines, expand the application scale of independent technologies such as rotary steering, automation equipment for pipelines and poles, and drilling fluid treatment agents, to promote enhancement in both scale and benefits of industrialization.

H. Internal reform and management

In the second half of 2023, 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, select and display typical project management cases, and complete the implementation of building and supporting the operation mechanisms of “two pools, two reserves and one platform”. We will continue to promote the development of characteristic businesses, promote the efficient aggregation of characteristic businesses according to the principles of assisting the excellent and strong ones to increase differentiation competitiveness and enhance the Company’s ability to expand markets and generate efficiency. We will strengthen the cost target management of all employees, implement measures to reduce costs and expenses across the business chain by taking measures such as resources coordination and optimization, logistics base integration, reduction of management institutions, transformation of scientific research results, preferential fiscal and tax policies, and collection of bad and doubtful debts, so as to ensure utilization of potential and increase in benefits will achieve RMB540 million for the whole year.

I. Capital expenditure

In the second half of 2023, the planned capital expenditure is RMB3.75 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 8 new drilling rigs, the upgrading of 4 drilling rigs, the purchase of 2 drilling rig top drives, 3 sets of rotary steering instruments, 10 sets of power catwalks, and the purchase of oil-based cuttings treatment equipment and other projects. We will 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 will actively take various measures to avoid and mitigate various types of risks. However, in practice, it may not be possible to prevent all the following 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 that the influence of international situation has been drastically adjusted and the energy market volatility increased, 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 oilfield 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 the local government of China and other countries make tougher supervision requirements in environmental protection, if the Company cause environmental pollution caused by accidents in its operation, it will stand trial and pay compensation. At the same time, with the gradual expansion of the scale operation, 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, 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.

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 IFRS)

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 2023 | As to 31 December 2022 | The change |
|--|-----------------------|---------------------------|------------|
| | RMB' 000 | RMB' 000 | RMB' 000 |
| Total assets | 72,830,971 | 71,208,061 | 1,622,910 |
| Current assets | 40,830,346 | 36,587,579 | 4,242,767 |
| Non-current assets | 32,000,625 | 34,620,482 | -2,619,857 |
| Total liabilities | 64,752,117 | 63,778,327 | 973,790 |
| Current liabilities | 63,675,068 | 62,519,655 | 1,155,413 |
| Non-current liabilities | 1,077,049 | 1,258,672 | -181,623 |
| Total equity attributable to equity shareholders of the Company | 8,078,854 | 7,429,734 | 649,120 |

As at 30 June 2023, the Group's total assets were RMB72,830,971,000 and total liabilities were RMB64,752,117,000. The total equity attributable to shareholders of the Company was RMB8,078,854,000. Compared with the consolidated statement of financial position as at 31 December 2022 ("compared with that at the end of last year"), the changes and its main reasons were as follow:

Total assets were RMB72,830,971,000, increased by RMB1,622,910,000 compared with that of the end of last year, including that (i) current assets were RMB40,830,346,000, increased by RMB4,242,767,000 compared with that of the end of last year, mainly due to the increase in contract assets of RMB4,248,994,000 as a result of the increase in completed but unsettled projects in the first half of the year. (ii) non-current assets were RMB32,000,625,000, decreased by RMB2,619,857,000 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 RMB64,752,117,000, increased by RMB973,790,000 compared with that of the end of last year, including that (i) current liabilities were RMB63,675,068,000, increased by RMB1,155,413,000 compared with that of the end of last year, mainly due to an increase of RMB1,745,462,000 of short-term borrowings in the first half of the year; and (ii) non-current liabilities were RMB1,077,049,000, decreased by RMB181,623,000 compared with that of the end of last year, which is mainly due to a decrease in lease liabilities of RMB130,284,000.

Total equity attributable to shareholders of the Company was RMB8,078,854,000, increased by RMB649,120,000 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 2023 was RMB649,120,000.

As at 30 June 2023, the ratio of total liabilities to assets was 88.9%, comparing with 89.6% as at 31 December 2022.

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 2023 and the first half of 2022 showed in the following table.

| Main items of cash flow | For the six months ended 30 June | |
|--|----------------------------------|-----------|
| | 2023 | 2022 |
| | RMB' 000 | RMB' 000 |
| Net cash inflow/(outflow) from operating activities | 421,612 | (537,926) |
| Net cash outflow from investing activities | (1,633,442) | (492,591) |
| Net cash inflow from financing activities | 1,100,090 | 305,843 |
| Decrease in cash and cash equivalents | (111,740) | (724,674) |
| Cash and cash equivalents at the beginning of the year | 1,801,150 | 2,475,307 |
| Exchange gains in cash and cash equivalents | 70,398 | 96,207 |
| Cash and cash equivalents at the end of the interim period | 1,759,808 | 1,846,840 |

In the first half of 2023, the Group's net cash inflow from operating activities was RMB421,612,000, representing an increase of cash inflow by RMB959,538,000 as compared with the corresponding period of last year. It was mainly due to the fact that Party A paid the unsettled project payment of the previous year in the first half of 2023.

In first half of 2023, the Group's net cash outflow from investing activities was RMB1,633,442,000, an increase of cash outflow by RMB1,140,851,000 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 2023, the Group's net cash inflow from financing activities was RMB1,100,090,000, an increase of cash inflow by RMB794,247,000 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 2023, the Group's borrowings from bank and related companies were RMB21,157,644,000 (as at 31 December 2022: RMB19,403,765,000). These borrowings include the short-term borrowings of RMB19,716,870,000, the long-term borrowings due more than one year of RMB440,774,000 and the long-term borrowings due within one year of RMB1,000,000,000. As at 30 June 2023, approximately 90.7% of the borrowings were denominated in Renminbi (as at 31 December 2022: 88.1%) and approximately 9.3% were denominated in US dollars (as at 31 December 2022: 11.9%).

D. Gearing ratio

As at 30 June 2023, the gearing ratio of the Group was 71.5% (as at 31 December 2022: 71.5%). The gearing ratio = (liability with interest – cash & cash equivalents)/(liability with interest – cash & cash equivalents + shareholders' equity).

E. Assets pledge

As at 30 June 2023, 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 Company management, in accordance with domestic and overseas regulatory requirements, regulate the operation and operate in compliance with 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 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 continued to improve the quality of information disclosure, increased active disclosures, and enhanced corporate transparency. The Company cared about investor communication and organized reverse roadshow activities during the reporting period to maintain positive interaction with investors and we have achieved new progress in investor relationship work. The Company has continuously enhanced the performance ability of its directors, supervisors and senior management, and meticulously organized training on securities business knowledge for directors, supervisors and senior management.

During the reporting period, the Company convened three general meetings (including two class meetings), two meetings of the Board, and two meetings of the supervisory committee. A total of 11 resolutions of the shareholders meeting, 21 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 CSRC, and no insider with inside information 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 2022, the first A shareholders class meeting for 2023 and the first H shareholders class meeting for 2023 of the Company on 6 June 2023 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 2022 | 6 June 2023 | www.sse.com.cn www.hkexnews.hk | 7 June 2023 | 1. To consider and approve the Report of the Board of the Directors of the Company for the year 2022. 2. To consider and approve the Report of the Supervisory Committee of the Company for the year 2022. 3. To consider and approve the audited financial statements and the auditor's report of the Company for the year 2022. 4. To consider and approve the profit distribution plan of the Company for the year 2022. 5. To consider and approve the resolution to reappoint the Company's external auditor for the year 2023. 6. To consider and approve the annual cap of continuing related transactions between the Company and China Oil & Gas Pipeline Network Corporation for 2023. 7. To consider and approve the remuneration of the directors and supervisors of the Company for the year 2022. 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 2023 | 6 June 2023 | www.sse.com.cn www.hkexnews.hk | 7 June 2023 | 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 2023 | 6 June 2023 | www.sse.com.cn www.hkexnews.hk | 7 June 2023 | 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 |
|---------------|------------------------|----------|--------------------|
| Zhang Jianbo | Supervisor | Resigned | Personal Age |
| Zhang Jinhong | Deputy General Manager | Resigned | Personal Age |
| Lu Baoping | Non-executive Director | Resigned | Personal Age |

Mr. Zhang Jianbo resigned as the supervisor of the Company due to his age on 13 February 2023.

Mr. Zhang Jinhong resigned as the deputy general manager of the Company due to his age on 29 May 2023.

Mr. Lu Baoping resigned as a non-executive director of the Company and a member of the strategy committee of the Board due to his age on 27 July 2023.

The Company expresses its sincere gratitude to Mr. Zhang Jianbo, Mr. Zhang Jinhong and Mr. Lu Baoping for their hard work and important contributions during their tenure.

3. Interim cash dividends plan for 2023 and plan to convert capital reserves into share capital

In accordance with the Articles of Association, the Board resolved that no interim cash dividend was paid for the six months ended 30 June 2023, and no issue of bonus shares by way of capitalization of common reserves.

4. The Company's share option incentive scheme, employee stock ownership plans or other employee incentive measures and the effects

Applicable Not Applicable

5. The Group's employees

As at 30 June 2023, the number of registered employees of the Group was 65,000 and the total employee compensation costs amounted to approximately RMB4.07 billion. The Group remunerates its employees based on their positions, performance, experience and the prevailing market remuneration trend. The Group also provides professional and vocational training to its employees.

6. Compliance with the Corporate Governance Code

For the reporting period, the Company has complied with all the code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

7. Compliance with the Model Code

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

8. Independent Non-executive director and Audit Committee

As at 30 June 2023, 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 financial statements of the Company for the six-months ended 30 June 2023 and the 2023 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, the Energy Saving Management Regulations and the Guidelines for Environmental Protection Standardization Construction of Onshore Drilling and Downhole Operation Sites. The Company verify the operation of environmental protection factors through relevant inspection and system audit at all levels, and continuously promote the standardization of environmental protection management at the operation site. 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 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. Based on the principles of reduction, recycling and harmlessness, the Company has established a long-term mechanism for cleaner production, continuously promoted the allocation of sewage treatment devices at the operation site, optimized the production process, strictly controlled the production of various types of wastewater and solid waste, and strengthened the disposal of various types of waste in accordance with the law and regulations. As at 30 June 2023, the Company disposed of 16,300 tons of general solid waste (not including drilling water-based waste mud), 1,200 tons of hazardous waste (without oil-based rock chip), 1,066,000 cubic meters of domestic sewage and 305,000 cubic meters of drilling operation waste water according to regulations.

The Company strengthened on-site energy efficiency management, promoted "energy efficiency doubling" plans such as transformation of grid electric drilling rigs and gas-fired power generation, promoted energy-saving technologies such as electric fracturing skids and electric cementing devices, and vigorously reduced total energy consumption. As at 30 June 2023, the comprehensive energy consumption of ten thousand yuan industrial output value was 0.176 tons of standard coal, down by 9.7% from the same period last year. The Company actively implemented the green enterprise action plan, continuously improved the index evaluation system, revised the green grass-roots evaluation index of nine specialties, such as drilling, downhole operation, cementing, geophysical prospecting, construction site, logging project department, fixed station, technical service, research institute laboratory, and organized various professional grass-roots units to carry out green grass-roots creation or review, 826 sets of environmental protection toilets were equipped on site. The working and living environment of employees has been further improved.

The Company has a completed environmental emergency management system and an environmental emergency network, which 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 conduct 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 improve the professional level of the environmental protection management team, the company's affiliated enterprises actively organized various environmental protection ability improvement classes, arranged courses on environmental protection and pollution prevention laws, regulations and policies, environmental protection standardization site management, green enterprise establishment and system environmental protection audit, on-site pollution prevention and control practice, etc.

The Company focused on the themes of "building a harmonious coexistence of human and nature", "energy conservation and carbon reduction, we do together", "actively responding to climate change and promoting green and low-carbon development", we actively carried out publicity and education on "June 5" World Environment Day, National Energy Conservation Publicity Week and National Low Carbon Day, enhanced the awareness of green and low-carbon among all staff, and led all staff to become pioneers in the construction of ecological civilization.

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

Applicable Not applicable

In the first half of 2023, the Company paid close attention to source control. In view of the advantages that the drilling projects of the operation units in Sichuan, Xinjiang, Fuling etc. have long cycles and it's suitable for them to use electricity and natural gas, the Company created chances to advocate the use of clean energy such as electricity and natural gas and promoted to adjust the energy consumption structure. Specifically, in the first half of the year, 598 wells were completed by network electric drilling rigs, an increase of 135 over the same period last year. The drilling footage was 2.843 million meters, an increase of 784,000 meters over the same period last year, accounting for 62% of the total domestic drilling footage of 4.586 million meters, replacing 180,000 tons of diesel oil and saving 190,000 tons of standard coal. The company strengthened the inventory of greenhouse gas emission facilities, emission sources, emission categories, emissions and other data, with carbon emissions of 1.184 million tons in the first half of the year. The Company provided targeted professional training for carbon asset managers of its affiliated enterprises.

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 holdings more than 5% of the shares of the Company and their performance of the undertakings as of 30 June 2023:

| 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 consent that it will bear and pay damages to the listed companies caused by its violation of the commitment. | Date of undertaking: 12 September 2014 Duration: long term | 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 violate 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 fourteenth meeting of the tenth session of the Board of the Company and approved by the shareholders at the annual general meeting for 2022, 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 2023, respectively, and reappointed BDO China Shu Lun Pan Certified Public Accountants LLP (special general partnership) as the Company's internal control auditor for 2023.

(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 2022 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 29 May 2018, China National Chemical Engineering No.11 Construction Co., Ltd. (中國化學工程第十一建設有限公司) (the "Applicant") apply for arbitration to the China International Economic and Trade Arbitration Commission for arbitration in respect of the contract dispute between the Applicant and Sinopec International Petroleum Services Corporation (中國石化集團國際石油工程有限公司), a wholly owned subsidiary of the Company (the "International Services Corporation" or the "Respondent").

The China International Economic and Trade Arbitration Commission made an arbitral award ([2023]Zhong Guo Mao Zhong Jing Cai Zi No. 0824, the "Arbitral Award") on 21 April 2023. According to the Arbitral Award, the arbitration requests finally confirmed by the Applicant after the change are: requesting the Respondent to pay a total of approximately RMB816,126,971.21 for the project fee, loss due to stoppage of work, guarantee delay fees, on site management fees during the period of delay in the construction period, headquarters management fees, advance payment guarantee fees and other expenses, together with the interest of the aforesaid expenses, RMB2,026,120.90 for attorney fees and travel expenses incurred for the investigation of evidence collection, and the arbitration fees. The arbitration counter claims finally confirmed by the Respondent are: requesting the Applicant to repay a total of approximately RMB1,010,484,472.23 for the project advances and borrowings, various payments (including the contract price paid to a third party) incurred for the performance of contractual obligations by the Respondent on behalf of the Applicant due to the default of the Applicant, various losses and other expenses together with the interest of the aforesaid expenses, RMB2,260,000 for attorney fees, translation fees and expert report fees, and arbitration fees.

According to the Arbitral Award, the main results are as follows: 1. The Respondent shall pay the Applicant RMB11,774,565.59 for the project payment, RMB19,638,188 for the losses due to stoppage of work, RMB38,018,100 for the refund of the advance payment guarantee paid by the Applicant, and RMB810,000 for attorney fees and travel expenses incurred for the investigation of evidence collection, and reject the Applicant's other arbitration requests; 2. The Applicant shall repay the project advances and borrowings as of 30 June 2018 of RMB322,187,057.90 to the Respondent, compensate the various losses of RMB29,622,931.76 brought to the Respondent as a result of the Applicant and attorney fees of RMB1,200,000, and reject the other arbitration counterclaims of the Respondent; 3. Cost appraisal fee is RMB5,200,000, which shall be borne by the Applicant as to 60% (i.e. RMB3,120,000) and the Respondent as to 40% (i.e. RMB2,080,000); 4. The arbitration fee is RMB4,300,511, which shall be borne as to 70% by the Applicant (i.e. RMB3,010,357.70) and 30% by the Respondent (i.e. RMB1,290,153.30); 5. The counter claim arbitration fee is RMB5,203,625, which shall be borne by the Applicant as to 60% (i.e. RMB3,122,175) and the Respondent as to 40% (i.e. RMB2,081,450). This award is final and effective from the date of the Arbitral Award.

For details, please refer to the "Announcement on an arbitration in relation to a wholly owned subsidiary" (P. 2018-049) and the "Progress Announcement on an arbitration in relation to a wholly owned subsidiary" (P. 2023-012) disclosed in "China Securities Journal", "Shanghai Securities news", "Securities Times", and on www.sse.com.cn on 26 June 2018 and 26 April 2023, and on www.hkexnews.hk on 25 June 2018 and 25 April 2023 respectively.

As of the end of March 2023, the Company has made a provision for impairment of RMB322 million for project advances and borrowings related to the Applicant and has made a provision of RMB4 million for attorney's fees. As of the end of June 2023, the International Services Corporation has signed the Agreement on Settlement of Relevant Issues of SWCC Project in Saudi Arabia with the Applicant. According to the agreement, the Applicant shall make full payment by 15 December 2023.

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 International Services Corporation, a wholly-owned subsidiary of the Company, and Sinopec International Petroleum Services 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 Applicant 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 arbitration location of the arbitration was Chile. On 11 August 2022, Ecuadorian time, Banya Duri Company received a notice from the Santiago court in Chile that PAM had submitted an application to the court for revocation of the award and has been accepted. Banya Duri Company carried out the relevant litigation work in accordance with the requirements of the Chilean law.

On 12 May 2023, the judgment made by Santiago court in Chile in the Litigation is as follows: 1. Dismissing the application of PAM and its relevant parties to revoke the Ruling; 2. Confirmation that the Arbitration made by the arbitration tribunal dated 21 February 2022 and the clarifications made by the arbitration tribunal for the Arbitration on 23 April 2022 and 13 May 2022, respectively, are valid; 3. The respective litigation costs for the Litigation shall be borne by each party.

The Banya Duri Company is actively negotiating with PAM on the execution of the disputed amount in accordance with the arbitration and court judgment. As and the Ruling results had not yet been executed, and there is uncertainty in the execution, 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, the “Progress Announcement on an Arbitration in relation to an Indirectly Wholly-owned Subsidiary” (P.2022-027) disclosed in “China Securities Journal”, “Shanghai Securities News”, “Securities Times”, and on www.sse.com.cn on 16 August 2022, and on www.hkexnews.hk on 15 August 2022, and the “Progress Announcement on an Arbitration in relation to an Indirectly Wholly-owned Subsidiary” (P.2023-016) disclosed in “China Securities Journal”, “Shanghai Securities News”, “Securities Times”, and on www.sse.com.cn on 18 May 2023, and on www.hkexnews.hk on 17 May 2023.

8. The punishment or rectification situation suffered by the Company or its directors, supervisors, senior management, controlling shareholders and de facto controllers

During the reporting period, neither the Company nor its directors, supervisors, senior management, controlling shareholder or de facto controller was subject to any investigation by relevant authorities, enforcement by judicial or disciplinary departments, criminal liability, investigation or administrative penalty by the CSRC, denial of participation in the securities market, deemed unsuitability to act as directors, punishment by other administrative authorities or 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 2023 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 | 4,904,459 | 31.6 |
| Rendering engineering services | China Petrochemical Corporation and its associates | 22,572,244 | 61.5 |
| Rendering engineering services | PipeChina | 2,126,630 | 5.8 |
| Comprehensive service expenditure | China Petrochemical Corporation and its subsidiaries | 18,951 | 100.0 |
| Other comprehensive service expenditure | China Petrochemical Corporation and its subsidiaries | 224,067 | 100.0 |
| Technology R&D Income | China Petrochemical Corporation and its subsidiaries | 67,796 | 93.8 |
| Land and property rental expenses | China Petrochemical Corporation and its subsidiaries | 17,328 | 6.9 |
| Equipment leasing expenses | China Petrochemical Corporation and its subsidiaries | 38,477 | 45.9 |
| Loan interest expense | China Petrochemical Corporation and its associates | 330,200 | 85.9 |
| Borrowings obtained | China Petrochemical Corporation and its subsidiaries | 13,336,360 | 100.0 |
| Borrowings repaid | China Petrochemical Corporation and its subsidiaries | 11,596,612 | 99.5 |
| Safety and insurance fund expenses | China Petrochemical Corporation | 42,145 | 100.0 |
| Safety and insurance fund expenses refund | China Petrochemical Corporation | 46,171 | 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 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.

(2) During the reporting period, there were no 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.

Section VI Significant Events

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

Unit: RMB' 000

| Connected parties | Connected relation | Funds provided to connected party | | | Funds provided to the Company by connected party | | |
|---|---|-----------------------------------|-------------------|-----------------|--|-------------------|-----------------|
| | | Opening balance | Occurrence amount | Closing balance | Opening balance | Occurrence amount | Closing balance |
| China Petrochemical Corporation and its subsidiaries | Controlling shareholders and its subsidiaries | 11,514,495 | 117,182 | 11,631,677 | 7,097,428 | -522,289 | 6,575,139 |
| Sinopec Finance Company Limited | Subsidiary companies of the controlling shareholder | - | - | - | 16,095,000 | 2,090,000 | 18,185,000 |
| Sinopec Century Bright Capital Investment Limited | Subsidiary companies of the controlling shareholder | - | - | - | 1,828,208 | -296,338 | 1,531,870 |
| Total | | 11,514,495 | 117,182 | 11,631,677 | 25,020,636 | 1,271,373 | 26,292,009 |
| Causes of related claims and debts | | | | | Normal production and operation | | |
| Influence of connected claims and debts on the Company's performance and financial situation | | | | | No material adverse effects | | |

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

A. Deposit business

Unit: RMB' 000

| Connected parties | Connected relation | Daily maximum deposit limit | Deposit rate scope | Beginning balance | For the six months ended 30 June 2023 | | Ending balance |
|--|--|-----------------------------|--------------------|-------------------|---------------------------------------|-------------------|----------------|
| | | | | | Deposit amount | Withdrawal amount | |
| Sinopec Finance Company Limited | Subsidiary companies of the controlling shareholders | 3,500,000 | 0.35% | 47,531 | 145,445,453 | 145,467,939 | 25,045 |
| Sinopec Century Bright Capital Investment Limited | Subsidiary companies of the controlling shareholders | | 0.01% | 802,100 | 7,278,764 | 7,145,664 | 935,200 |

B. Loan business

Unit: RMB' 000

| Connected parties | Connected relation | Loan limit | Loan rate scope | Beginning balance | For the six months ended 30 June 2023 | | Ending balance |
|--|--|-----------------------|-----------------|-------------------|---------------------------------------|------------------|----------------|
| | | | | | Loan amount | Repayment amount | |
| Sinopec Finance Company Limited | Subsidiary companies of the controlling shareholders | 19,000,000 | LPR-0.65% | 16,095,000 | 11,519,000 | 9,429,000 | 18,185,000 |
| Sinopec Century Bright Capital Investment Limited | Subsidiary companies of the controlling shareholders | 400,000,000 US dollar | LIBOR+1.18% | 1,828,208 | 1,875,989 | 2,172,327 | 1,531,870 |

C. Credit extension and other finance business

| Connected parties | Connected relation | Business type | Total amount RMB' 000 | Actual amount RMB' 000 |
|--|--|--|-----------------------|------------------------|
| Sinopec Finance Company Limited | Subsidiary companies of the controlling shareholders | Back letter and credit extension of bill | 13,300,000 | 9,299,740 |

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 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) Major guarantees performed and not yet performed during the reporting period

Applicable Not applicable

Unit: RMB' 000

| 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 | 1,986,734 | 17 June 2022 | 17 June 2022 | The end time of annual general meeting for the year 2023 | Guarantee of joint and several liability | - | No | No | No | 0 | Yes | No | Joint venture |
| Total Amount of Guarantees during the Reporting Period (excluding Guarantees for Subsidiaries) | | | | | | | | | | | | | | | 1,986,734 |
| Total Balance of Guarantees at the end of the Reporting Period (A) (excluding Guarantees for Subsidiaries) | | | | | | | | | | | | | | | 1,986,734 |
| The Guarantee provided by the Company and its Subsidiaries to the Subsidiaries | | | | | | | | | | | | | | | |
| Total Amount of Guarantees paid to Subsidiaries during the Reporting Period | | | | | | | | | | | | | | | 1,513,666 |
| Total Balance of Guarantees to Subsidiaries at the end of the Reporting Period (B) | | | | | | | | | | | | | | | 26,491,854 |
| Total Company Guarantee (including Guarantee for Subsidiaries) | | | | | | | | | | | | | | | |
| Total Guarantees(A+B) | | | | | | | | | | | | | | | 28,478,588 |
| Total Amount of Guarantees as a Percentage of the Company's Net Asset (%) | | | | | | | | | | | | | | | 352.5 |
| 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) | | | | | | | | | | | | | | | 9,566,330 |
| The Amount of the total Guarantee exceeds 50% of the Net Assets (E) | | | | | | | | | | | | | | | 24,439,161 |
| Sum of the three Guarantees above (C+D+E) | | | | | | | | | | | | | | | 34,005,491 |
| 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 domestic and foreign contracts by the wholly-owned subsidiaries and joint venture (DS Servicios Petroleros, S.A. de C.V.). The guarantee amount is within the amount approved by the annual general meeting for 2022 of the Company. |

On 29 March 2022, 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 2021 annual general meeting of the Company convened on 26 May 2022. The valid period of the guarantee commenced 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. In order to satisfy the needs of international market expansion and day to day operation, the Company expects that after the conclusion of the 2022 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 2023, 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 2022 annual general meeting until the conclusion of the 2023 annual general meeting of the Company. On 6 June 2023, the 2022 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.2023-009) disclosed in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 29 March 2023, and on www.hkexnews.hk on 28 March 2023.



Section VI Significant Events

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. As of the disclosure date of this interim report, the aforesaid counter-guarantee matters continue to be effective.

(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

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

| | |
|---|---------|
| Total number of ordinary shareholders as at the end of the reporting period | 113,975 |
| Total number of preference shareholders with voting rights restored as at the end of the reporting period | 0 |

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

| Shareholdings of the top ten shareholders | | | | | | |
|--|---------------------------------------|--|---|---------------------------------------|---|------------------------------------|
| Names of shareholders | Nature of shareholders | Changes of shareholdings ¹ (shares) | Number of shares held at the end of the reporting period (shares) | Percentage to total share capital (%) | Number of shares with selling restrictions (shares) | Number of shares pledged or frozen |
| China Petrochemical Corporation² | State-owned legal person | 0 | 10,727,896,364 | 56.51 | 0 | 0 |
| Hong Kong Securities Clearing Company (Nominees) Limited ("HKSCC (Nominees) Limited")³ | Overseas legal person | 151,000 | 5,402,235,694 | 28.46 | 0 | 0 |
| CITIC Corporation Limited | State-owned legal person | -196,343,400 | 388,469,800 | 2.05 | 0 | 0 |
| Hong Kong Securities Clearing Company Limited⁴ | Others | 34,527,073 | 190,173,969 | 1.00 | 0 | 0 |
| Shanghai Tongneng Investment Holdings Co., Ltd. | Domestic non-state-owned legal person | 21,713,454 | 41,963,454 | 0.22 | 0 | 0 |
| Anhui Yangguang Xintong Electronic Technology Corp., Ltd | Domestic non-state-owned legal person | 12,238,800 | 34,738,800 | 0.18 | 0 | 0 |
| Li Feng | Domestic natural person | 4,382,800 | 24,382,800 | 0.13 | 0 | 0 |
| Agricultural Bank of China – China Securities 500 Trading Open Index Securities Investment Fund | Others | -12,257,100 | 22,376,000 | 0.12 | 0 | 0 |
| CITIC Securities Company Limited | State-owned legal person | 6,961,310 | 17,521,831 | 0.09 | 0 | 0 |
| CITIC Securities Company Limited – CCB CSI 500 Index Enhanced Securities Investment Fund | Others | 3,995,900 | 16,836,300 | 0.09 | 0 | 0 |

Section VII Changes in Ordinary Shares and Information on Shareholders

| Shareholdings of top ten shareholders of shares without selling restrictions | | |
|--|---|-----------------|
| Name of shareholders | Number of shares without selling restrictions held at the end of the reporting period (shares) | Types of shares |
| China Petrochemical Corporation | 10,727,896,364 | A Share |
| Hong Kong Securities Clearing Company (Nominees) Limited ("HKSCC (Nominees) Limited") | 5,402,235,694 | H Share |
| CITIC Corporation Limited | 388,469,800 | A Share |
| Hong Kong Securities Clearing Company Limited | 190,173,969 | A Share |
| Shanghai Tongneng Investment Holdings Co., Ltd. | 41,963,454 | A Share |
| Anhui Yangguang Xintong Electronic Technology Corp., Ltd | 34,738,800 | A Share |
| Li Feng | 24,382,800 | A Share |
| Agricultural Bank of China – China Securities 500 Trading Open Index Securities Investment Fund | 22,376,000 | A Share |
| CITIC Securities Company Limited | 17,521,831 | A Share |
| CITIC Securities Company Limited – CCB CSI 500 Index Enhanced Securities Investment Fund | 16,836,300 | 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. | |
| Description of the repurchase accounts of the top ten shareholders | Not applicable | |
| Explanation on the voting right entrusted, voting right entrusted and waiver of voting right by the aforesaid shareholders | Not applicable | |

Note:

- As compared with the number of shares held as of 31 December 2022.
- 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 SSE on behalf of the investors of HKSE.

(3) Strategic investors or general legal persons become the top ten shareholders due to the placement of new shares

Applicable Not Applicable

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

To the directors' knowledge, as at 30 June 2023, the following persons (other than director, supervisor or senior management of the Company) had an interest or short positions in the shares and underlying shares of the Company which shall be disclosed under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") were as follows:

| Name of shareholder | Number of 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) ¹ | 13.67 | Not Applicable | 47.94 | – |
| China State-owned Enterprise Structural Adjustment Fund Co., Ltd. | 719,174,495 (H Share) ² | 3.79 | Not Applicable | 13.28 | – |

Note:

- China Petrochemical Corporation held 2,595,786,987 H shares of the Company through its wholly-owned subsidiary Century Bright Company. China Petrochemical Corporation is deemed to have H shares held by Century Bright Company.
- China State-owned Enterprise Structural Adjustment Fund Co., Ltd. held 401,807,632 H shares of the Company through Yifangda Fund Management Co., Ltd., accounting for 7.42% of the total issued H shares of the Company, and 317,366,863 H shares of the Company through Huaxia Fund Management Co., Ltd., accounting for 5.86% of the total issued H shares of the Company.

Save as disclosed above, as at 30 June 2023, 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 |
| 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 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 |
| Cheng Zhongyi | Chief Financial Manager, Secretary to the Board | 0 | 0 | 0 | No Change |
| Du Kun | Deputy General Manager | 0 | 0 | 0 | No Change |
| Sun Bingxiang | Deputy General Manager | 50,300 | 50,300 | 0 | No Change |
| Lu Baoping | Former Director | 0 | 0 | 0 | No Change |
| Zhang Jianbo | Former Supervisor | 0 | 0 | 0 | No Change |
| Zhang Jinhong | Former Deputy General Manager | 0 | 0 | 0 | No Change |

Directors', supervisors' and senior management's interest or short position in shares, underlying shares or debentures

As at 30 June 2023, the Company's deputy general manager Mr. Sun Bingxiang 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 the Qi Xin Gong Ying Scheme respectively. Qi Xin Gong Ying Scheme is managed by Changjiang Pension Insurance Co., Ltd., and its shares shall be subscribed by certain directors, supervisors, senior management and other core management personnel of the Company. The number of subscribers 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, the current and resigned 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 |
| 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 |
| Huang Songwei | Former Supervisor | 350,000 | 350,000 | 2.62 | 133,587 |
| Zhang Hongshan | Former Supervisor | 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 Tian | Former Chief Financial Officer | 350,000 | 350,000 | 2.62 | 133,587 |
| Li Honghai | Former Secretary to the Board | 300,000 | 300,000 | 2.62 | 114,503 |
| Total | / | 5,150,000 | 5,150,000 | - | 1,965,637 |

(3) Information on share option granted to directors, supervisors and senior management during the reporting period

Applicable Not Applicable

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, 2023

Sinopec Oilfield Service Corporation

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

| Assets: | Note | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|--|------|--------------------------------|------------------------------------|
| Current assets: | | | |
| Cash and cash equivalents | 5.1 | 1,833,084 | 1,838,229 |
| Accounts receivable | 5.2 | 9,227,260 | 10,537,217 |
| Receivables at FVTOCI | 5.3 | 1,757,756 | 1,468,340 |
| Advances to suppliers | 5.4 | 501,489 | 406,578 |
| Other receivables | 5.5 | 3,805,829 | 3,196,602 |
| Inventories | 5.6 | 1,853,358 | 1,116,341 |
| Contract assets | 5.7 | 19,161,033 | 15,613,899 |
| Other current assets | 5.8 | 2,623,651 | 2,362,863 |
| Total current assets | | 40,763,460 | 36,540,069 |
| Non-current assets: | | | |
| Long-term equity investments | 5.9 | 36,850 | 50,215 |
| Investment in other equity instruments | 5.10 | 134,492 | 134,492 |
| Fixed assets | 5.11 | 23,445,366 | 24,896,607 |
| Construction in progress | 5.12 | 466,813 | 467,385 |
| Right-of-use assets | 5.13 | 888,723 | 1,012,350 |
| Intangible assets | 5.14 | 413,393 | 481,490 |
| Long-term deferred expenses | 5.15 | 6,309,741 | 7,255,439 |
| Deferred income tax assets | 5.16 | 372,133 | 370,014 |
| Total non-current assets | | 32,067,511 | 34,667,992 |
| Total assets | | 72,830,971 | 71,208,061 |

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 BALANCE SHEET (Continued)

As at June 30, 2023

Sinopec Oilfield Service Corporation

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

| Liabilities and owners' equity | Note | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|--|------|--------------------------------|------------------------------------|
| Current liabilities: | | | |
| Short-term borrowings | 5.17 | 19,716,870 | 17,923,208 |
| Notes payable | 5.18 | 9,046,723 | 7,990,225 |
| Accounts payable | 5.19 | 24,265,129 | 25,601,228 |
| Contract liabilities | 5.20 | 4,459,447 | 5,115,819 |
| Employee compensation payable | 5.21 | 661,149 | 570,290 |
| Taxes and surcharges payable | 5.22 | 697,733 | 998,894 |
| Other payables | 5.23 | 3,262,601 | 2,728,144 |
| Non-current liabilities maturing within one year | 5.24 | 1,468,991 | 1,517,190 |
| Total current liabilities | | 63,578,643 | 62,444,998 |
| Non-current liabilities: | | | |
| Long-term borrowings | 5.25 | 440,774 | 480,557 |
| Lease liabilities | 5.26 | 366,761 | 497,045 |
| Long-term payables | 5.27 | 96,425 | 74,657 |
| Estimated liabilities | 5.28 | 191,209 | 200,998 |
| Deferred income | 5.29 | 15,640 | 11,576 |
| Deferred income tax liabilities | 5.16 | 62,665 | 68,496 |
| Total non-current liabilities | | 1,173,474 | 1,333,329 |
| Total liabilities | | 64,752,117 | 63,778,327 |
| Owners' equity: | | | |
| Share capital | 5.30 | 18,984,340 | 18,984,340 |
| Capital reserves | 5.31 | 11,717,773 | 11,717,773 |
| Other comprehensive income | 5.32 | 5,232 | 5,232 |
| Special reserves | 5.33 | 650,199 | 326,983 |
| Surplus reserves | 5.34 | 200,383 | 200,383 |
| Retained earnings | 5.35 | -23,479,073 | -23,804,977 |
| Total equity attributable to owners of the parent company | | 8,078,854 | 7,429,734 |
| Minority interest | | | |
| Total owners' equity | | 8,078,854 | 7,429,734 |
| Total liabilities and owners' equity | | 72,830,971 | 71,208,061 |

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, 2023

Sinopec Oilfield Service Corporation

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

| Assets: | Note | Balance as at As at June 30, 2023 | Balance as at December 31, 2022 |
|--|------|--------------------------------------|------------------------------------|
| Current assets: | | | |
| Cash at bank and on hand | | 26,259 | 35,787 |
| Advance payment | | 60 | |
| Other receivables | 15.1 | 22,227,815 | 20,982,530 |
| Other current assets | | 6,351 | 3,528 |
| Total current assets | | 22,260,485 | 21,021,845 |
| Non-current assets: | | | |
| Long-term equity investments | 15.2 | 35,792,635 | 35,792,373 |
| Fixed assets | | 3,196 | 3,549 |
| Construction in progress | | 66,350 | 66,276 |
| Right-of-use assets | | 19,691 | 26,254 |
| Intangible assets | | 31,108 | 35,045 |
| Deferred tax assets | | 174 | 154 |
| Total non-current assets | | 35,913,154 | 35,923,651 |
| Total assets | | 58,173,639 | 56,945,496 |
| Liabilities and owners' equity: | | | |
| Current liabilities: | | | |
| Short-term borrowings | | 18,016,870 | 16,223,208 |
| Accounts payable | | 34,796 | 17,090 |
| Employee compensation payable | | 2,191 | 1,803 |
| Taxes and surcharges payable | | 26,303 | 26,034 |
| Other payables | | 10,509,895 | 11,080,558 |
| Non-current liabilities maturing within one year | | 1,013,571 | 1,013,572 |
| Total current liabilities | | 29,603,626 | 28,362,265 |
| Non-current liabilities: | | | |
| Lease liabilities | | 6,815 | 13,297 |
| Total non-current liabilities | | 6,815 | 13,297 |
| Total liabilities | | 29,610,441 | 28,375,562 |
| Owners' equity: | | | |
| Share capital | | 18,984,340 | 18,984,340 |
| Capital reserves | | 11,331,421 | 11,331,421 |
| Surplus reserves | | 200,383 | 200,383 |
| Undistributed profits | | -1,952,946 | -1,946,210 |
| Total owners' equity | | 28,563,198 | 28,569,934 |
| Total liabilities and owners' equity | | 58,173,639 | 56,945,496 |

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

CONSOLIDATED INCOME STATEMENT

For the Year Ended June 30, 2023

Sinopec Oilfield Service Corporation

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

| Item | Note | Current period | Prior period |
|---|------|-------------------|--------------|
| I. Total operating revenue | | 37,133,528 | 33,148,652 |
| Including: operating revenue | 5.36 | 37,133,528 | 33,148,652 |
| II. Total operating costs | | 36,794,705 | 32,917,223 |
| Including: operating costs | 5.36 | 34,406,386 | 30,727,547 |
| Taxes and surcharges | 5.37 | 129,783 | 122,208 |
| Selling and distribution expenses | 5.38 | 31,421 | 26,643 |
| General and administrative expenses | 5.39 | 1,038,184 | 1,092,018 |
| Research and development expenses | 5.40 | 815,114 | 666,919 |
| Financial expenses | 5.41 | 373,817 | 281,888 |
| Including: interest expenses | 5.41 | 384,275 | 312,412 |
| Interest income | 5.41 | 10,897 | 4,430 |
| Plus: other income | 5.42 | 21,510 | 35,167 |
| Investment income (“-” for losses) | 5.43 | 17,146 | 13,599 |
| Including: income from investment in associates and joint ventures | 5.43 | 3,516 | 2,758 |
| Losses from credit impairment (“-” for losses) | 5.44 | 162,110 | 70,691 |
| Losses from assets impairment (“-” for losses) | 5.45 | -13,597 | -1,351 |
| Gains from disposal of assets (“-” for losses) | 5.46 | 8,835 | 13,783 |
| III. Operating profits (“-” for losses) | | 534,827 | 363,318 |
| Plus: non-operating revenue | 5.47 | 68,417 | 54,124 |
| Less: non-operating expenses | 5.48 | 61,670 | 40,065 |
| IV. Total profits (“-” for total losses) | | 541,574 | 377,377 |
| Less: income tax expenses | 5.49 | 215,670 | 171,067 |
| V. Net profit (“-” for net loss) | | 325,904 | 206,310 |
| (I) Classified by operating sustainability | | | |
| 1. Net profit from continued operation (“-” for net loss) | | 325,904 | 206,310 |
| 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) | | 325,904 | 206,310 |
| 2. Minority interest income (“-” for net loss) | | | |
| VI. Other comprehensive income, net of tax | | | |
| VII. Total comprehensive income | | 325,904 | 206,310 |
| Total comprehensive income attributable to owners of the parent company | | 325,904 | 206,310 |
| Total comprehensive income attributable to minority shareholders | | | |
| VIII. Earnings per share: | | | |
| (I) Basic earnings per share (RMB/Share) | 17.2 | 0.017 | 0.011 |
| (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

PARENT COMPANY'S INCOME STATEMENT

For the Year Ended June 30, 2023

Sinopec Oilfield Service Corporation

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

| Item | Note | Current period | Prior period |
|--|------|----------------|--------------|
| I. Operating revenue | | | |
| Less: operating costs | | | |
| Taxes and surcharges | | 3 | |
| General and administrative expenses | | 85,198 | 855 |
| Financial expenses | | -78,172 | |
| Including: interest expenses | | 27,230 | |
| Interest income | | -5,000 | |
| Plus: Investment income ("-" for losses) | | 262 | |
| Including: income from investment in associates and joint ventures | | 262 | |
| Losses from credit impairment ("-" for losses) | | 2 | |
| II. Operating profits ("-" for losses) | | -6,765 | -855 |
| Plus: non-operating revenue | | 20 | |
| Less: non-operating expenses | | 11 | |
| III. Total profits ("-" for total losses) | | -6,756 | -855 |
| Less: income tax expenses | | -20 | |
| IV. Net profit ("-" for net loss) | | -6,736 | -855 |
| (I) Net profit from continued operation ("-" for net loss) | | -6,736 | -855 |
| (II) Net profit from discontinued operation ("-" for net loss) | | | |
| V. Other comprehensive income, net of tax | | | |
| (I) Other comprehensive income that cannot be reclassified into profit or loss | | | |
| (II) Other comprehensive income that will be reclassified into profit or loss | | | |
| VI. Total comprehensive income | | -6,736 | -855 |
| VII. Earnings per share: | | | |
| (I) Basic earnings per share (RMB/Share) | | | |
| (II) Diluted earnings per share (RMB/Share) | | | |

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

Chairman:

Chen Xikun

General Manager:

Yuan Jianqiang

Accounting Principal:

Cheng Zhongyi

Head of the Accounting Department:

Yang Yulong

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2023

Sinopec Oilfield Service Corporation

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

| Item | Note | Current period | Prior period |
|---|------|-------------------|-------------------|
| I. Cash flows from operating activities | | | |
| Cash received from sales of goods and rendering of services | | 28,888,115 | 26,562,710 |
| Refund of taxes and surcharges | | 150,275 | 162,722 |
| Cash received from other operating activities | 5.50 | 1,898,878 | 990,607 |
| Sub-total of cash inflows from operating activities | | 30,937,268 | 27,716,039 |
| Cash paid for purchase of goods and receipt of services | | 20,838,274 | 19,109,943 |
| Cash paid to and on behalf of employees | | 7,480,986 | 7,005,451 |
| Various taxes and surcharges paid | | 949,630 | 701,782 |
| Cash paid for other operating activities | 5.50 | 1,246,766 | 1,436,789 |
| Sub-total of cash outflows from operating activities | | 30,515,656 | 28,253,965 |
| Net cash flows from operating activities | 5.51 | 421,612 | -537,926 |
| II. Cash flows from investing activities | | | |
| Cash received from disinvestment | | | |
| Cash received from returns on investments | | 4,418 | 3,856 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | | 17,583 | 12,079 |
| Net cash received for disposal of subsidiaries and other business units | | 11,983 | |
| Sub-total of cash inflows from investing activities | | 33,984 | 15,935 |
| Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets | | 1,667,426 | 508,526 |
| Cash paid for investments | | | |
| Sub-total of cash outflows from investing activities | | 1,667,426 | 508,526 |
| Net cash flows from investing activities | | -1,633,442 | -492,591 |
| III. Cash flows from financing activities | | | |
| Cash received from borrowings | | 13,336,360 | 12,154,500 |
| Sub-total of cash inflows from financing activities | | 13,336,360 | 12,154,500 |
| Cash paid for debt repayments | | 11,653,293 | 11,415,907 |
| Cash paid for distribution of dividends and profits or payment of interest | | 327,555 | 274,029 |
| Cash paid for other financing activities | 5.50 | 255,422 | 158,721 |
| Sub-total of cash outflows from financing activities | | 12,236,270 | 11,848,657 |
| Net cash flows from financing activities | | 1,100,090 | 305,843 |
| IV. Effect of fluctuation in exchange rate on cash and cash equivalents | | | |
| | | 70,398 | 96,207 |
| V. Net increase in cash and cash equivalents | | | |
| | 5.51 | -41,342 | -628,467 |
| Plus: beginning balance of cash and cash equivalents | | 1,801,150 | 2,475,307 |
| VI. Ending balance of cash and cash equivalents | 5.51 | 1,759,808 | 1,846,840 |

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, 2023

Sinopec Oilfield Service Corporation

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

| Item | Note | Current period | Prior period |
|---|------|-------------------|--------------|
| I. Cash flows from operating activities | | | |
| Refund of taxes and surcharges | | | |
| Cash received from other operating activities | | 654,936 | |
| Sub-total of cash inflows from operating activities | | 654,936 | |
| Cash paid for purchase of goods and receipt of services | | 18,571 | |
| Cash payments to and for employees | | 57,070 | |
| Taxes paid | | 3 | |
| Cash paid for other operating activities | | 1,234,493 | |
| Sub-total of cash outflows from operating activities | | 1,310,137 | |
| Net cash flows from operating activities | | -655,201 | |
| II. Cash flows from investing activities | | | |
| Receipt of other cash related to investment activities | | 29,479,604 | |
| Sub-total cash inflows from investing activities | | 29,479,604 | |
| Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets | | 1,456 | |
| Disburse other cash in connection with investment activities | | 30,656,000 | |
| Sub-total of cash outflows from investing activities | | 30,657,456 | |
| Net cash flows from investing activities | | -1,177,852 | |
| III. Cash flows from financing activities | | | |
| Cash received from borrowings | | 11,836,360 | |
| Sub-total of cash inflows from financing activities | | 11,836,360 | |
| Cash paid for debt repayments | | 10,096,612 | |
| Cash paid for distribution of dividends and profits or payment of interest | | -90,882 | |
| Cash paid for other financing activities | | 7,718 | |
| Sub-total of cash outflows from financing activities | | 10,013,448 | |
| Net cash flows from financing activities | | 1,822,912 | |
| IV. Effect of fluctuation in exchange rate on cash and cash equivalents | | 613 | |
| V. Net increase in cash and cash equivalents | | -9,528 | |
| Plus: beginning balance of cash and cash equivalents | | 35,787 | 147 |
| VI. Ending balance of cash and cash equivalents | | 26,259 | 147 |

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, 2023

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 | | 5,232 | 326,983 | 200,383 | | -23,807,392 | 7,427,319 | | 7,427,319 | |
| Plus: changes in accounting policies | | | | | | | | | | | 2,415 | 2,415 | | 2,415 | |
| Others | | | | | | | | | | | | | | | |
| II. Balance at the beginning of the current year | 18,984,340 | | | | 11,717,773 | | 5,232 | 326,983 | 200,383 | | -23,804,977 | 7,429,734 | | 7,429,734 | |
| III. Increases/decreases in current year ("-" for decreases) | | | | | | | | 323,216 | | | 325,904 | 649,120 | | 649,120 | |
| (I) Total comprehensive income | | | | | | | | | | | 325,904 | 325,904 | | 325,904 | |
| (II) Capital contributed or reduced by owners | | | | | | | | | | | | | | | |
| (III) Profit distribution | | | | | | | | | | | | | | | |
| (IV) Internal carry-forward of owners' equity | | | | | | | | | | | -14,868 | | | | |
| 1. Transfer of other comprehensive income to retained earnings | | | | | | | | | | | -14,868 | | | | |
| (V) Special reserves | | | | | | | | 323,216 | | | | 323,216 | | 323,216 | |
| 1. Amount withdrawn in the current period | | | | | | | | 560,313 | | | | 560,313 | | 560,313 | |
| 2. Amount used in the current period | | | | | | | | 237,097 | | | | 237,097 | | 237,097 | |
| (VI) Others | | | | | | | | | | | | | | | |
| IV. Balance at the end of the current period | 18,984,340 | | | | 11,717,773 | | 5,232 | 650,199 | 200,383 | | -23,479,073 | 8,078,854 | | 8,078,854 | |

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, 2023

Sinopec Oilfield Service Corporation

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

| Item | Prior period | | | | | | | | | | | | | | Minority equity | Total owners' equity |
|---|---|--------------------------|--------|--|------------------|----------------------|----------------------------|------------------|------------------|-----------------------|-----------------------|-----------|--|-----------|-----------------|----------------------|
| | Equity attributable to owners of the parent company | | | | | | | | | | | | | | | |
| | Share capital | Other equity instruments | | | Capital reserves | Less: treasury stock | Other comprehensive income | Special reserves | Surplus reserves | General risk reserves | Undistributed profits | Sub-total | | | | |
| | Preferred stock | Perpetual bonds | Others | | | | | | | | | | | | | |
| I. Balance at the end of the last year | 18,984,340 | | | | 11,717,773 | | -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 | | -24,266,007 | 6,851,848 | | 6,851,848 | | |
| III. Increases/decreases in current year ("-" for decreases) | | | | | | | | | | | | | | | | |
| (I) Total comprehensive income | | | | | | | | | | | 206,310 | 206,310 | | 206,310 | | |
| (II) Capital contributed or reduced by owners | | | | | | | | | | | | | | | | |
| 1. Amounts of share-based payments recognized in owners' equity | | | | | | | | | | | | | | | | |
| (III) Profit distribution | | | | | | | | | | | | | | | | |
| (IV) Internal carry-forward of owners' equity | | | | | | | | | | | | | | | | |
| 1. Transfer of other comprehensive income to retained earnings | | | | | | | | | | | | | | | | |
| (V) Special reserves | | | | | | | | | | | | | | | | |
| 1. Amount withdrawn in the current period | | | | | | | | | | | | | | | | |
| 2. Amount used in the current period | | | | | | | | | | | | | | | | |
| (VI) Others | | | | | | | | | | | | | | | | |
| IV. Balance at the end of the current period | 18,984,340 | | | | 11,717,773 | | -3,823 | 574,556 | 200,383 | | -24,059,697 | 7,413,532 | | 7,413,532 | | |

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, 2023

Sinopec Oilfield Service Corporation

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

| Item | Current period | | | | | | | | | | |
|---|----------------|--------------------------|-----------------|--------|------------------|----------------------|----------------------------|------------------|------------------|-----------------------|----------------------|
| | Share capital | Other equity instruments | | | Capital reserves | Less: treasury stock | Other comprehensive income | Special reserves | Surplus reserves | Undistributed profits | Total owners' equity |
| | | Preferred stock | Perpetual bonds | Others | | | | | | | |
| I. Balance at the end of the last year | 18,984,340 | | | | 11,331,421 | | | | 200,383 | -1,946,364 | 28,569,780 |
| Plus: changes in accounting policies | | | | | | | | | | 154 | 154 |
| Others | | | | | | | | | | | |
| II. Balance at the beginning of the current year | 18,984,340 | | | | 11,331,421 | | | | 200,383 | -1,946,210 | 28,569,934 |
| III. Increases/decreases in current year ("-" for decreases) | | | | | | | | | | | |
| (I) Total comprehensive income | | | | | | | | | | -6,736 | -6,736 |
| (II) Capital contributed or reduced by owners | | | | | | | | | | -6,736 | -6,736 |
| 1. Others | | | | | | | | | | | |
| (III) Profit distribution | | | | | | | | | | | |
| (IV) Internal carry-forward of owners' equity | | | | | | | | | | | |
| (V) Special reserves | | | | | | | | | | | |
| (VI) Others | | | | | | | | | | | |
| IV. Balance at the end of the current period | 18,984,340 | | | | 11,331,421 | | | | 200,383 | -1,952,946 | 28,563,198 |

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, 2023

Sinopec Oilfield Service Corporation

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

1 COMPANY PROFILE

1.1 Overview

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

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

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

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

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

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

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

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

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 16th meeting of the 10th Board of Directors of the Company on August 29, 2023.

1.2 Scope of the consolidated financial statement

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

2 BASIS OF PREPARATION FOR THE FINANCIAL STATEMENTS

2.1 Basis of preparation

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

2.2 Going Concern

The financial statements are prepared based on going concern.

As at June 30, 2023, the Group’s accumulated loss amounted to RMB23,479,073,000, the current liabilities exceeded the current assets by about RMB22,815,183,000 (As at December 31, 2022, the current liabilities exceeded the current assets by about RMB25,904,929,000). 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. As of March 2023, the Company has obtained a credit line of RMB19 billion and an equivalent of USD400 million as well as a credit line of RMB11.5 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, 2023, 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, 2023.

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 venture 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 impractical to be obtained.

3.10.6 Test method and accounting treatment of depreciation of financial assets

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

The Company recognizes expected credit losses by calculating the probability-weighted amount of the present value of the difference between the cash flows receivable under the contract and the cash flows expected to be received, 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.

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.
- (2) Packaging costs adopts a one-time resale 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 income right | / | 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 is 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.

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.

3.28.2 The Company as the lessee

Leases of the Company are classified as finance lease and operating lease on the lease commence 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.

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.28 Leases (Continued)

3.28.2 The Company as the lessee (Continued)

(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”.

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.

Section VIII Financial Reports

3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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.

3.32.3 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 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.32 Significant accounting estimates and judgments (Continued)

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 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.

3.32.7 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.

3.32.8 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. 16 to the Accounting Standards for Business Enterprises

On November 30, 2022, the Ministry of Finance issued the Interpretation No. 16 to the Accounting Standards for Business Enterprises (CS [2022] No. 31, hereinafter referred to as the "Interpretation No. 16"), in which the provision that "deferred income tax related to assets and liabilities arising from a single transaction is not subject to the initial recognition exemption accounting treatment" came into effect on January 1, 2023.

Interpretation No. 16 provides that for individual transactions that are not business combinations, or neither accounting profits nor taxable income (or deductible losses) are affected, or assets and liabilities initially recognized result in equal taxable temporary differences and deductible temporary differences (including lease transactions in which the lessee initially recognizes lease liabilities and right-of-use assets at the beginning date of the lease period, and transactions in which estimated restoration liabilities are recognized and included in the cost of related assets due to disposal obligations such as fixed assets), the exemption from the initial recognition of deferred tax liabilities and deferred tax assets does not apply, and an enterprise should recognize the corresponding deferred tax liabilities and deferred tax assets separately in accordance with the relevant provisions of Accounting Standard for Business Enterprises No. 18 – Income Tax and other relevant provisions at the time of the transaction.

An enterprise should make adjustments in accordance with the provisions for individual transactions that occur between the beginning of the earliest period of presentation of the financial statements and the effective date of the first implementation of the regulations, as well as the lease liabilities and right-of-use assets recognized as a result of the individual transactions applicable to the provisions at the beginning of the earliest period of financial statement presentation, as well as the estimated liabilities related to the recognized disposal obligations and the corresponding related assets.

The Company has implemented this regulation since January 1, 2023, and the main impacts of the implementation of this regulation are as follows:

| Consolidate balance sheet items | December 31, 2022 | | |
|---------------------------------|-------------------|------------------|-----------------------|
| | Before adjustment | After adjustment | Amount of adjustments |
| Deferred tax assets | 362,470 | 370,014 | 7,544 |
| Deferred tax liabilities | 63,367 | 68,496 | 5,129 |
| Retained earnings | -23,807,392 | -23,804,977 | 2,415 |

| Consolidate income statement items | January-June 2022 | | |
|------------------------------------|-------------------|------------------|-----------------------|
| | Before adjustment | After adjustment | Amount of adjustments |
| Income tax expense | 177,109 | 171,067 | -6,042 |

| Parent balance sheet items | December 31, 2022 | | |
|----------------------------|-------------------|------------------|-----------------------|
| | Before adjustment | After adjustment | Number of adjustments |
| Deferred tax assets | | 154 | 154 |
| Retained earnings | -1,946,364 | -1,946,210 | 154 |

| Parent consolidated income statement items | January-June 2022 | | |
|--|-------------------|------------------|-----------------------|
| | Before adjustment | After adjustment | Number of adjustments |
| Income tax expense | — | — | — |

3.33.2 Changes in significant accounting estimates

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

3.33.3 Correction of significant accounting errors of prior periods

The Company has no correction of significant accounting errors of prior periods in this year.

3.34 Others

The Company has 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 |
| Shandong Shenggong Testing Technology Co., Ltd | 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 |
| Sinopec Jingwei 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, Shandong Shenggong Testing Technology Co., Ltd, 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. Sinopec Jingwei 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, 2023 | Balance as at December 31, 2022 |
|-------------------------------------|--------------------------------|------------------------------------|
| Cash on hand | 2,806 | 2,992 |
| Cash at banks | 869,935 | 985,082 |
| Cash in finance companies | 960,245 | 849,631 |
| Other monetary funds | 98 | 524 |
| Total | 1,833,084 | 1,838,229 |
| Including: Amount deposited abroad: | 1,395,236 | 1,376,948 |

As at June 30, 2023, 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, 2023 | Balance as at December 31, 2022 |
|-----------------------------|--------------------------------|------------------------------------|
| Guarantee deposit | 4,745 | 6,555 |
| L/C deposit | 99 | 95 |
| Frozen and pledged deposits | 38,930 | 27,429 |
| Time deposit | 3,000 | 3,000 |
| Land reclamation deposit | 26,502 | |
| Total | 73,276 | 37,079 |

As at June 30, 2023, 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, 2023 | Balance as at December 31, 2022 |
|-------------------------------|--------------------------------|------------------------------------|
| Within 1 year | 8,709,206 | 9,943,144 |
| Including: Not overdue | 6,508,415 | 8,369,711 |
| Overdue – Within 1 year | 2,200,791 | 1,573,433 |
| 1 – 2 years | 402,208 | 440,120 |
| 2 – 3 years | 178,367 | 237,662 |
| 3 – 4 years | 238,206 | 283,750 |
| 4 – 5 years | 265,168 | 332,445 |
| Over 5 years | 1,807,191 | 1,697,891 |
| Sub-total | 11,600,346 | 12,935,012 |
| Less: provision for bad debts | 2,373,086 | 2,397,795 |
| Total | 9,227,260 | 10,537,217 |

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, 2023 | | | | | Balance as at December 31, 2022 | | | | |
|---|-----------------------------|----------------|-------------------------|--------------------------------|------------------|---------------------------------|----------------|-------------------------|--------------------------------|-------------------|
| | 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 | 1,038,574 | 8.95 | 1,038,574 | 100.00 | | 1,017,877 | 7.87 | 1,017,877 | 100.00 | |
| Provision for bad debts made by portfolio | 10,561,772 | 91.05 | 1,334,512 | 12.64 | 9,227,260 | 11,917,135 | 92.13 | 1,379,918 | 11.58 | 10,537,217 |
| Including: | | | | | | | | | | |
| Related-party portfolio | 3,778,127 | 32.57 | 60,763 | 1.61 | 3,717,364 | 5,523,774 | 42.70 | 64,570 | 1.17 | 5,459,204 |
| Non-related-party portfolio | 6,783,645 | 58.48 | 1,273,749 | 18.78 | 5,509,896 | 6,393,361 | 49.43 | 1,315,348 | 20.57 | 5,078,013 |
| Total | 11,600,346 | 100.00 | 2,373,086 | | 9,227,260 | 12,935,012 | 100.00 | 2,397,795 | | 10,537,217 |

Provision made on an individual basis:

| Item | Balance as at June 30, 2023 | | | |
|-------------------------------|-----------------------------|-------------------------|-----------------------------|---|
| | Book balance | Provision for bad debts | Proportion of provision (%) | Reason for provision |
| Entity A | 953,771 | 953,771 | 100.00 | The debtor is short of funds and the funds have not been recovered for a long time. |
| Entity B | 48,132 | 48,132 | 100.00 | The debtor is short of funds and the funds have not been recovered for a long time. |
| Entity C | 26,763 | 26,763 | 100.00 | The debtor is short of funds and the funds have not been recovered for a long time. |
| Total of other sporadic units | 9,908 | 9,908 | 100.00 | The debtor is short of funds and the funds have not been recovered for a long time. |
| Total | 1,038,574 | 1,038,574 | | |

Provision for bad debts made by portfolio:

Provision by portfolio:

| Item | Balance as at June 30, 2023 | | |
|---|-----------------------------|-------------------------|-----------------------------|
| | Accounts receivable | Provision for bad debts | Proportion of provision (%) |
| Accounts receivable from related-party clients | 3,778,127 | 60,763 | 1.61 |
| Accounts receivables from non-related-party clients | 6,783,645 | 1,273,749 | 18.78 |
| Total | 10,561,772 | 1,334,512 | |

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, 2023 | | | Balance as at December 31, 2022 | | |
|-------------------------|-----------------------------|-------------------------|--------------------------------|---------------------------------|-------------------------|--------------------------------|
| | 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 | 3,476,778 | 15,254 | 0.44 | 5,242,663 | 18,605 | 0.35 |
| Including: | | | | | | |
| Not overdue | 2,027,788 | 6,084 | 0.30 | 4,459,024 | 13,377 | 0.30 |
| Overdue – Within 1 year | 1,448,990 | 9,170 | 0.63 | 783,639 | 5,228 | 0.67 |
| 1 – 2 years | 185,628 | 8,105 | 4.37 | 143,289 | 6,333 | 4.42 |
| 2 – 3 years | 31,379 | 2,539 | 8.09 | 46,949 | 3,814 | 8.12 |
| 3 – 4 years | 49,317 | 8,848 | 17.94 | 53,878 | 9,696 | 18.00 |
| 4 – 5 years | 7,059 | 3,565 | 50.50 | 12,384 | 6,278 | 50.69 |
| Over 5 years | 27,966 | 22,452 | 80.28 | 24,611 | 19,844 | 80.63 |
| Total | 3,778,127 | 60,763 | 1.61 | 5,523,774 | 64,570 | 1.17 |

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

| Category | Balance as at June 30, 2023 | | | Balance as at December 31, 2022 | | |
|-------------------------|-----------------------------|-------------------------|--------------------------------|---------------------------------|-------------------------|--------------------------------|
| | 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 | 5,232,428 | 37,795 | 0.72 | 4,700,481 | 38,266 | 0.81 |
| Including: | | | | | | |
| Not overdue | 4,480,627 | 13,441 | 0.30 | 3,910,687 | 11,732 | 0.30 |
| Overdue – Within 1 year | 751,801 | 24,354 | 3.24 | 789,794 | 26,534 | 3.36 |
| 1 – 2 years | 216,580 | 52,375 | 24.18 | 296,831 | 72,712 | 24.50 |
| 2 – 3 years | 146,988 | 72,768 | 49.51 | 190,713 | 95,150 | 49.89 |
| 3 – 4 years | 188,889 | 141,389 | 74.85 | 229,872 | 173,108 | 75.31 |
| 4 – 5 years | 173,307 | 143,969 | 83.07 | 238,837 | 199,486 | 83.52 |
| Over 5 years | 825,453 | 825,453 | 100.00 | 736,627 | 736,626 | 100.00 |
| Total | 6,783,645 | 1,273,749 | 18.78 | 6,393,361 | 1,315,348 | 20.57 |

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

| Category | Balance as at December 31, 2022 | Changes in the current period | | | | Balance as at June 30, 2023 |
|-------------------------|---------------------------------|-------------------------------|----------------------|-------------------------|-----------------|-----------------------------|
| | | Provision | Recovery or reversal | Write-off or charge-off | Other decreases | |
| Provision for bad debts | 2,397,795 | 5,228 | 92,533 | | -62,596 | 2,373,086 |
| Total | 2,397,795 | 5,228 | 92,533 | | -62,596 | 2,373,086 |

5.2.4 Accounts receivable actually charged off in the current period

There were no write-offs of receivables for the current period.

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

5.2 Accounts receivable (Continued)

5.2.5 Top 5 of accounts receivable as at June 30, 2023, presented by debtor

| Company name | Balance as at June 30, 2023 | | |
|--------------|-----------------------------|---|-------------------------|
| | Accounts receivable | Proportion in total accounts receivable (%) | Provision for bad debts |
| Entity 1 | 2,704,561 | 23.31 | 37,497 |
| Entity 2 | 953,771 | 8.22 | 953,771 |
| Entity 3 | 884,085 | 7.62 | 30,298 |
| Entity 4 | 821,140 | 7.08 | 6,487 |
| Entity 5 | 791,847 | 6.83 | 9,482 |
| Total | 6,155,404 | 53.06 | 1,037,535 |

5.3 Receivables financing

5.3.1 Breakdowns of receivables financing

| Item | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|------------------|-----------------------------|---------------------------------|
| Notes receivable | 1,757,756 | 1,468,340 |
| Total | 1,757,756 | 1,468,340 |

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, 2023, the notes receivable endorsed or discounted but not matured amounted to RMB2,667,343,000 (As at December 31, 2022, RMB4,659,287,000). 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 individually impaired. As at June 30, 2023, the Group believed that the bank acceptance bills and commercial acceptance bills it held had not significant credit risk as they were accepted by the banks or finance companies with higher credit levels, and it would not be subjected to the significant loss caused by the default of these banks and finance companies. The Group had not made the provision for losses from credit impairment of receivables financing.

5.4 Advances to suppliers

5.4.1 Presentation of advances to suppliers by aging

| Aging | Balance as at June 30, 2023 | | Balance as at December 31, 2022 | |
|-------------------------------|-----------------------------|----------------|---------------------------------|----------------|
| | Amount | Proportion (%) | Amount | Proportion (%) |
| Within 1 year | 489,480 | 96.86 | 331,945 | 80.88 |
| 1 – 2 years | 7,610 | 1.51 | 10,921 | 2.66 |
| 2 – 3 years | 1,919 | 0.38 | 61,219 | 14.92 |
| Over 3 years | 6,346 | 1.26 | 6,356 | 1.55 |
| Sub-total | 505,355 | 100.00 | 410,441 | 100.00 |
| Less: provision for bad debts | 3,866 | | 3,863 | |
| Total | 501,489 | | 406,578 | |

5.4.2 Top 5 of advances to suppliers as at June 30, 2023, collected by supplier

The sum amount of top 5 of accounts receivable as at June 30, 2023, presented by debtor was RMB202,793,000, accounting for 40.44% of the total ending balance of advances to suppliers.

Section VIII Financial Reports

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

5.5 Other receivables

| Item | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|----------------------|-----------------------------|---------------------------------|
| Dividends receivable | | 540 |
| Other receivables | 3,805,829 | 3,196,062 |
| Total | 3,805,829 | 3,196,602 |

5.5.1 Dividends receivable

(1) Details of dividends receivable

| Project (or investee) | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|--|-----------------------------|---------------------------------|
| Qianjiang Hengyun Motor Vehicle Comprehensive Performance Inspection & Testing Co., Ltd. | | 540 |
| Sub-total | | 540 |
| Less: provision for bad debts | | |
| Total | | 540 |

5.5.2 Other receivables

(1) Disclosure of other receivables by aging

| Aging | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|-------------------------------|-----------------------------|---------------------------------|
| Within 1 year | 3,025,768 | 2,421,288 |
| 1 – 2 years | 282,479 | 284,474 |
| 2 – 3 years | 100,458 | 87,480 |
| 3 – 4 years | 521,179 | 573,531 |
| 4 – 5 years | 33,440 | 54,738 |
| Over 5 years | 647,521 | 632,241 |
| Sub-total | 4,610,845 | 4,053,752 |
| Less: provision for bad debts | 805,016 | 857,690 |
| Total | 3,805,829 | 3,196,062 |

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

| Category | Balance at June 30, 2023 | | | Balance as at December 31, 2022 | | |
|-------------------------------|--------------------------|-------------------------|------------------|---------------------------------|-------------------------|------------------|
| | Book balance | Provision for bad debts | Book value | Book balance | Provision for bad debts | Book value |
| | Amount | Amount | Amount | Amount | Amount | Amount |
| Imprest | 30,364 | 441 | 29,923 | 5,188 | 205 | 4,983 |
| Security deposit | 1,136,297 | 111,324 | 1,024,973 | 1,349,502 | 133,650 | 1,215,852 |
| Advance money for the Company | 1,606,942 | 200,448 | 1,406,494 | 1,254,411 | 182,084 | 1,072,327 |
| Suspense payment | 937,942 | 452,874 | 485,068 | 1,003,269 | 497,676 | 505,593 |
| Escrow payment | 4,762 | 14 | 4,748 | 5,920 | 1,153 | 4,767 |
| Deposit | 265,471 | 9,633 | 255,838 | 94,537 | 11,162 | 83,375 |
| Export rebates receivable | 87,492 | 98 | 87,394 | 21,161 | 515 | 20,646 |
| Others | 541,575 | 30,184 | 511,391 | 319,764 | 31,245 | 288,519 |
| Total | 4,610,845 | 805,016 | 3,805,829 | 4,053,752 | 857,690 | 3,196,062 |

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

5.5 Other receivables (Continued)

5.5.2 Other receivables (Continued)

(3) Details of provision for bad debts

Provision for bad debts at stage I as at June 30, 2023

| Category | Book balance | Expected credit loss ratio in future 12 months (%) | Provision for bad debts | Book value |
|---|------------------|--|-------------------------|------------------|
| Provision for bad debts made by portfolio | 3,895,833 | 4.40 | 171,451 | 3,724,382 |
| – Imprest | 30,364 | 1.45 | 441 | 29,923 |
| – Margin and deposit | 1,304,230 | 4.00 | 52,169 | 1,252,061 |
| – Other receivables | 2,561,239 | 4.64 | 118,841 | 2,442,398 |
| Total | 3,895,833 | | 171,451 | 3,724,382 |

As at June 30, 2023, 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, 2023:

| Category | Book balance | Expected credit loss ratio in future 12 months (%) | Provision for bad debts | Book value |
|---|----------------|--|-------------------------|---------------|
| Provision for bad debts made by portfolio | 715,012 | 88.61 | 633,565 | 81,447 |
| – Imprest | | | | |
| – Margin and deposit | 97,538 | 70.52 | 68,788 | 28,750 |
| – Other receivables | 617,474 | 91.47 | 564,777 | 52,697 |
| Total | 715,012 | | 633,565 | 81,447 |

(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, 2022 | 142,574 | | 715,116 | 857,690 |
| Balance as at December 31, 2022 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 | 50,647 | | 9,169 | 59,816 |
| Reversal in the current period | 25,464 | | 109,157 | 134,621 |
| Write-off in the current period | | | 91 | 91 |
| Other changes | -3,694 | | -18,528 | -22,222 |
| Balance as at June 30, 2023 | 171,451 | | 633,565 | 805,016 |

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

In the current period, other receivables were written off in RMB91,000.

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)

(6) Top 5 of other receivables as at June 30, 2023, presented by debtor

| Company name | Nature | Balance as at June 30, 2023 | Aging | Proportion in the total balance of other receivables as at June 30, 2023 (%) | Balance of provision for bad debts as at June 30, 2023 |
|--------------|--------------------------------------|-----------------------------|-------------------------------|--|--|
| Entity 1 | Advance money for the Company | 596,205 | Within 1 year and 3 – 4 years | 12.93 | 27,664 |
| Entity 2 | Security deposits Advance payment | 302,376 | 1 – 5 years and over 5 years | 6.56 | 6,302 |
| Entity 3 | Provisional payment | 254,331 | 2 – 5 years and over 5 years | 5.52 | 254,331 |
| Entity 4 | Security deposits Advance payment | 166,339 | Over 5 years | 3.61 | 166,339 |
| Entity 5 | Provisional payment | 128,355 | 4 – 5 years and over 5 years | 2.78 | 128,355 |
| Total | | 1,447,606 | | 31.40 | 582,991 |

5.6 Inventories

5.6.1 Classification of inventories

| Item | Balance as at June 30, 2023 | | | Balance as at December 31, 2022 | | |
|---------------------------|-----------------------------|--|------------|---------------------------------|--|------------|
| | 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 | 950,678 | 15,305 | 935,373 | 923,489 | 24,494 | 898,995 |
| Revolving materials | 13,048 | | 13,048 | 14,258 | | 14,258 |
| Goods in process | 13,585 | 1,671 | 11,914 | 6,257 | 1,671 | 4,586 |
| Stock commodities | 90,497 | 2,429 | 88,068 | 97,835 | 2,429 | 95,406 |
| Contract performance cost | 804,955 | | 804,955 | 103,096 | | 103,096 |
| Total | 1,872,763 | 19,405 | 1,853,358 | 1,144,935 | 28,594 | 1,116,341 |

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

| Item | Balance as at December 31, 2022 | Increase in the current period | | Decrease in the current period | | Balance as at June 30, 2023 |
|-------------------|---------------------------------|--------------------------------|--------|--------------------------------|--------|-----------------------------|
| | | Provision | Others | Reversal or write-off | Others | |
| Raw materials | 24,494 | | | 9,189 | | 15,305 |
| Goods in process | 1,671 | | | | | 1,671 |
| Stock commodities | 2,429 | | | | | 2,429 |
| Total | 28,594 | | | 9,189 | | 19,405 |

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

As at June 30, 2023 and December 31, 2022, the Group had no capitalized borrowing costs included in the year end balance of inventories. The inventories were not used for collateral or guarantee.

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, 2023 | | | Balance as at December 31, 2022 | | |
|-----------------|-----------------------------|--------------------------|-------------------|---------------------------------|--------------------------|-------------------|
| | Book balance | Provision for impairment | Book value | Book balance | Provision for impairment | Book value |
| Contract assets | 19,376,395 | 215,362 | 19,161,033 | 15,815,303 | 201,404 | 15,613,899 |
| Total | 19,376,395 | 215,362 | 19,161,033 | 15,815,303 | 201,404 | 15,613,899 |

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

| Category | Balance as at June 30, 2023 | | | | | Balance as at December 31, 2022 | | | | |
|---|-----------------------------|----------------|--------------------------|-----------------------------|-------------------|---------------------------------|----------------|--------------------------|-----------------------------|-------------------|
| | 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 made on an individual basis | 147,222 | 0.76 | 147,222 | 100.00 | | 141,901 | 0.90 | 141,901 | 100.00 | |
| Provision for impairment made by portfolios | 19,229,173 | 99.24 | 68,140 | 0.35 | 19,161,033 | 15,673,402 | 99.10 | 59,503 | 0.38 | 15,613,899 |
| Including: | | | | | | | | | | |
| Petroleum Engineering | 11,220,635 | 57.91 | 43,931 | 0.39 | 11,176,704 | 9,134,876 | 57.76 | 39,691 | 0.43 | 9,095,185 |
| Construction and Engineering | 8,008,538 | 41.33 | 24,209 | 0.30 | 7,984,329 | 6,538,526 | 41.34 | 19,812 | 0.30 | 6,518,714 |
| Total | 19,376,395 | 100.00 | 215,362 | | 19,161,033 | 15,815,303 | 100.00 | 201,404 | | 15,613,899 |

Section VIII Financial Reports

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

5.8 Other current assets

| Item | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|-------------------------------|-----------------------------|---------------------------------|
| Value-added tax retained | 1,296,971 | 1,123,184 |
| Input VAT to be certified | 28,115 | 61,174 |
| Value-added tax prepaid | 1,263,401 | 1,153,395 |
| Enterprise income tax prepaid | 35,164 | 25,110 |
| Total | 2,623,651 | 2,362,863 |

5.9 Long-term equity investments

| Investee | Balance as at December 31, 2022 | Increase/decrease in the current period | | | | | | | | Balance as at June 30, 2023 | Ending balance of provision for impairment | |
|--|---------------------------------|---|---------------------|---|--|-------------------------|--|-------------------------------|--------|-----------------------------|--|--|
| | | Additional investment | Negative investment | Profit or loss on investments recognized by the equity method | Adjustment to other comprehensive income | Other changes in equity | Cash dividends or profits declared to be distributed | Provision for impairment made | Others | | | |
| 1. Joint ventures | | | | | | | | | | | | |
| Zhong Wei Energy Services Co., Ltd. (A Sinopec - Weatherford Joint Venture) | 8,791 | | | 262 | | | | | | | 9,053 | |
| Sinopec Gulf Petroleum Engineering Services, LLC | 13,003 | | -13,383 | | | | | | | 380 | | |
| EBAPAN,S.A.DEC.V | 1,546 | | | | | | -766 | | | | 780 | |
| Sub-total | 23,340 | | -13,383 | 262 | | | -766 | | | 380 | 9,833 | |
| 2. Associates | | | | | | | | | | | | |
| Hua Bei Ruida Oil Service Company Limited ("Ordos North") | 9,556 | | | 1,732 | | | -1,750 | | | | 9,538 | |
| Xinjiang North China Tianxiang Oil Service Company Limited ("Xinjiang North") | 3,536 | | | 841 | | | -900 | | | | 3,477 | |
| Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited | 1,732 | | | 251 | | | | | | | 1,983 | |
| Zhenjiang Huajiang Oil and Gas Engineering Technology Service Co., Ltd | 2,603 | | | 430 | | | -430 | | | | 2,603 | |
| Henan Zhongyuan Oil & Gas Technology Service Co., Ltd | 2,586 | | | | | | -32 | | | | 2,554 | |
| Henan Zhongyou Oil & Gas Technology Service Co., Ltd | 6,862 | | | | | | | | | | 6,862 | |
| Sub-total | 26,875 | | | 3,254 | | | -3,112 | | | | 27,017 | |
| Total | 50,215 | | -13,383 | 3,516 | | | -3,878 | | | 380 | 36,850 | |

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.

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, 2023 | Balance as at December 31, 2022 |
|--|--------------------------------|------------------------------------|
| Sinopec Carbon Industry Technology Co., Ltd. | 125,011 | 125,011 |
| Dongying Kewei Intelligent Technology Co., Ltd. | 116 | 116 |
| Shengli Oilfield Niuzhuang Petroleum Development Co., Ltd. | 9,365 | 9,365 |
| Total | 134,492 | 134,492 |

As the investments in other equity instruments involving Sinopec Carbon Industry Technology Co., Ltd. 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 transferring the other comprehensive income to retained earnings |
|--|---|----------------------|-----------------------|---|---|
| Dongying Kewei Intelligent Technology Co., Ltd. | | | 300 | | |
| Shengli Oilfield Niuzhuang Petroleum Development Co., Ltd. | | 7,365 | | | |
| Sinopec Carbon Industry Technology Co., Ltd. | | 11 | | | |

5.11 Fixed assets

5.11.1 Fixed assets and disposal of fixed assets

| Item | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|--------------------------|--------------------------------|------------------------------------|
| Fixed assets | 23,378,481 | 24,849,097 |
| Disposal of fixed assets | 66,885 | 47,510 |
| Total | 23,445,366 | 24,896,607 |

Section VIII Financial Reports

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

5.11 Fixed assets (Continued)

5.11.2 Breakdowns of fixed assets

| Item | Buildings and constructions | Equipment and others | Total |
|---|-----------------------------|----------------------|------------|
| 1. Original book value | | | |
| (1) Balance as at December 31, 2022 | 1,642,808 | 65,703,137 | 67,345,945 |
| (2) Increase in the current period | | 118,982 | 118,982 |
| – Purchase | | 11,007 | 11,007 |
| – Transferred from construction in progress | | 107,975 | 107,975 |
| (3) Decrease in the current period | 9 | 781,881 | 781,890 |
| – Disposal or retirement | 9 | 781,881 | 781,890 |
| (4) Balance as at June 30, 2023 | 1,642,799 | 65,040,238 | 66,683,037 |
| 2. Accumulated depreciation | | | |
| (1) Balance as at December 31, 2022 | 688,692 | 40,608,232 | 41,296,924 |
| (2) Increase in the current period | 27,554 | 1,497,777 | 1,525,331 |
| – Provision | 27,554 | 1,497,777 | 1,525,331 |
| (3) Decrease in the current period | 5 | 653,009 | 653,014 |
| – Disposal or retirement | 5 | 653,009 | 653,014 |
| (4) Balance as at June 30, 2023 | 716,241 | 41,453,000 | 42,169,241 |
| 3. Provision for impairment | | | |
| (1) Balance as at December 31, 2022 | 654 | 1,199,270 | 1,199,924 |
| (2) Increase in the current period | | 4,959 | 4,959 |
| – Provision | | 4,959 | 4,959 |
| (3) Decrease in the current period | | 69,568 | 69,568 |
| – Disposal or retirement | | 69,568 | 69,568 |
| (4) Balance as at June 30, 2023 | 654 | 1,134,661 | 1,135,315 |
| 4. Book value | | | |
| (1) Book value as at June 30, 2023 | 925,904 | 22,452,577 | 23,378,481 |
| (2) Book value as at December 31, 2022 | 953,462 | 23,895,635 | 24,849,097 |

As at June 30, 2023, 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, 2023, totaling amount in cost of RMB167,225,000, in accumulated depreciation of RMB77,993,000 and net book value of RMB89,232,000.

5.11.4 Disposal of fixed assets

| Item | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|--------------|-----------------------------|---------------------------------|
| Equipment | 66,885 | 47,510 |
| Total | 66,885 | 47,510 |

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, 2023 | Balance as at December 31, 2022 |
|--------------------------|-----------------------------|---------------------------------|
| Construction in progress | 466,590 | 467,204 |
| Engineer material | 223 | 181 |
| Total | 466,813 | 467,385 |

5.12.2 Details of construction in progress

| Item | Balance as at June 30, 2023 | | | Balance as at December 31, 2022 | | |
|--|-----------------------------|--------------------------|----------------|---------------------------------|--------------------------|----------------|
| | Book balance | Provision for impairment | Book value | Book balance | Provision for impairment | Book value |
| Infrastructure improvement expenditure | 3,890 | 3,502 | 388 | 3,890 | 3,502 | 388 |
| Major Materials and equipment procurement projects | 458,788 | | 458,788 | 459,402 | | 459,402 |
| Other construction projects | 7,414 | | 7,414 | 7,414 | | 7,414 |
| Total | 470,092 | 3,502 | 466,590 | 470,706 | 3,502 | 467,204 |

5.12.3 Changes in important construction in progress in the current period

| Project name | Budget amount | Balance as at December 31, 2022 | 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, 2023 | Proportion of accumulated project investments in budget amount (%) | Project progress | Accumulated capitalized amount of interest | Source of funds |
|---|---------------|---------------------------------|--------------------------------|--|---------------------------------------|-----------------------------|--|------------------|--|------------------------|
| Year 2022, Mexico HUELITLI project non-installation equipment purchase project | 277,610 | 45,797 | 8,965 | | | 54,762 | 63.54 | 63.54 | | Self-financing in full |
| SICP system construction | 65,150 | 52,569 | | | | 52,569 | 80.69 | 80.69 | | Self-financing in full |
| Year 2022, 70 modern drilling rig renewal project in the southwest work area | 107,850 | 51,005 | | 1,427 | | 49,578 | 79.94 | 79.94 | | Self-financing in full |
| Banniaduri Petroleum Integrated Services LLC Project in Bannaduli, Ecuador | 80,000 | 6,462 | 31,044 | | | 37,506 | 38.81 | 38.81 | | Self-financing in full |
| Sinopec North China Petroleum Engineering Co., Ltd. North China Engineering 2022 50DB modern drilling rig renewal project | 47,800 | 36,544 | | | | 36,544 | 76.45 | 76.45 | | Self-financing in full |
| Jiangnan Engineering Shale Gas Technology Center experimental facilities complete project | 36,520 | 36,520 | | | | 36,520 | 99.00 | 99.00 | | Self-financing in full |
| Jingwei Company purchased rotary guidance instruments in 2022 | 70,000 | 34,749 | | | | 34,749 | 100.00 | 100.00 | | Self-financing in full |
| Sinopec Zhongyuan Petroleum Engineering Co., Ltd. 2023 Kuwait drilling rig renovation project | 49,200 | | 34,430 | | | 34,430 | 69.98 | 69.98 | | Self-financing in full |
| Southwest Engineering 2022 fast moving fast installation test oil and gas workover rig update | 28,750 | 18,048 | | | | 18,048 | 37.01 | 37.01 | | Self-financing in full |
| ERP improvement project in 2019 | 12,450 | 12,255 | | | | 12,255 | 98.43 | 98.43 | | Self-financing in full |
| Total | | 293,949 | 74,439 | 1,427 | | 366,961 | | | | |

Section VIII Financial Reports

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

5.13 Right-of-use assets

| Item | Land | Buildings | Equipment and others | Total |
|--|---------|-----------|----------------------|-----------|
| 1. Original book value | | | | |
| (1) Balance as at December 31, 2022 | 152,115 | 1,067,010 | 938,423 | 2,157,548 |
| (2) Increase in the current period | 11,107 | 207,821 | 24,609 | 243,537 |
| – Newly-added leases | 8,332 | 179,575 | 23,665 | 211,572 |
| – Adjustment of lease liabilities | 2,775 | 28,246 | 944 | 31,965 |
| (3) Decrease in the current period | 17,635 | 91,278 | 392,099 | 501,012 |
| – Adjustment of lease liabilities | 149 | 23,088 | 444 | 23,681 |
| – Write-off or early termination | 17,486 | 68,190 | 391,655 | 477,331 |
| (4) Balance as at June 30, 2023 | 145,587 | 1,183,553 | 570,933 | 1,900,073 |
| 2. Accumulated depreciation | | | | |
| (1) Balance as at December 31, 2022 | 86,484 | 437,278 | 621,436 | 1,145,198 |
| (2) Increase in the current period | 24,757 | 175,597 | 96,120 | 296,474 |
| – Depreciation | 24,757 | 175,597 | 96,120 | 296,474 |
| (3) Decrease in the current period | 17,486 | 47,544 | 365,292 | 430,322 |
| – Write-off or early termination | 17,486 | 47,544 | 365,292 | 430,322 |
| (4) Balance as at June 30, 2023 | 93,755 | 565,331 | 352,264 | 1,011,350 |
| 3. Provision for impairment | | | | |
| 4. Book value | | | | |
| (1) Book value as at June 30, 2023 | 51,832 | 618,222 | 218,669 | 888,723 |
| (2) Book value as at December 31, 2022 | 65,631 | 629,732 | 316,987 | 1,012,350 |

Other description: As at June 30, 2023, the lease expenses recognized by the Group and relevant to the short-term lease and low-value assets lease amounted to RMB246,982,000.

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

5.14 Intangible assets

5.14.1 Breakdowns of intangible assets

| Item | Land use right | Software use right | Contract income right | Others | Total |
|--|----------------|--------------------|-----------------------|--------|-----------|
| 1. Original book value | | | | | |
| (1) Balance as at December 31, 2022 | 137,875 | 251,083 | 786,838 | 77,384 | 1,253,180 |
| (2) Increase in the current period | 12,511 | | | | 12,511 |
| – Purchase | 12,511 | | | | 12,511 |
| – Complete of construction | | | | | |
| (3) Decrease in the current period | | | | 410 | 410 |
| – Other | | | | 410 | 410 |
| (4) Balance as at June 30, 2023 | 150,386 | 251,083 | 786,838 | 76,974 | 1,265,281 |
| 2. Accumulated amortization | | | | | |
| (1) Balance as at December 31, 2022 | 34,625 | 162,689 | 525,584 | 48,792 | 771,690 |
| (2) Increase in the current period | 1,747 | 12,518 | 61,870 | 4,063 | 80,198 |
| – Provision | 1,747 | 12,518 | 61,870 | 4,063 | 80,198 |
| (3) Decrease in the current period | | | | | |
| – Dispose | | | | | |
| (4) Balance as at June 30, 2023 | 36,372 | 175,207 | 587,454 | 52,855 | 851,888 |
| 3. Provision for impairment | | | | | |
| 4. Book value | | | | | |
| (1) Book value as at June 30, 2023 | 114,014 | 75,876 | 199,384 | 24,119 | 413,393 |
| (2) Book value as at December 31, 2022 | 103,250 | 88,394 | 261,254 | 28,592 | 481,490 |

① As at June 30, 2023, there were no intangible assets generating from the internal research and development.

② As at June 30, 2023, there were no intangible assets under pledge or guarantee.

5.14.2 Land use right with pending certificate of title

As at June 30, 2023, 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 RMB2,567,000, and the net book value was RMB5,200,000.

5.15 Long-term deferred expenses

| Item | Balance as at December 31, 2022 | Increase in the current period | Amortization in the current period | Other decreases | Balance as at June 30, 2023 |
|---|---------------------------------|--------------------------------|------------------------------------|-----------------|-----------------------------|
| Special tools for petroleum engineering | 5,683,912 | 133,385 | 961,951 | 280 | 4,855,066 |
| Other tools for petroleum engineering | 753,577 | 156,989 | 176,161 | 4 | 734,401 |
| Camping house | 777,878 | 38,367 | 131,727 | 291 | 684,227 |
| Other long-term deferred expenses | 40,072 | | 4,025 | | 36,047 |
| Total | 7,255,439 | 328,741 | 1,273,864 | 575 | 6,309,741 |

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.

Section VIII Financial Reports

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, 2023 | | Balance as at December 31, 2022 | |
|---|----------------------------------|----------------------------|----------------------------------|----------------------------|
| | Deductible temporary differences | Deferred income tax assets | Deductible temporary differences | Deferred income tax assets |
| Provision for asset impairment and impact of depreciation | 953,538 | 155,815 | 953,538 | 155,815 |
| Provision for bad debts | 731,959 | 133,447 | 731,120 | 133,660 |
| Deferred income | 4,877 | 731 | 4,877 | 731 |
| Deductible loss | 481,761 | 72,264 | 481,761 | 72,264 |
| Lease liabilities | 59,594 | 9,876 | 48,090 | 7,544 |
| Total | 2,231,729 | 372,133 | 2,219,386 | 370,014 |

5.16.2 Deferred income tax liabilities before offset

| Item | Balance as at June 30, 2023 | | Balance as at December 31, 2022 | |
|--|-------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | Taxable temporary differences | Deferred income tax liabilities | Taxable temporary differences | Deferred income tax liabilities |
| Revaluation of assets | 7,110 | 1,777 | 7,110 | 1,777 |
| Depreciation of fixed assets | 375,266 | 59,023 | 378,327 | 59,745 |
| Changes in fair value through other comprehensive income | 7,376 | 1,845 | 7,376 | 1,845 |
| Right-of-use assets | 81 | 20 | 30,103 | 5,129 |
| Total | 389,833 | 62,665 | 422,916 | 68,496 |

5.16.3 Details of unrecognized deferred income tax assets

| Item | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|----------------------------------|-----------------------------|---------------------------------|
| Deductible temporary differences | 2,921,183 | 2,941,933 |
| Deductible losses | 12,781,861 | 12,609,694 |
| Total | 15,703,044 | 15,551,627 |

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

| Year | Balance as at June 30, 2023 | Balance as at December 31, 2022 | Remark |
|---------------------|-----------------------------|---------------------------------|--------|
| Year 2023 | 34,955 | 246,170 | |
| Year 2024 | 136,050 | 136,050 | |
| Year 2025 | 345,891 | 453,670 | |
| Year 2026 | 8,988,657 | 9,176,676 | |
| Year 2027 | 2,277,758 | 2,277,758 | |
| Year 2028 and later | 998,550 | 319,370 | |
| Total | 12,781,861 | 12,609,694 | |

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, 2023 | Balance as at December 31, 2022 |
|-----------------------------------|----------|-----------------------------|---------------------------------|
| Credit loans from related parties | RMB | 18,185,000 | 16,095,000 |
| | USD | 1,531,870 | 1,828,208 |
| Total | | 19,716,870 | 17,923,208 |

Description: As at June 30, 2023, no assets of the Group were pledged.

As at June 30, 2023, the Group has no overdue short-term borrowings.

As at June 30, 2023, the interest rate interval for short-term borrowings was from 1.42% to 6.34% (As at December 31, 2022: 1.42%-4.82%).

5.18 Notes payable

| Category | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|----------------------------|-----------------------------|---------------------------------|
| Bank acceptance bill | 9,046,723 | 7,987,375 |
| Commercial acceptance bill | | 2,850 |
| Total | 9,046,723 | 7,990,225 |

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, 2023 | Balance as at December 31, 2022 |
|---------------------------|-----------------------------|---------------------------------|
| Payables for materials | 5,642,697 | 5,953,406 |
| Payables for construction | 6,332,271 | 6,680,943 |
| Payable for labour cost | 7,725,114 | 8,150,479 |
| Payables for equipment | 3,780,143 | 3,988,288 |
| Others | 784,904 | 828,112 |
| Total | 24,265,129 | 25,601,228 |

5.19.2 Significant accounts payable with aging over one year

| Item | Balance as at June 30, 2023 | Reason for no payment or carry-forward |
|--------------|-----------------------------|--|
| Entity 1 | 35,588 | Unsettled payment |
| Entity 2 | 28,715 | Quality guarantee deposit, unsettled payment |
| Entity 3 | 20,885 | Quality guarantee deposit, unsettled payment |
| Entity 4 | 15,381 | Unsettled payment |
| Entity 5 | 14,581 | Quality guarantee deposit, unsettled payment |
| Total | 115,150 | |

Section VIII Financial Reports

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

5.20 Contract liabilities

| Item | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|--------------------------|-----------------------------|---------------------------------|
| Petroleum Engineering | 1,918,286 | 1,858,141 |
| Construction Engineering | 2,541,161 | 3,257,678 |
| Total | 4,459,447 | 5,115,819 |

5.21 Employee compensation payable

5.21.1 Presentation of employee compensation payable

| Item | Balance as at December 31, 2022 | Increase in the current period | Decrease in the current period | Balance as at June 30, 2023 |
|------------------------------|---------------------------------|--------------------------------|--------------------------------|-----------------------------|
| Short term employee benefits | 569,494 | 6,589,778 | 6,500,262 | 659,010 |
| Post-employment benefits | 796 | 1,106,778 | 1,105,435 | 2,139 |
| Termination benefits | | 7,959 | 7,959 | |
| Total | 570,290 | 7,704,515 | 7,613,656 | 661,149 |

5.21.2 Presentation of short-term compensation

| Item | Balance as at December 31, 2022 | Increase in the current period | Decrease in the current period | Balance as at June 30, 2023 |
|--|---------------------------------|--------------------------------|--------------------------------|-----------------------------|
| (1) Wages or salaries, bonuses, allowances and subsidies | 374,436 | 4,194,663 | 4,109,466 | 459,633 |
| (2) Staff welfare | | 457,009 | 456,989 | 20 |
| (3) Social security contributions | 1,910 | 582,750 | 583,593 | 1,067 |
| Including: 1. Basic medical insurance | 1,494 | 493,434 | 493,970 | 958 |
| 2. Work-related injury insurance | 7 | 37,257 | 37,201 | 63 |
| 3. Birth insurance | 30 | 15,396 | 15,396 | 30 |
| 4. Other insurance | 379 | 36,663 | 37,026 | 16 |
| (4) Housing funds | 1,774 | 542,412 | 539,535 | 4,651 |
| (5) Labor union and employee education funds | 185,336 | 120,979 | 135,400 | 170,915 |
| (6) Others | 6,038 | 691,965 | 675,279 | 22,724 |
| Total | 569,494 | 6,589,778 | 6,500,262 | 659,010 |

5.21.3 Presentation of defined contribution plans

| Item | Balance as at December 31, 2022 | Increase in the current period | Decrease in the current period | Balance as at June 30, 2023 |
|-------------------------|---------------------------------|--------------------------------|--------------------------------|-----------------------------|
| Basic pension insurance | 460 | 720,118 | 719,088 | 1,490 |
| Unemployment insurance | 15 | 30,230 | 30,199 | 46 |
| Annuity | 321 | 356,430 | 356,148 | 603 |
| Total | 796 | 1,106,778 | 1,105,435 | 2,139 |

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 RMB7,959,000 compensation to the resigning employee for terminating labor relation.

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, 2023 | Balance as at December 31, 2022 |
|--|--------------------------------|------------------------------------|
| VAT | 299,607 | 396,565 |
| Corporate income tax | 210,555 | 252,726 |
| Urban maintenance and construction tax | 25,631 | 34,974 |
| House property tax | 860 | 1,223 |
| Land use tax | 9,688 | 12,733 |
| Individual income tax | 44,012 | 174,702 |
| Education surtax | 14,992 | 21,422 |
| Other taxes | 92,388 | 104,549 |
| Total | 697,733 | 998,894 |

5.23 Other payables

| Item | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|------------------|--------------------------------|------------------------------------|
| Interest payable | 38,117 | 21,885 |
| Other payables | 3,224,484 | 2,706,259 |
| Total | 3,262,601 | 2,728,144 |

5.23.1 Interest payable

| Item | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|---|--------------------------------|------------------------------------|
| Interest payable of long-term loan which interest paid by installment and principal paid at maturity date | 24,046 | 5,069 |
| Interest payable of short-term loan | 14,071 | 16,816 |
| Total | 38,117 | 21,885 |

5.23.2 Other payables

(1) Presentation of other payables by nature

| Item | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|-----------------------|--------------------------------|------------------------------------|
| Guarantee | 937,489 | 819,893 |
| Deposit | 151,533 | 145,438 |
| Amount paid on behalf | 971,099 | 645,731 |
| Temporary receipts | 347,417 | 238,069 |
| Escrow payments | 53,346 | 44,611 |
| Withheld payments | 51,448 | 56,067 |
| Others | 712,152 | 756,450 |
| Total | 3,224,484 | 2,706,259 |

As at June 30, 2023, other payables with aging over one year amounted to RMB525,944,000 (As at December 31, 2022: RMB481,057,000), 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.

Section VIII Financial Reports

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, 2023 | Balance as at December 31, 2022 |
|--------------------------------------|-----------------------------|---------------------------------|
| Long-term borrowings within one year | 1,000,000 | 1,000,000 |
| Lease liabilities within one year | 468,991 | 517,190 |
| Total | 1,468,991 | 1,517,190 |

5.25 Long-term borrowings

Classification of long-term borrowings:

| Item | Balance as at June 30, 2023 | Interest rate period | Balance as at December 31, 2022 | Interest rate period |
|---------------------------------------|-----------------------------|----------------------|---------------------------------|----------------------|
| Loans on credit | 1,440,774 | 1.84%-2.92% | 1,480,557 | 2.22%-2.92% |
| Sub-total | 1,440,774 | | 1,480,557 | |
| Less: Long-term loans within one year | 1,000,000 | | 1,000,000 | |
| Total | 440,774 | | 480,557 | |

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

5.26 Lease liabilities

| Item | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|---|-----------------------------|---------------------------------|
| Land and housing | 607,071 | 687,361 |
| Equipment and others | 228,681 | 326,874 |
| Sub-total | 835,752 | 1,014,235 |
| Less: Lease liabilities within one year | 468,991 | 517,190 |
| Total | 366,761 | 497,045 |

The interest expenses of lease liabilities accrued for January-June 2023 were RMB23,753,000, which were included in the “financial expenses – interest expenses”.

5.27 Long-term payables

| Item | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|--------------------|-----------------------------|---------------------------------|
| Long-term payables | 96,425 | 74,657 |
| Total | 96,425 | 74,657 |

5.27.1 Long-term payables

| Item | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|--|-----------------------------|---------------------------------|
| Loans payable | | |
| Others | 96,425 | 74,657 |
| Sub-total | 96,425 | 74,657 |
| Less: Long-term payables within one year | | |
| Total | 96,425 | 74,657 |

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

5.28 Estimated liabilities

| Item | Balance as at June 30, 2023 | Balance as at December 31, 2022 | Forming reason |
|---|-----------------------------|---------------------------------|---|
| Outstanding litigation | | 4,000 | |
| Expected loss of judicial restructuring | 160,417 | 159,323 | Estimated payment costs of judicial restructuring |
| Executory onerous contracts | 10,546 | 17,429 | Expected loss of construction contract |
| Estimated foreign tax expenses | 20,246 | 20,246 | Estimated tax expense |
| Total | 191,209 | 200,998 | |

5.29 Deferred income

| Item | Balance as at December 31, 2022 | Increase in current period | Decrease in current period | Balance as at June 30, 2023 | Forming reason |
|-------------------|---------------------------------|----------------------------|----------------------------|-----------------------------|----------------------------|
| Government grants | 11,576 | 49,629 | 45,565 | 15,640 | Government grants received |
| Total | 11,576 | 49,629 | 45,565 | 15,640 | |

5.30 Share capital

Current Period

| Item | Balance as at December 31, 2022 | Changes in current period (“+” for increase and “-” for decrease) | | | | | Balance as at June 30, 2023 |
|---|---------------------------------|---|----------------|------------------------------------|--------|-----------|-----------------------------|
| | | New shares issued | Share donation | Conversion of reserves into shares | Others | Sub-total | |
| Legal person share held by domestic capital | 11,786,046 | | | | | | 11,786,046 |
| RMB social public shares (A-share) | 1,783,333 | | | | | | 1,783,333 |
| Foreign shares listed overseas (H-share) | 5,414,961 | | | | | | 5,414,961 |
| Total | 18,984,340 | | | | | | 18,984,340 |

Prior Period

| Item | Balance as at December 31, 2021 | Changes in current period (“+” for increase and “-” for decrease) | | | | | Balance as at December 31, 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 |
| Total | 18,984,340 | | | | | | 18,984,340 |

Section VIII Financial Reports

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

5.31 Capital reserves

Current Period

| Item | Balance as at December 31, 2022 | Increase in current period | Decrease in current period | Balance as at June 30, 2023 |
|------------------------|---------------------------------|----------------------------|----------------------------|-----------------------------|
| Share premium | 11,649,804 | | | 11,649,804 |
| Other capital reserves | 67,969 | | | 67,969 |
| Total | 11,717,773 | | | 11,717,773 |

Prior Period

| Item | Balance as at December 31, 2021 | Increase in current period | Decrease in current period | Balance as at December 31, 2022 |
|------------------------|---------------------------------|----------------------------|----------------------------|---------------------------------|
| Share premium | 11,649,804 | | | 11,649,804 |
| Other capital reserves | 67,969 | | | 67,969 |
| Total | 11,717,773 | | | 11,717,773 |

5.32 Other comprehensive income

| Item | Balance as at December 31, 2022 | Current period | | | | | Balance as at June 30, 2023 |
|--|---------------------------------|---|--|---|---------------------------|---|-----------------------------|
| | | 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 | |
| 1. Other comprehensive income that cannot be reclassified into profit or loss | 5,232 | | | | | | 5,232 |
| Including: changes in the fair value of other equity instruments investment | 5,232 | | | | | | 5,232 |
| Total of other comprehensive income | 5,232 | | | | | | 5,232 |

5.33 Special reserves

| Item | Balance as at December 31, 2022 | Increase in current period | Decrease in current period | Balance as at June 30, 2023 |
|--------------|---------------------------------|----------------------------|----------------------------|-----------------------------|
| Safety costs | 326,983 | 560,313 | 237,097 | 650,199 |
| Total | 326,983 | 560,313 | 237,097 | 650,199 |

Note: In accordance with PRC regulations, the Group appropriated production safety fund of RMB560,313,000 to specific reserve for January-June 2023, which was recognised in the cost of related products and the Specific reserve. For January-June 2023, the Group utilised production safety fund amounting to RMB237,097,000 which was of expenditure nature.

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

5.34 Surplus reserves

| Item | Balance as at December 31, 2022 | Increase in current period | Decrease in current period | Balance as at June 30, 2023 |
|----------------------------|---------------------------------|----------------------------|----------------------------|-----------------------------|
| Statutory surplus reserves | 200,383 | | | 200,383 |
| Total | 200,383 | | | 200,383 |

5.35 Retained earnings

| Item | Current period | Prior period | Withdrawal or distribution proportion |
|---|----------------|--------------|---------------------------------------|
| Undistributed profit at the end of the previous year before the adjustment | -23,807,392 | -24,256,338 | |
| Adjust the total undistributed profit at the beginning of the year (increase +, decrease -) | 2,415 | -9,669 | |
| Retained earnings as at the beginning of the period | -23,804,977 | -24,266,007 | |
| Plus: net profit attributable to owners of the parent company in the period | 325,904 | 206,310 | |
| Less: Withdrawal of statutory surplus reserves | | | 10.00% |
| Retained earnings as at the end of the period | -23,479,073 | -24,059,697 | |
| Including: the amount of the surplus reserve withdrawn by subsidiaries in the year attributable to the parent company | | | |

5.36 Revenue and cost of sales

5.36.1 Revenue and cost of sales

| Item | Current year | | Prior year | |
|----------------|-------------------|-------------------|-------------------|-------------------|
| | Revenue | Cost | Revenue | Cost |
| Major business | 36,788,467 | 34,232,594 | 32,726,564 | 30,432,471 |
| Other business | 345,061 | 173,792 | 422,088 | 295,076 |
| Total | 37,133,528 | 34,406,386 | 33,148,652 | 30,727,547 |

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 |
|--------------------------------------|------------------|----------------------|-------------------------|------------------------------|--------------------------|----------------|-------------------|
| Main business premise | | | | | | | |
| Mainland China | 1,208,337 | 13,579,014 | 1,509,233 | 4,123,395 | 7,959,261 | 613,368 | 28,992,608 |
| Other countries or regions | 811,296 | 5,288,976 | 55,356 | 576,173 | 871,605 | 192,453 | 7,795,859 |
| Total | 2,019,633 | 18,867,990 | 1,564,589 | 4,699,568 | 8,830,866 | 805,821 | 36,788,467 |
| Client type | | | | | | | |
| Related parties | 978,660 | 12,172,644 | 1,350,233 | 3,461,004 | 6,690,843 | 229,246 | 24,882,630 |
| Third party | 1,040,973 | 6,695,346 | 214,356 | 1,238,564 | 2,140,023 | 576,575 | 11,905,837 |
| Total | 2,019,633 | 18,867,990 | 1,564,589 | 4,699,568 | 8,830,866 | 805,821 | 36,788,467 |
| Recognition time of revenue | | | | | | | |
| Goods (recognised at a certain time) | | 3,097 | | 1,605 | 3,265 | 69,315 | 77,282 |
| Service (recognised over time) | 2,019,633 | 18,864,893 | 1,564,589 | 4,697,963 | 8,827,601 | 736,506 | 36,711,185 |
| Total | 2,019,633 | 18,867,990 | 1,564,589 | 4,699,568 | 8,830,866 | 805,821 | 36,788,467 |

Section VIII Financial Reports

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, 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, 2023, 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 RMB32,411,000,000. 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 | 22,923 | 19,317 |
| Educational surcharges | 18,244 | 15,008 |
| Overseas taxes and surcharges | 34,784 | 32,160 |
| Property taxes | 5,064 | 5,281 |
| Land use taxes | 23,925 | 25,620 |
| Vehicle and vessel usage tax | 4,431 | 4,098 |
| Stamp duty | 19,386 | 18,874 |
| Others | 1,026 | 1,850 |
| Total | 129,783 | 122,208 |

5.38 Selling and distribution expenses

| Item | Current period | Prior period |
|-----------------------------|----------------|---------------|
| Staff costs | 24,017 | 19,955 |
| Depreciation cost | 316 | 248 |
| Expenses for business trips | 1,759 | 1,272 |
| Publicity expenses | 35 | |
| Rental expenses | 224 | 911 |
| Office expenses | 1,547 | 329 |
| Others | 3,523 | 3,928 |
| Total | 31,421 | 26,643 |

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 | 2,392 | 4,398 |
| Staff costs | 713,684 | 786,419 |
| The information system runs maintenance fees | 22,526 | 17,552 |
| Business entertainment | 11,082 | 7,835 |
| Travel expenses | 24,905 | 9,880 |
| Rental expenses | 7,299 | 31,295 |
| Depreciation and amortization | 70,791 | 69,819 |
| Consultation | 6,951 | 8,389 |
| Property insurance | 1,197 | 2,583 |
| Others | 177,357 | 153,848 |
| Total | 1,038,184 | 1,092,018 |

5.40 Research and development expenses

| Item | Current period | Prior period |
|-----------------------------|----------------|----------------|
| Staff costs | 256,705 | 228,396 |
| Materials costs | 241,469 | 186,354 |
| Technical collaboration fee | 116,675 | 55,640 |
| Experimental expenses | 2,668 | |
| Depreciation | 19,530 | 20,120 |
| Others | 178,067 | 176,409 |
| Total | 815,114 | 666,919 |

5.41 Financial expenses

| Item | Current period | Prior period |
|--|----------------|----------------|
| Interest expenses on borrowings | 360,522 | 286,731 |
| Interest expenses on lease liabilities | 23,753 | 25,681 |
| Interest income | -10,897 | -4,430 |
| Exchange losses/(gains) | -39,756 | -47,529 |
| Bank charges and others | 40,195 | 21,435 |
| Total | 373,817 | 281,888 |

5.42 Other income

| Grant items (sources of other income) | Current period | Prior period |
|---|----------------|---------------|
| National research grants | 2,680 | 6,291 |
| Subsidies of enterprise development | 4,355 | 1,692 |
| Subsidies of stable post | 1,373 | 499 |
| Government incentives | 180 | |
| Self-use refined oil consumption tax refund | -5,700 | 10 |
| National research grants | 235 | 614 |
| Additional input VAT credit | 14,075 | 23,196 |
| Return of individual income tax fee | 4,312 | 2,865 |
| Total | 21,510 | 35,167 |

Section VIII Financial Reports

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 calculated by equity method | 3,516 | 2,758 |
| Investment income from the disposal of long-term equity investments | -1,020 | |
| Investment income from debt restructuring | 14,650 | 10,841 |
| Total | 17,146 | 13,599 |

5.44 Impairment of credit losses

| Item | Current period | Prior period |
|---|-----------------|----------------|
| Losses from impairment of accounts receivable | -87,305 | -56,676 |
| Losses from impairment of other receivables | -74,805 | -14,015 |
| Total | -162,110 | -70,691 |

5.45 Impairment of assets

| Item | Current period | Prior period |
|---|----------------|--------------|
| Losses from impairment of contract assets | 8,636 | 1,351 |
| Losses from impairment of fixed assets | 4,959 | |
| Other | 2 | |
| Total | 13,597 | 1,351 |

5.46 Gains from disposal of assets

| Item | Current period | Prior period |
|---|----------------|---------------|
| Gain on disposal of fixed assets ("-" for losses) | 8,026 | 9,692 |
| Others | 809 | 4,091 |
| Total | 8,835 | 13,783 |

5.47 Non-operating income

| Item | Current period | Prior period | Amount included in the current non-recurring profit or loss |
|-----------------------------|----------------|---------------|---|
| Income from waived payables | 3,464 | 547 | 3,464 |
| Compensation received | 1,537 | 5,400 | 1,537 |
| Penalty income | 858 | 2,115 | 858 |
| Insurance compensation | 327 | | 327 |
| Gain from asset scrap | 30,708 | 13,322 | 30,708 |
| Government subsidy income | 28,317 | 26,734 | 28,317 |
| Other | 3,206 | 6,006 | 3,206 |
| Total | 68,417 | 54,124 | 68,417 |

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 | |
| Expected losses on pending claims | | 550 | |
| Compensation | 17,058 | 2,138 | 17,058 |
| Penalty | 759 | 1,134 | 759 |
| Non-current assets written off | 7,901 | 5,495 | 7,901 |
| Others | 35,952 | 29,648 | 35,952 |
| Total | 61,670 | 40,065 | 61,670 |

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 | 223,620 | 171,693 |
| Deferred income tax | -7,950 | -626 |
| Total | 215,670 | 171,067 |

5.49.2 Adjustment process of accounting profits and income tax expenses

| Item | Current period |
|---|----------------|
| Total profits | 541,574 |
| Income tax expenses calculated at statutory tax rate | 135,394 |
| Effect of different tax rates used by subsidiaries | 33,469 |
| Adjustments of current tax in previous years | -2,322 |
| Profit and loss of joint ventures and associates accounted for using the equity method | -597 |
| Effect of non-deductible costs, expenses, and losses | 33,799 |
| Effect of unrecognized deferred income tax assets in prior periods | -24,768 |
| Effect of deductible temporary differences or losses from deferred income tax assets unrecognized in current period | 89,897 |
| Tax effect of additional deduction of research and development expenses | -49,202 |
| Income tax expenses | 215,670 |

Section VIII Financial Reports

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

5.50 Items of statement of cash flows

5.50.1 Cash received from other operating activities

| Item | Current period | Prior period |
|-------------------------------|------------------|----------------|
| Amount paid on behalf | 861,695 | 277,204 |
| Government grants | 53,891 | 62,232 |
| Temporary receipt and payment | 495,944 | 421,652 |
| Guarantee | 317,595 | 171,083 |
| Compensation | 2,722 | 8,993 |
| Others | 167,031 | 49,443 |
| Total | 1,898,878 | 990,607 |

5.50.2 Cash paid for other operating activities

| Item | Current period | Prior period |
|-----------------------------------|------------------|------------------|
| Temporary receipt and payment | 153,105 | 397,209 |
| Guarantee | 95,448 | 252,911 |
| Research and development expenses | 538,879 | 418,403 |
| Integrated service | 33,845 | 30,421 |
| Repair and maintenance expenses | 212,250 | 144,647 |
| Other operating expenses | 179,275 | 155,498 |
| Others | 33,964 | 37,700 |
| Total | 1,246,766 | 1,436,789 |

5.50.3 Cash paid for other financing activities

| Item | Current period | Prior period |
|--|----------------|----------------|
| Lease payments | 23,753 | 2,944 |
| Notes acceptance fee | 1,294 | 647 |
| Payment of guarantee and commitment fees | 15,640 | 9,656 |
| Principal and interest paid by lease liabilities | 214,735 | 145,474 |
| Total | 255,422 | 158,721 |

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

5.51 Supplementary information to the statement of cash flows

5.51.1 Supplementary information to the statement of cash flows

| Supplementary information | Current period | Prior period |
|---|----------------|--------------|
| 1. Net profits adjusted to cash flows from operating activities | | |
| Net profit | 325,904 | 206,310 |
| Plus: Impairment of credit losses | -162,110 | -70,691 |
| Impairment losses on assets | 13,597 | 1,351 |
| Depreciation of fixed assets | 1,525,331 | 1,506,676 |
| Depreciation of right-of-use assets | 296,474 | 259,928 |
| Amortization of intangible assets | 80,198 | 103,787 |
| Amortization of long-term deferred expenses | 1,273,864 | 1,069,531 |
| Losses on disposal of fixed assets, intangible assets, and other long-term assets ("-" for gains) | -8,835 | -13,783 |
| Losses from scrapping of fixed assets ("-" for gains) | -22,807 | -7,827 |
| Financial expenses ("-" for gains) | 327,246 | 248,543 |
| Investment loss ("-" for gains) | -17,146 | -13,599 |
| Decreases in deferred income tax assets ("-" for increases) | -2,119 | 5,641 |
| Increases in deferred income tax liabilities ("-" for decreases) | -5,831 | -225 |
| Decreases in inventories ("-" for increases) | -727,828 | -433,245 |
| Decreases in operating receivables ("-" for increases) | -3,173,801 | -4,032,226 |
| Increases in operating payables ("-" for decreases) | 364,758 | 273,976 |
| Work safety expenses | 323,216 | 355,374 |
| Other | 11,501 | 2,553 |
| Net cash flows from operating activities | 421,612 | -537,926 |
| 2. Significant investing and financing activities not involving cash receipts and payments | | |
| 3. Net change in cash and cash equivalents | | |
| Ending balance of cash and cash equivalents | 1,759,808 | 1,846,840 |
| Less: beginning balance of cash and cash equivalents | 1,801,150 | 2,475,307 |
| Net increase in cash and cash equivalents | -41,342 | -628,467 |

5.51.2 Breakdowns of cash and cash equivalents

| Item | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|--|-----------------------------|---------------------------------|
| I. Cash | 1,759,808 | 1,801,150 |
| Including: cash on hand | 2,806 | 2,992 |
| Unrestricted bank deposits | 1,756,904 | 1,797,634 |
| Other unrestricted monetary funds | 98 | 524 |
| II. Cash equivalents | | |
| III. Ending balance of cash and cash equivalents | 1,759,808 | 1,801,150 |
| Including: Restricted cash and cash equivalents by the parent company or its subsidiary subsidiaries | | |

Section VIII Financial Reports

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

5.52 Assets with restrictions on the ownership or use right

| Item | Book value as at June 30, 2023 | Reason for restriction |
|--------------------------|--------------------------------|---|
| Cash at bank and on hand | 73,276 | Guarantee and funds that are blocked frozen |
| Total | 73,276 | |

5.53 Foreign currency monetary items

5.53.1 Foreign currency monetary items

| Item | Balance in foreign currency as at June 30, 2023 | Exchange rate for conversion | RMB amount translated as at June 30, 2023 |
|------------------------------|---|------------------------------|---|
| Monetary funds | | | 1,308,786 |
| Including: USD | 120,156 | 7.2258 | 868,221 |
| KWD | 9,937 | 23.4939 | 233,466 |
| SAR | 10,038 | 1.9331 | 19,404 |
| DZD | 215,864 | 0.0533 | 11,505 |
| Others | | | 176,190 |
| Accounts receivable | | | 4,812,619 |
| Including: USD | 520,858 | 7.2258 | 3,763,611 |
| KWD | 12,621 | 23.4939 | 296,510 |
| SAR | 158,035 | 1.9331 | 305,494 |
| DZD | | 0.0533 | |
| Others | | | 447,004 |
| Other receivables | | | 2,267,487 |
| Including: USD | 157,463 | 7.2258 | 1,137,792 |
| KWD | 15,024 | 23.4939 | 352,977 |
| SAR | 263,842 | 1.9331 | 510,027 |
| DZD | 99,232 | 0.0533 | 5,289 |
| Others | | | 261,402 |
| Accounts payable | | | 1,260,468 |
| Including: USD | 77,342 | 7.2258 | 558,861 |
| KWD | 5,038 | 23.4939 | 118,369 |
| SAR | 221,525 | 1.9331 | 428,224 |
| DZD | 223,423 | 0.0533 | 11,908 |
| Others | | | 143,106 |
| Other payables | | | 558,197 |
| Including: USD | 28,624 | 7.2258 | 206,831 |
| KWD | 5,231 | 23.4939 | 122,905 |
| SAR | 34,954 | 1.9331 | 67,568 |
| DZD | 596,992 | 0.0533 | 31,818 |
| Others | | | 129,075 |
| Interest payable | | | 4,789 |
| Including: USD | 663 | 7.2258 | 4,789 |
| Short-term borrowings | | | 1,531,867 |
| Including: USD | 212,000 | 7.2258 | 1,531,867 |
| Long-term borrowings | | | 440,773 |
| Including: USD | 61,000 | 7.2258 | 440,773 |

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

5.54 Government grants

| Grant item | Category | Balance as at December 31, 2022 | New grants in current period | Amount carried forward and included in profit or loss in current period | Balance as at June 30, 2023 | Presented items carried forward and included in profit or loss in current period | Assets-related/Income-related |
|---|-------------------------|---------------------------------|------------------------------|---|-----------------------------|--|-------------------------------|
| Relocation compensation | Financial appropriation | | 28,317 | 28,317 | | Other income | Income-related |
| Return of individual income tax fee | Financial appropriation | | 4,262 | 4,262 | | Other gains | Income-related |
| Special funds for national scientific research | Financial appropriation | 7,585 | 5,094 | 2,680 | 9,999 | Other gains | Income-related |
| Excise tax refund for refined oil products for self-use | Financial appropriation | | -5,700 | -5,700 | | Other gains | Income-related |
| Grants for enterprise development | Financial appropriation | 2,500 | 5,210 | 4,355 | 3,355 | Other gains | Income-related |
| Subsidy for job stabilization | Financial appropriation | | 2,850 | 1,373 | 1,477 | Other gains | Income-related |
| Additional VAT deduction | Financial appropriation | 523 | 13,628 | 14,075 | 76 | Other gains | Income-related |
| Government incentive fund | Financial appropriation | | 230 | 230 | | Other gains | Income-related |
| Grants for enterprise development – Asset-related | Financial appropriation | 967 | | 235 | 732 | Other gains | Asset-related |
| Total | | 11,575 | 53,891 | 49,827 | 15,639 | | |

5.55 Lease

5.55.1 As the lessee

| Item | Current period |
|---|----------------|
| Interest expenses on lease liabilities | 23,753 |
| Expense on short-term lease under simplified treatment and included in relevant asset costs or the current profit or loss | 246,982 |
| Total cash outflows relevant to lease | 629,995 |

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 | 453,001 |
| 1 – 2 years | 7,392 |
| 2 – 3 years | |
| Over 3 years | |
| Total | 460,393 |

Section VIII Financial Reports

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

5.55 Lease (Continued)

5.55.2 As the lessor

(1) Operating lease

| | Current period |
|--|----------------|
| Revenue from operating lease | 24,355 |
| Including: Revenue relevant to variable lease payment not included in lease receipts | |

Undiscounted lease receipts that will be collected after June 30, 2023:

| Remaining lease term | Current period |
|----------------------|----------------|
| Within 1 year | 104,575 |
| 1 – 2 years | 24,584 |
| 2 – 3 years | 11,096 |
| 3 – 4 years | 5,579 |
| 4 – 5 years | 5,504 |
| Over 5 years | 5,507 |
| Total | 156,845 |

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*.

There is no rental concessions meet relevant conditions in the year.

6 CHANGE OF CONSOLIDATION SCOPE

There were no changes in the scope of consolidation during the reporting period.

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 | | 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 | |
| Zhong Wei Energy Service Co. Ltd. | China | Beijing | Oilfield technical services | 50.00 | | Equity method |

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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, 2023/Current period | Balance as at December 31, 2022/Prior period |
| Current assets | 41,962 | 50,498 |
| Including: cash and cash equivalents | 8,992 | 7,367 |
| Non-current assets | 2,869 | 3,183 |
| Total assets | 44,831 | 53,681 |
| Current liabilities | 26,723 | 36,098 |
| Non-current liabilities | | |
| Total liabilities | 26,723 | 36,098 |
| Net assets | 18,108 | 17,583 |
| Equity attributable to shareholders of the Company | 9,053 | 8,791 |
| Adjusted matters | | |
| Carrying amount of equity investment in joint ventures | 9,053 | 8,791 |
| Revenue | 28,944 | 57,848 |
| Financial expenses | -108 | -51 |
| Income tax expenses | | |
| Net profit | 524 | 835 |
| Other comprehensive income | | |
| Total comprehensive income | 524 | 835 |
| Dividends received from joint ventures | | |

7.2.3 Summary of financial information on insignificant joint ventures or associates

| | Balance as at June 30, 2023/Current period | Balance as at December 31, 2022/Prior period |
|--|---|---|
| Joint ventures: | | |
| Total book value of investments | 780 | 14,549 |
| Total amount calculated based on the following shareholding proportions | | |
| – Net profit | | 473 |
| – Other comprehensive income | | |
| – Total comprehensive income | | 473 |
| Associates: | | |
| Total book value of investments | 27,017 | 26,875 |
| Total amount calculated based on the following shareholding proportions | | |
| – Net profit | 3,254 | 6,614 |
| – Other comprehensive income | | |
| – Total comprehensive income | 3,254 | 6,614 |

8 RISKS RELATED TO FINANCIAL INSTRUMENTS

The major financial instruments of the Group include cash at bank and on hand, accounts receivable, receivables at FVTOCI, other current assets, other equity instrument investments, bills payable, accounts payable, other payables, short-term loans, non-current liabilities due within one year, long-term loans, lease liabilities and 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 53.06% (in 2022: 58.11%); among the other receivable of the Group, the other receivable of the top five customers accounted for 31.40% (2022: 45.93%).

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, 2023, the amount of bank loans not yet used by the Group is RMB12,779,970,000 (as at December 31, 2022: RMB13,189,601,000).

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8 RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

Risk management objectives and policies (Continued)

8.2 Liquidity risk (Continued)

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

| Item | Balance as at June 30, 2023 | | | | Total |
|---|-----------------------------|----------------|----------------|---------------|-------------------|
| | Within 1 year | 1 – 2 years | 2 – 5 years | Over 5 years | |
| Financial assets: | | | | | |
| Cash and cash equivalents | 1,833,084 | | | | 1,833,084 |
| Accounts receivable | 9,227,260 | | | | 9,227,260 |
| Accounts receivable financing | 1,757,756 | | | | 1,757,756 |
| Other receivables | 3,805,829 | | | | 3,805,829 |
| Other current assets | 2,623,651 | | | | 2,623,651 |
| Total financial assets | 19,247,580 | | | | 19,247,580 |
| Financial liabilities: | | | | | |
| Short-term loans | 20,374,329 | | | | 20,374,329 |
| Bills payable | 9,046,723 | | | | 9,046,723 |
| Accounts payable | 24,265,129 | | | | 24,265,129 |
| Other payables | 3,262,601 | | | | 3,262,601 |
| Non-current liabilities due within 1 year | 1,517,792 | | | | 1,517,792 |
| Long-term borrowings | | 471,143 | | | 471,143 |
| Lease liabilities | | 201,449 | 128,932 | 67,510 | 397,891 |
| Long-term payables | | 96,425 | | | 96,425 |
| Total financial liabilities and contingent liabilities | 58,466,574 | 769,017 | 128,932 | 67,510 | 59,432,033 |

8 RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

Risk management objectives and policies (Continued)

8.2 Liquidity risk (Continued)

| Item | Balance as at December 31, 2022 | | | | |
|---|---------------------------------|----------------|---------------|---------------|-------------------|
| | Within 1 year | 1 – 2 years | 2 – 5 years | Over 5 years | Total |
| Financial assets: | | | | | |
| Cash and cash equivalents | 1,838,229 | | | | 1,838,229 |
| Accounts receivable | 10,537,217 | | | | 10,537,217 |
| Accounts receivable financing | 1,468,340 | | | | 1,468,340 |
| Other receivables | 3,196,602 | | | | 3,196,602 |
| Other current assets | 2,362,863 | | | | 2,362,863 |
| Total financial assets | 19,403,251 | | | | 19,403,251 |
| Financial liabilities: | | | | | |
| Short-term loans | 18,523,287 | | | | 18,523,287 |
| Bills payable | 7,990,225 | | | | 7,990,225 |
| Accounts payable | 25,601,228 | | | | 25,601,228 |
| Other payables | 2,728,144 | | | | 2,728,144 |
| Non-current liabilities due within 1 year | 1,567,679 | | | | 1,567,679 |
| Long-term borrowings | 10,668 | 480,557 | | | 491,225 |
| Lease liabilities | | 377,161 | 94,685 | 50,939 | 522,785 |
| Long-term payables | | 74,657 | | | 74,657 |
| Total financial liabilities and contingent liabilities | 56,421,231 | 932,375 | 94,685 | 50,939 | 57,499,230 |

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 December 31, 2023 and year ended December 31, 2022, 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.

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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, 2023, 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 RMB11,147,000 (as at December 31, 2022: RMB12,408,000).

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 flow 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, 2023 | Balance as at December 31, 2022 |
|---|--------------------------------|------------------------------------|
| Fixed interest rate financial instruments | | |
| Financial assets: | 135,154 | 6,821 |
| Monetary funds | 135,154 | 6,821 |
| Financial liabilities: | 19,020,751 | 17,109,236 |
| Short-term borrowings | 18,185,000 | 16,095,000 |
| Lease liabilities | 835,751 | 1,014,236 |
| Long-term payables | | |
| Floating interest rate financial instruments | | |
| Financial assets: | 1,697,930 | 1,831,408 |
| Monetary funds | 1,697,930 | 1,831,408 |
| Financial liabilities: | 2,972,644 | 3,308,765 |
| Short-term borrowings | 1,531,870 | 1,828,208 |
| Long-term borrowings | 1,440,774 | 1,480,557 |

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, 2023, 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 | |
|--------------------------|--------------------------------|------------------------------------|--------------------------------|------------------------------------|
| | Balance as at June 30, 2023 | Balance as at December 31, 2022 | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
| USD | 2,705,576 | 3,037,003 | 8,665,014 | 5,292,672 |
| SAR | 343,120 | 343,120 | 1,121,015 | 808,076 |
| KWD | 133,472 | 133,472 | 945,997 | 769,297 |
| Other foreign currencies | 175,642 | 175,642 | 1,160,699 | 823,241 |
| Total | 3,357,810 | 3,689,237 | 11,892,725 | 7,693,286 |

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.

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% | 223,479 | 5% | 84,588 |
| USD exchange rate declines | -5% | -223,479 | -5% | -84,588 |
| SAR exchange rate rises | 5% | 29,171 | 5% | 17,436 |
| SAR exchange rate declines | -5% | -29,171 | -5% | -17,436 |
| KWD exchange rate rises | 5% | 30,470 | 5% | 23,843 |
| KWD exchange rate declines | -5% | -30,470 | -5% | -23,843 |

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, 2023

| Item | Fair value as at June 30, 2023 | | | Total |
|---|--------------------------------------|--------------------------------------|--------------------------------------|-----------|
| | Measurement of fair value at level 1 | Measurement of fair value at level 2 | Measurement of fair value at level 3 | |
| 9.1.1 Continuous measurement at fair value | | | | |
| ◆ Receivables at FVTOCI | | | 1,757,756 | 1,757,756 |
| ◆ Other equity instrument investments | | | 134,492 | 134,492 |
| Total assets with continuous measurement at fair value | | | 1,892,248 | 1,892,248 |

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, 2023 | Valuation techniques | Unobservable input values | Range (weighted average value) |
|-------------------------------------|--------------------------------|---|---------------------------|--------------------------------|
| Receivables at FVTOCI | 1,757,756 | Asset-based valuation or Discounted Cash Flow Model | N/A | N/A |
| Other equity instrument investments | 134,492 | Net value of assets | N/A | N/A |

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9 DISCLOSURE OF FAIR VALUE (Continued)

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

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

| Item | Balance as at December 31, 2022 | Transferred to Level III | Transferred from Level III | Total gains or losses in the current period | | Purchase, Issue, Sale and Settlement | | | | Balance as at June 30, 2023 | 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 | Purchase | Issue | Sale | Settlement | | |
| Other equity instrument investments | 134,492 | | | | | | | | | 134,492 | |
| Total | 134,492 | | | | | | | | | 134,492 | |

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 |
|--|-------------------------------|
| Qianjiang Hengyun Motor Vehicle Performance Testing Corporation | Associate |
| 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 |
| Henan Zhongyou Oil & Gas Technology Service Co., Ltd | Associate |

10 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (Continued)

10.4 Other related parties

| Name of other related parties | Relationship between other related parties and the Company |
|---|--|
| China Petroleum & Chemical Corporation | Under the common control of Sinopec Group |
| Sinopec Shengli Petroleum Administrative Bureau Co., Ltd. | Under the common control of Sinopec Group |
| Sinopec Zhongyuan Petroleum Exploration Bureau Co., Ltd. | Under the common control of Sinopec Group |
| Sinopec Jiangnan Petroleum Administrative Bureau Co., Ltd. | Under the common control of Sinopec Group |
| Sinopec Henan Petroleum Exploration Bureau Co., Ltd. | Under the common control of Sinopec Group |
| Sinopec Jiangsu Petroleum Prospecting Bureau Co., Ltd. | Under the common control of Sinopec Group |
| Sinopec Star Co., Ltd. | Under the common control of Sinopec Group |
| Sinopec East China Petroleum Bureau | Under the common control of Sinopec Group |
| Sinopec North China Petroleum Bureau Co., Ltd. | Under the common control of Sinopec Group |
| Sinopec Southwest Petroleum Bureau Co., Ltd. | Under the common control of Sinopec Group |
| Sinopec Northeast Petroleum Bureau Co., Ltd. | Under the common control of Sinopec Group |
| Sinopec Pipeline Storage and Transportation Company | Under the common control of Sinopec Group |
| Sinopec Offshore Petroleum Bureau Co., Ltd. | Under the common control of Sinopec Group |
| Sinopec Finance Co., Ltd. | Under the common control of Sinopec Group |
| Sinopec Century Bright Capital Investment Limited | Under the common control of Sinopec Group |
| Sinopec Assets Operation and Management Co., Ltd. | Under the common control of Sinopec Group |
| 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 | 4,834,015 | 5,183,876 |
| Joint ventures and associates of the Group | Purchase of materials and equipment | According to normal commercial terms or related agreements | 70,877 | 107,152 |

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10 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (Continued)

10.5 Related-party transactions (Continued)

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

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 | 37,569 | 20,309 |

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 | 22,492,325 | 20,755,730 |
| Joint ventures and associates of the Group | Petroleum engineering technology service | According to normal commercial terms or related agreements | 2,206,549 | 1,701,371 |
| Joint ventures and associates of the Group | Petroleum engineering technology service | According to normal commercial terms or related agreements | 100,978 | 124,991 |

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 | 956,860 | 898,095 |

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 | 11,672 | 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 | 18,951 | 4,420 |
| Sinopec Group and its subsidiaries | Receipt of others comprehensive services | According to normal commercial terms or related agreements | 224,060 | 192,458 |
| Joint ventures and associates of the Group | Receipt of others comprehensive services | According to normal commercial terms or related agreements | 7 | 217 |

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 | 67,796 | 51,312 |

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 | Equipment | According to normal commercial terms or related agreements | 241 | 95 |
| Sinopec Group and its subsidiaries | Housing | According to normal commercial terms or related agreements | 170 | 105 |

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 | 17,328 | 428,809 |
| | Including: short-term lease | According to normal commercial terms or related agreements | 14,390 | 24,344 |
| | Right-of-use assets | According to normal commercial terms or related agreements | 2,938 | 404,465 |
| Sinopec Group and its subsidiaries | Equipment | According to normal commercial terms or related agreements | 36,895 | 2,046 |
| | Including: short-term lease | According to normal commercial terms or related agreements | 36,895 | 2,046 |
| | Right-of-use assets | According to normal commercial terms or related agreements | | |
| Joint ventures and associates of the Group | Equipment | According to normal commercial terms or related agreements | 1,582 | 9,823 |
| | Including: short-term lease | According to normal commercial terms or related agreements | 1,582 | 9,823 |
| | Right-of-use assets | According to normal commercial terms or related agreements | | |

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 | THB3,142,900 thousand; USD103,929 thousand | April 2017 | September 2023 | No |
| Sinopec International Petroleum Service Corporation | Performance guarantee | USD67,000 thousand | April 2019 | September 2023 | No |
| Sinopec International Petroleum Service Corporation | Performance guarantee | USD611,000 thousand | June 2021 | June 2030 | No |
| Sinopec International Petroleum Service Corporation | Performance guarantee | USD91,664 thousand | February 2022 | October 2029 | No |
| Sinopec International Petroleum Service Corporation | Performance guarantee | USD274,950 thousand | June 2022 | December 2048 | No |
| Sinopec International Petroleum Service Corporation | Performance guarantee | USD118,000 thousand | July 2022 | September 2025 | No |
| Sinopec International Petroleum Service Corporation | Performance guarantee | USD15,000 thousand | December 2022 | May 2024 | No |

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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 | 2,487 | 408 |
| | Loan interest expense | Based on normal commercial terms | 330,200 | 263,629 |
| | Obtaining the borrowing | Based on normal commercial terms | 13,336,360 | 12,154,500 |
| | Payment of the loan | Based on normal commercial terms | 11,596,612 | 11,380,482 |

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 | 42,145 | 40,100 |
| | Return on security fund | Based on normal commercial terms or relevant agreements | 46,171 | 36,821 |

10.5.6 Remuneration of key management personnel

| Item | Current period | Prior period |
|--------------------------------|----------------|--------------|
| Remuneration | 7,842 | 7,447 |
| Retirement scheme contribution | 308 | 286 |
| Total | 8,151 | 7,733 |

10.6 Receivables from and payables to related parties

10.6.1 Receivables

| Item | Related party | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|---------------------|---|-----------------------------|---------------------------------|
| | | Book balance | Book balance |
| Bank deposits | Sinopec Finance Co., Ltd. | 25,045 | 47,531 |
| | Sinopec Century Bright Capital Investment Limited | 935,200 | 802,100 |
| | CITIC Bank | 3,493 | 915 |
| Accounts receivable | Sinopec Group and its subsidiaries | 2,941,186 | 4,362,460 |
| | Joint ventures of the Group | 15,344 | 11,341 |
| | Joint ventures and associates of Sinopec Group | 821,597 | 1,149,973 |
| Contract assets | Sinopec Group and its subsidiaries | 8,469,589 | 6,719,322 |
| | Joint ventures and associates of Sinopec Group | 2,102,680 | 1,727,820 |
| Prepayments | Sinopec Group and its subsidiaries | 37,618 | 83,073 |
| | Joint ventures and associates of Sinopec Group | 7,100 | 7,048 |
| Other receivables | Sinopec Group and its subsidiaries | 183,283 | 349,639 |
| | Joint ventures and associates of the Group | 8,807 | 8,199 |
| | Joint ventures and associates of Sinopec Group | 330,103 | 490,374 |

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, 2023 | Balance as at December 31, 2022 |
|--|---|-----------------------------|---------------------------------|
| Short-term borrowings | Sinopec Finance Co., Ltd. | 18,185,000 | 16,095,000 |
| | Sinopec Century Bright Capital Investment Limited | 1,531,870 | 1,828,208 |
| Accounts payable | Sinopec Group and its subsidiaries | 2,456,312 | 2,406,778 |
| | Joint ventures and associates of the Group | 29,022 | 107,009 |
| | Joint ventures and associates of Sinopec Group | 720 | 16,074 |
| Other payables | Sinopec Group and its subsidiaries | 56,970 | 69,875 |
| | Joint ventures and associates of the Group | 120 | 243 |
| | Joint ventures and associates of Sinopec Group | 192,029 | 132,540 |
| Contract liabilities | Sinopec Group and its subsidiaries | 2,713,168 | 3,175,493 |
| | Joint ventures and associates of Sinopec Group | 615,634 | 744,098 |
| Interest payable | Sinopec Group and its subsidiaries | 33,329 | 21,796 |
| Long-term borrowings maturing within one year | Sinopec Group and its subsidiaries | 1,000,000 | 1,000,000 |
| Lease liabilities | Sinopec Group and its subsidiaries | 315,359 | 423,475 |
| | Joint ventures and associates of Sinopec Group | 277,485 | 118,839 |
| Non-current liabilities | Sinopec Group and its subsidiaries | 12 | 12 |

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, 2023, the total amount deposited by the Group in Sinopec Finance and Century Bright was RMB960,245,000 (December 31, 2022: RMB849,631,000), 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, 2023, the balance of funds borrowed by the Group from Sinopec Finance and Century Bright was RMB19,716,870,000 (December 31, 2022: RMB17,923,207,000), and the balance of funds borrowed by the Group from the parent company Sinopec Group was RMB1,000,000,000 (December 31, 2022: 1,000,000,000).

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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, 2023 | As at December 31, 2022 |
|--|---------------------|-------------------------|
| Construction of long-term assets commitments | 20,528 | 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, 2023.

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.

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. In February 2022, Banyaduli Company received a ruling, and the result of the ruling was generally favorable to the Company. However, according to the relevant arbitration laws of Chile, the place of arbitration, the parties to the arbitration have the right to apply for annulment of the arbitral award. In July 2022, PAM submitted an application for revocation of the arbitration. In August 2022, we submitted our defense. On May 12, 2023, the courts of Santiago de Chile rendered a first-instance judgment on this lawsuit, upholding the judgment of February 21, 2022, and rejecting the PAM's application to set aside this award. There is still uncertainty as to whether PAM will appeal the first-instance judgment rendered by the courts of Santiago, Chile within the statutory time limit, and whether this ruling can be enforced. As of June 30, 2023, the Company judges that the possibility of the other party's actual payment is low, and accrues impairment of accounts receivable and contract assets according to the principle of prudence.

(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, 2023, the remaining balance of estimated liabilities was RMB160,417,000.

11 COMMITMENTS AND CONTINGENCIES (Continued)

11.2 Contingencies (Continued)

11.2.1 Significant contingencies existed on the balance sheet date (Continued)

(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, 2023, the balance of estimated liabilities was RMB20,246,000.

(4) Contingent liabilities arising from guarantees provided for debt of other entities and their financial effects

As at June 30, 2023,, Sinopec Oilfield Service Limited, the subsidiary of the Company, has provided guarantee amount of USD1,068,423,000 and THB 3,142,900,000 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, 2023, 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.

12 POST BALANCE SHEET EVENTS

As at August 29, 2023, 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, 2023 | As at December 31, 2022 |
|---|-----------------------------|-------------------------|
| Short-term borrowings | 19,716,870 | 17,923,208 |
| Lease liabilities maturing within one year | 468,991 | 517,190 |
| Long-term borrowings maturing within one year | 1,000,000 | 1,000,000 |
| Long-term borrowings | 440,774 | 480,557 |
| Lease liabilities | 366,761 | 497,045 |
| Less: cash balances as shown in the statement of cash flows | 1,759,808 | 1,801,150 |
| Net debt | 20,233,588 | 18,616,850 |
| Shareholders’ equity | 8,078,854 | 7,427,318 |
| Total capital | 28,312,442 | 26,044,168 |
| Debt-to-capital ratio | 71.47% | 71.48% |

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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 RMB14,663,000. The amount of losses which cash back below the book value of the claims is RMB13,000. 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, 2023 | Geophysics | Drilling engineering | Logging and mud logging | Special down-hole operations | Engineering construction | Others | Offset | Total |
|--|------------|----------------------|-------------------------|------------------------------|--------------------------|------------|-------------|------------|
| Operating revenue | 2,036,901 | 19,717,535 | 2,797,173 | 4,834,314 | 8,851,938 | 3,424,542 | -4,528,875 | 37,133,528 |
| Including: income from external transactions | 2,019,633 | 18,867,990 | 1,564,589 | 4,699,568 | 8,830,866 | 1,150,882 | | 37,133,528 |
| Income from inter-segment transactions | 17,268 | 849,545 | 1,232,584 | 134,746 | 21,072 | 2,273,660 | -4,528,875 | |
| Including: income from primary business | 2,036,901 | 19,697,846 | 2,797,173 | 4,854,001 | 8,851,938 | 2,871,123 | -4,320,515 | 36,788,467 |
| Operating costs | 2,036,823 | 18,330,060 | 2,508,747 | 4,539,065 | 8,200,781 | 3,319,785 | -4,528,875 | 34,406,386 |
| Including: costs of primary business | 2,036,823 | 18,330,060 | 2,508,747 | 4,539,065 | 8,200,781 | 2,948,833 | -4,331,715 | 34,232,594 |
| Operating expenses | 82,052 | 879,814 | 72,400 | 125,364 | 402,185 | 677,991 | | 2,239,806 |
| Operating profit (loss) | -73,234 | 502,431 | 219,681 | 190,373 | 256,764 | -561,188 | | 534,827 |
| Total assets | 5,410,364 | 28,075,096 | 4,758,711 | 7,855,331 | 22,451,361 | 39,335,215 | -35,055,107 | 72,830,971 |
| Total liabilities | 4,546,595 | 21,623,937 | 3,329,017 | 4,827,604 | 21,554,531 | 43,925,540 | -35,055,107 | 64,752,117 |
| Supplementary information: | | | | | | | | |
| 1. Capital expenditure | 10,183 | 20,845 | 130,536 | 46,867 | 21,781 | 120,563 | | 350,775 |
| 2. Depreciation and amortization expenses | 223,527 | 1,977,833 | 186,064 | 382,118 | 160,316 | 246,009 | | 3,175,867 |
| 3. Losses from impairment of assets | -5,249 | -24,107 | -12,227 | -4,660 | -101,606 | -664 | | -148,513 |

| Prior 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 |

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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 | 2,019,633 | 1,512,225 |
| Drilling engineering | 18,867,990 | 16,635,798 |
| Logging and mud logging | 1,564,589 | 1,202,466 |
| Special down-hole operations | 4,699,568 | 4,292,870 |
| Engineering construction | 8,830,866 | 8,326,149 |
| Others | 1,150,882 | 1,179,144 |
| Total | 37,133,528 | 33,148,652 |

14.6.3.2 Area information

| Current period or As at June 30, 2023 | China | Other countries | Offset | Total |
|---|------------|-----------------|--------|------------|
| Operating revenue | 29,308,887 | 7,824,641 | | 37,133,528 |
| Non-current assets | 26,653,208 | 5,414,303 | | 32,067,511 |
| Prior period or As at December 31, 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 |

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, 2023 | Balance as at December 31, 2022 |
|-------------------|-----------------------------|---------------------------------|
| Other receivables | 22,227,815 | 20,982,530 |
| Total | 22,227,815 | 20,982,530 |

15.1.1 Other receivables

(1) Disclosure of other receivables by aging

| Aging | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|-------------------------------|-----------------------------|---------------------------------|
| Within 1 year | 17,847,553 | 16,017,264 |
| 1 – 2 years | 96 | 585,106 |
| 2 – 3 years | 4 | |
| 3 years and above | 4,380,164 | 4,380,164 |
| Sub-total | 22,227,817 | 20,982,534 |
| Less: provision for bad debts | 2 | 4 |
| Total | 22,227,815 | 20,982,530 |

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, 2023 | | | | Balance as at December 31, 2022 | | | | | |
|--|-----------------------------|----------------|-------------------------|---|---------------------------------|-------------------|----------------|-------------------------|---|-------------------|
| | Book balance | | Provision for bad debts | | Book value | Book balance | | Provision for bad debts | | |
| | Amount | Proportion (%) | Amount | Expected credit loss rate in the next 12 months (%) | | Amount | Proportion (%) | Amount | Expected credit loss rate in the next 12 months (%) | Book value |
| Provision for bad debts accrued on a combination basis | 22,227,817 | 100.00 | 2 | | 22,227,815 | 20,982,534 | 100.00 | 4 | | 20,982,530 |
| Including: | | | | | | | | | | |
| Related-party portfolio | 22,227,508 | 100.00 | | | 22,227,508 | 20,982,408 | 100.00 | | | 20,982,408 |
| Non-related-party portfolio | 309 | | 2 | | 307 | 126 | | 4 | | 122 |
| Total | 22,227,817 | 100.00 | 2 | | 22,227,815 | 20,982,534 | 100.00 | 4 | | 20,982,530 |

Provision for bad debts accrued on a combination basis:

Portfolio provision items:

| Category | Balance as at June 30, 2023 | | |
|--|-----------------------------|-------------------------|----------------|
| | Book balance | Provision for bad debts | Proportion (%) |
| Other receivables from related parties | 22,227,508 | | |
| Non-related-party portfolio | 309 | 2 | |
| Total | 22,227,817 | 2 | |

(3) Classification by nature

| Category | Balance as at June 30, 2023 | Balance as at December 31, 2022 |
|--|-----------------------------|---------------------------------|
| Other receivables from wholly-owned subsidiaries | 22,227,508 | 20,982,408 |
| Others | 309 | 126 |
| Total | 22,227,817 | 20,982,534 |

(4) Top 5 of other receivables as at June 30, 2023, presented by debtor

| Company | Nature | Balance as at June 30, 2023 | Aging | Proportion in the total ending balance of other receivables (%) | Ending balance of provision for bad debts |
|--|---------------------------------------|-----------------------------|------------------------------|---|---|
| Sinopec Petroleum Engineering and Construction Corporation | Amount from wholly-owned subsidiaries | 7,798,516 | Within 1 year | 35.08 | |
| Sinopec Zhongyuan Petroleum Engineering Corporation | Amount from wholly-owned subsidiaries | 5,015,483 | Within 1 year | 22.56 | |
| Sinopec Geophysical Corporation | Amount from wholly-owned subsidiaries | 3,101,290 | Within 1 year | 13.95 | |
| Sinopec Shengli Petroleum Engineering Corporation | Amount from wholly-owned subsidiaries | 2,352,194 | Within 1 year and 1 -2 years | 10.58 | |
| Sinopec East China Petroleum Engineering Corporation | Amount from wholly-owned subsidiaries | 2,140,000 | Within 1 year | 9.63 | |
| Total | | 20,407,483 | | 91.80 | |

Section VIII Financial Reports

15 NOTES TO MAIN ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

15.2 Long-term equity investments

| Item | Balance as at June 30, 2023 | | | Balance as at December 31, 2022 | | |
|--|-----------------------------|--------------------------|-------------------|---------------------------------|--------------------------|-------------------|
| | Book balance | Provision for impairment | Book value | Book balance | Provision for impairment | Book value |
| Investments in subsidiaries | 35,783,581 | | 35,783,581 | 35,783,581 | | 35,783,581 |
| Investments in associates and joint ventures | 9,054 | | 9,054 | 8,792 | | 8,792 |
| Total | 35,792,635 | | 35,792,635 | 35,792,373 | | 35,792,373 |

15.2.1 Investments in subsidiaries

| Investee | Balance as at December 31, 2022 | Increase in the current period | Decrease in the current period | Balance as at June 30, 2023 | Provision for impairment made in the current period | Balance of provision for impairment as at June 30, 2023 |
|--|---------------------------------|--------------------------------|--------------------------------|-----------------------------|---|---|
| Sinopec Jingwei Co., Ltd. | | 892,995 | | 892,995 | | |
| Sinopec Shengli Petroleum Engineering Corporation | | 5,205,033 | | 5,205,033 | | |
| Sinopec Jiangnan Petroleum Engineering Corporation | | 1,493,284 | | 1,493,284 | | |
| Sinopec Geophysical Corporation | | 1,757,237 | | 1,757,237 | | |
| Sinopec Zhongyuan Petroleum Engineering Corporation | | 4,741,156 | | 4,741,156 | | |
| Sinopec South West Petroleum Engineering Corporation | | 3,153,948 | | 3,153,948 | | |
| Sinopec North China Petroleum Engineering Corporation | | 2,445,771 | | 2,445,771 | | |
| Sinopec East China Petroleum Engineering Corporation | | 2,912,441 | | 2,912,441 | | |
| Sinopec Petroleum Engineering and Construction Corporation | | 8,810,288 | | 8,810,288 | | |
| Sinopec International Petroleum Service Corporation | | 871,691 | | 871,691 | | |
| Sinopec Offshore Petroleum Engineering Corporation | | 3,499,737 | | 3,499,737 | | |
| Total | | 35,783,581 | | 35,783,581 | | |

15.2.2 Investment in associates and joint ventures

| Investee | Balance at the end of last year | Increase/decrease in the current period | | | | | | | | | Ending balance | Ending balance of provision for impairment |
|--|---------------------------------|---|-----------------------|-------------------|---|---------------------------------------|----------------------|------------------------------------|--------------------------|-------|----------------|--|
| | | Intra group transfer | Additional investment | Reduce investment | Investment profit and loss recognized under equity method | Other comprehensive income adjustment | Other equity changes | Declared cash dividends or profits | Provision for impairment | other | | |
| 1. Joint venture | | | | | | | | | | | | |
| Zhongwei United International Energy Services Co., Ltd | | 8,792 | | | 262 | | | | | | | 9,054 |
| Subtotal | | 8,792 | | | 262 | | | | | | | 9,054 |
| 2. Associated enterprises | | | | | | | | | | | | |
| Total | | 8,792 | | | 262 | | | | | | | 9,054 |

15.2.3 Investment income

| Item | Current period | Prior period |
|---|----------------|--------------|
| Investment income from long-term equity investments under equity method | 262 | |
| Total | 262 | |

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 | 31,642 | |
| 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) | 51,265 | |
| Profit or loss from debt restructuring | 14,649 | |
| Gains and losses from changes in fair value arising from holding transactional financial assets, derivative financial assets, transactional financial liabilities, and derivative financial liabilities, as well as disposal of transactional financial assets and derivative financial assets Investment income from assets, trading financial liabilities, derivative financial liabilities and other debt investments, except for the effective hedgings related to the Company's normal business operations | -1,020 | |
| Other items of profit or loss subject to the definition of non-recurring profit or loss | -44,377 | |
| Sub-total | 52,159 | |
| Affected amount of income tax | 11,299 | |
| Total | 40,860 | |

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 | 4.29 | 0.017 | |
| Net profit attributable to ordinary shareholders of the Company after deducting the non-recurring profit or loss | 3.75 | 0.015 | |

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, 2023 | Balance as at December 31, 2022 |
| Based on CASBE | 325,904 | 206,310 | 8,078,854 | 7,429,734 |
| Adjusted items and amounts in accordance with IFRS: | | | | |
| Special reserves | 323,216 | 355,374 | | |
| Based on IFRS | 649,120 | 561,684 | 8,078,854 | 7,429,734 |

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.

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16 SUPPLEMENTARY INFORMATION (Continued)

16.4 Supplementary information related to changes in accounting policies

The Company has changed its accounting policies in accordance with Accounting Standards for Business Enterprises Interpretation No. 16 and has retrospectively restated the comparative financial statements, and the consolidated balance sheet at the beginning of the previous year and the end of the previous year are as follows:

| Project | Balance at the beginning of the previous year | Balance at the end of the previous year | Closing balance |
|--|---|---|-------------------|
| Liquid asset: | | | |
| Monetary funds | 2,508,224 | 1,838,229 | 1,833,084 |
| Accounts receivable | 8,151,019 | 10,537,217 | 9,227,260 |
| Receivables financing | 1,295,971 | 1,468,340 | 1,757,756 |
| Advance payment | 338,555 | 406,578 | 501,489 |
| Other receivables | 2,552,292 | 3,196,602 | 3,805,829 |
| Inventory | 1,088,304 | 1,116,341 | 1,853,358 |
| Contract assets | 13,546,895 | 15,613,899 | 19,161,033 |
| Other liquid assets | 2,238,006 | 2,362,863 | 2,623,651 |
| Total current assets | 31,719,266 | 36,540,069 | 40,763,460 |
| Non-current assets: | | | |
| Long-term equity investment | 47,048 | 50,215 | 36,850 |
| Investment in other equity instruments | 21,760 | 134,492 | 134,492 |
| Fixed asset | 23,461,781 | 24,896,607 | 23,445,366 |
| Construction in progress | 668,364 | 467,385 | 466,813 |
| Right-of-use assets | 720,938 | 1,012,350 | 888,723 |
| Intangible asset | 506,596 | 481,490 | 413,393 |
| Long-term amortization of expenses | 6,595,930 | 7,255,439 | 6,309,741 |
| Deferred tax assets | 316,474 | 370,014 | 372,133 |
| Total non-current assets | 32,338,891 | 34,667,992 | 32,067,511 |
| Total assets | 64,058,157 | 71,208,061 | 72,830,971 |

16 SUPPLEMENTARY INFORMATION (Continued)

16.4 Supplementary information related to changes in accounting policies (Continued)

| Project | Balance at the beginning of the previous year | Balance at the end of the previous year | Closing balance |
|---|---|---|-------------------|
| Current liabilities: | | | |
| Short-term borrowing | 17,520,091 | 17,923,208 | 19,716,870 |
| Notes payable | 8,334,086 | 7,990,225 | 9,046,723 |
| Accounts payable | 21,556,262 | 25,601,228 | 24,265,129 |
| Contractual liabilities | 3,547,938 | 5,115,819 | 4,459,447 |
| Remuneration payable to employees | 644,026 | 570,290 | 661,149 |
| Taxes payable | 737,725 | 998,894 | 697,733 |
| Other payables | 2,355,823 | 2,728,144 | 3,262,601 |
| Non-current liabilities due within one year | 296,045 | 1,517,190 | 1,468,991 |
| Total current liabilities | 54,991,996 | 62,444,998 | 63,578,643 |
| Non-current liabilities: | | | |
| Long-term borrowing | 1,554,686 | 480,557 | 440,774 |
| Lease liabilities | 390,866 | 497,045 | 366,761 |
| Long-term payables | 28,885 | 74,657 | 96,425 |
| Projected liabilities | 205,771 | 200,998 | 191,209 |
| Deferred earnings | 9,288 | 11,576 | 15,640 |
| Deferred tax liabilities | 24,818 | 68,496 | 62,665 |
| Total non-current liabilities | 2,214,314 | 1,333,329 | 1,173,474 |
| Total liabilities | 57,206,309 | 63,778,327 | 64,752,117 |
| Ownership Equity: | | | |
| Equity | 18,984,340 | 18,984,340 | 18,984,340 |
| Capital reserve | 11,717,773 | 11,717,773 | 11,717,773 |
| Other comprehensive income | -3,823 | 5,232 | 5,232 |
| Special reserves | 219,182 | 326,983 | 650,199 |
| Surplus reserve | 200,383 | 200,383 | 200,383 |
| Undistributed profit | -24,266,007 | -23,804,977 | -23,479,073 |
| Total ownership interests attributable to the parent company | 6,851,848 | 7,429,734 | 8,078,854 |
| Minority interests | | | |
| Total owner's equity | 6,851,848 | 7,429,734 | 8,078,854 |
| Total liabilities and owner's equity | 64,058,157 | 71,208,061 | 72,830,971 |

Sinopec Oilfield Service Corporation

(Official seal)

August 29, 2023

Section VIII Financial Reports

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 126 to 157, which comprises the condensed consolidated statement of financial position as at 30 June 2023, 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, 29 August 2023

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2023

| | Notes | For the six months ended 30 June | |
|---|-------|----------------------------------|------------------------|
| | | 2023 | 2022 |
| | | RMB' 000 (Unaudited) | RMB' 000 (Restated) |
| Revenue | 4 | 37,133,528 | 33,148,652 |
| Cost of sales and taxes and surcharges | | (34,212,953) | (30,494,380) |
| Gross profit | | 2,920,575 | 2,654,272 |
| Selling expenses | | (31,421) | (26,643) |
| General and administrative expenses | | (1,038,184) | (1,092,018) |
| Research expenses | | (815,114) | (666,919) |
| Finance expenses – net | 5 | (373,817) | (281,888) |
| Reversal of/(provision for) expected credit loss (“ECL”) – net | 6 | 153,474 | 69,340 |
| Share of profit from joint ventures | | 262 | 96 |
| Share of profit from associates | | 3,254 | 2,662 |
| Other income | 7 | 112,392 | 113,915 |
| Other expenses | 8 | (66,631) | (40,066) |
| Profit before income tax | 9 | 864,790 | 732,751 |
| Income tax expense | 10 | (215,670) | (171,067) |
| Profit for the period | | 649,120 | 561,684 |
| Other comprehensive income for the period, net of tax | | – | – |
| Item that will not be reclassified subsequently to profit or loss: | | | |
| Net movement in fair value of financial assets at fair value through other comprehensive income (“FVTOCI”) | | – | – |
| Total comprehensive income for the period | | 649,120 | 561,684 |
| Earnings per share for profit attributable to owners of the Company (presented in RMB per share) | | RMB | RMB |
| Basic and diluted | 11 | 0.034 | 0.030 |

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

| | Notes | As at | As at | As at |
|--|-------|---------------------|---------------------|---------------------|
| | | 30 June 2023 | 31 December 2022 | 1 January 2022 |
| | | RMB' 000 | RMB' 000 | RMB' 000 |
| | | (Unaudited) | (Restated) | (Restated) |
| Assets | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | 14 | 24,848,030 | 26,432,082 | 24,924,711 |
| Other non-current assets | 14 | 6,309,741 | 7,255,439 | 6,595,302 |
| Intangible assets | | 299,379 | 378,240 | 400,130 |
| Interest in joint ventures | | 9,834 | 23,340 | 24,122 |
| Interest in associates | | 27,016 | 26,875 | 22,926 |
| Financial assets at FVTOCI | 15 | 134,492 | 134,492 | 21,760 |
| Deferred tax assets | | 372,133 | 370,014 | 316,475 |
| Total non-current assets | | 32,000,625 | 34,620,482 | 32,305,426 |
| Current assets | | | | |
| Inventories | 19 | 1,048,403 | 1,013,245 | 1,009,166 |
| Financial assets at FVTOCI | 15 | 1,757,756 | 1,468,340 | 1,295,971 |
| Trade receivables | 16 | 9,227,260 | 10,537,217 | 8,151,019 |
| Prepayments and other receivables | 17 | 6,997,855 | 6,013,554 | 5,162,319 |
| Contract assets and cost to fulfil contracts | 18 | 19,965,988 | 15,716,994 | 13,626,033 |
| Restricted cash | | 73,276 | 37,079 | 32,917 |
| Cash and cash equivalents | | 1,759,808 | 1,801,150 | 2,475,307 |
| Total current assets | | 40,830,346 | 36,587,579 | 31,752,732 |
| Total assets | | 72,830,971 | 71,208,061 | 64,058,158 |
| Equity | | | | |
| Share capital | 20 | 18,984,340 | 18,984,340 | 18,984,340 |
| Reserves | | (10,905,486) | (11,554,606) | (12,132,492) |
| Total equity | | 8,078,854 | 7,429,734 | 6,851,848 |
| Liabilities | | | | |
| Non-current liabilities | | | | |
| Long-term borrowings | 23 | 807,535 | 977,602 | 1,945,552 |
| Deferred income | | 15,640 | 11,576 | 9,288 |
| Deferred tax liabilities | | 62,665 | 68,496 | 24,818 |
| Provisions | | 191,209 | 200,998 | 205,771 |
| Total non-current liabilities | | 1,077,049 | 1,258,672 | 2,185,429 |
| Current liabilities | | | | |
| Notes and trade payables | 21 | 33,311,852 | 33,591,453 | 29,890,348 |
| Other payables | 22 | 4,507,354 | 4,119,259 | 3,555,046 |
| Contract liabilities | 18 | 4,459,447 | 5,115,819 | 3,547,938 |
| Short-term borrowings | 23 | 21,185,860 | 19,440,398 | 17,816,036 |
| Current income tax payable | | 210,555 | 252,726 | 211,513 |
| Total current liabilities | | 63,675,068 | 62,519,655 | 55,020,881 |
| Total liabilities | | 64,752,117 | 63,778,327 | 57,206,310 |
| Total equity and liabilities | | 72,830,971 | 71,208,061 | 64,058,158 |
| Net current liabilities | | (22,844,722) | (25,932,076) | (23,268,149) |
| Total assets less current liabilities | | 9,155,903 | 8,688,406 | 9,037,277 |

On behalf of the board of directors

CHEN Xikun
Chairman

YUAN Jianqiang
Executive Director and General Manager

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2023

For the six months ended 30 June 2023 (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 | |
| At 31 December 2022 (Audited) | 18,984,340 | 11,622,283 | 95,490 | 200,383 | 326,705 | 5,232 | (23,807,114) | 7,427,319 |
| Effect of adoption of amendments to IAS 12 (Note 3.2) | - | - | - | - | - | - | 2,415 | 2,415 |
| At 1 January 2023 (Restated) | 18,984,340 | 11,622,283 | 95,490 | 200,383 | 326,705 | 5,232 | (23,804,699) | 7,429,734 |
| Profit for the period | - | - | - | - | - | - | 649,120 | 649,120 |
| Other comprehensive income for the period: | | | | | | | | |
| Net movement in fair value of financial assets at FVTOCI | - | - | - | - | - | - | - | - |
| Total comprehensive income for the period | - | - | - | - | - | - | 649,120 | 649,120 |
| Transactions with owners: | | | | | | | | |
| Appropriation of specific reserve | - | - | - | - | 446,169 | - | (446,169) | - |
| Utilisation of specific reserve | - | - | - | - | (122,675) | - | 122,675 | - |
| Transfer of other comprehensive income reserve | - | - | - | - | - | - | - | - |
| Total transactions with owners | - | - | - | - | 323,494 | - | (323,494) | - |
| At 30 June 2023 | 18,984,340 | 11,622,283 | 95,490 | 200,383 | 650,199 | 5,232 | (23,479,073) | 8,078,854 |

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 | |
| At 31 December 2021 (Audited) | 18,984,340 | 11,622,283 | 95,490 | 200,383 | 219,182 | (3,823) | (24,256,338) | 6,861,517 |
| Effect of adoption of amendments to IAS 12 (Note 3.2) | - | - | - | - | - | - | (9,669) | (9,669) |
| At 1 January 2022 (Restated) | 18,984,340 | 11,622,283 | 95,490 | 200,383 | 219,182 | (3,823) | (24,266,007) | 6,851,848 |
| Profit for the period (Restated) | - | - | - | - | - | - | 561,684 | 561,684 |
| Other comprehensive income for the period: | | | | | | | | |
| Net movement in fair value of financial assets at FVTOCI | - | - | - | - | - | - | - | - |
| Total comprehensive income for the period | - | - | - | - | - | - | 561,684 | 561,684 |
| Transactions with owners: | | | | | | | | |
| Appropriation of specific reserve | - | - | - | - | 575,168 | - | (575,168) | - |
| Utilisation of specific reserve | - | - | - | - | (219,794) | - | 219,794 | - |
| Transfer of other comprehensive income reserve | - | - | - | - | - | - | - | - |
| Total transactions with owners | - | - | - | - | 355,374 | - | (355,374) | - |
| At 30 June 2022 (Restated) | 18,984,340 | 11,622,283 | 95,490 | 200,383 | 574,556 | (3,823) | (24,059,697) | 7,413,532 |

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

| | For the six months ended 30 June | |
|--|----------------------------------|---------------------------------|
| | 2023 RMB' 000 (Unaudited) | 2022 RMB' 000 (Unaudited) |
| Cash flows from operating activities | | |
| Cash flows generated from/(used in) operations | 676,506 | (415,488) |
| Interest received | 10,897 | 4,430 |
| Income tax paid | (265,791) | (126,868) |
| Net cash generated from/(used in) operating activities | 421,612 | (537,926) |
| Cash flows from investing activities | | |
| Purchases of property, plant and equipment | (876,200) | (359,072) |
| Purchases of intangible assets | – | (579) |
| Purchases of other non-current assets | (791,226) | (148,875) |
| Proceeds from disposal of property, plant and equipment | 17,583 | 12,079 |
| Proceeds from disposal of joint venture | 11,983 | – |
| Dividends received from associates | 4,418 | 3,856 |
| Net cash used in investing activities | (1,633,442) | (492,591) |
| Cash flows from financing activities | | |
| Proceeds from borrowings | 13,336,360 | 12,154,500 |
| Repayments of borrowings | (11,653,293) | (11,415,907) |
| Placement of restricted cash | (36,197) | (60,887) |
| Payment of lease liabilities | (219,225) | (97,834) |
| Interests paid | (327,555) | (274,029) |
| Net cash generated from financing activities | 1,100,090 | 305,843 |
| Net decrease in cash and cash equivalents | (111,740) | (724,674) |
| Effect of foreign exchange rate changes on cash and cash equivalents | 70,398 | 96,207 |
| Cash and cash equivalents at the beginning of the period | 1,801,150 | 2,475,307 |
| Cash and cash equivalents at the end of the period | 1,759,808 | 1,846,840 |

NOTES TO THE INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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 29 August 2023.

2. BASIS OF PRESENTATION AND PREPARATION

2.1 Basis of presentation

The interim financial information is prepared using the going concern basis notwithstanding that as at 30 June 2023, the Group had net current liabilities of approximately RMB22,845,000 and capital commitments of approximately RMB20,528,000. The directors of the Company have performed an assessment covering a period of 12 months from the six months ended 30 June 2023, taking account of the following events and measures:

- (i) As at 30 June 2023, the Group obtained a line of credit of RMB19 billion and USD0.4 billion (Total: approximately RMB22 billion) and a line of credit promissory note and letter of guarantee of RMB11.5 billion from the Sinopec Group’s subsidiaries;
- (ii) As disclosed in Note 23, the Group’s borrowings amounted to approximately RMB20.7 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 of the Group.

2.2 Basis of preparation

This interim financial information for the six months ended 30 June 2023 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.

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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 2022, 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 2023:

| | |
|---|--|
| IFRS 17 and amendments to IFRS 17 | Insurance contracts and related amendments |
| Amendments to IAS 8 | Definition of Accounting Estimates |
| Amendments to IAS 1 and IFRS Practice Statement 2 | Disclosure of Accounting Policies |
| Amendments to IAS 12 | Deferred Tax Related to Assets and Liabilities arising from a Single Transaction |
| Amendments to IAS 12 | International Tax Reform – Pillar Two Model Rules |

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

3.1 IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts that was issued in 2004. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach).
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

The adoption of IFRS 17 does not have any significant impact on the condensed consolidated financial statements.

3.2 IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Prior to the initial application of these amendments, the Group applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group recognised (i) a deferred tax asset for all deductible temporary differences associated with lease liabilities (provided that sufficient taxable profit is available), and (ii) a deferred tax liability for all taxable temporary differences associated with right-of-use assets as at 1 January 2022.

The table below illustrate the effects of the changes in accounting policy as a result of application of amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" on the condensed consolidated statement of financial position as at 1 January 2022 and 31 December 2022 and the condensed consolidated statement of profit or loss and other comprehensive income and earnings per share for the six months ended 30 June 2022:

| | 1 January 2022 (Originally stated) RMB' 000 | Adjustment RMB' 000 | 1 January 2022 (Restated) RMB' 000 |
|---|---|------------------------|--|
| Condensed consolidated statement of financial position | | | |
| Deferred tax assets | 310,764 | 5,711 | 316,475 |
| Deferred tax liabilities | 9,438 | 15,380 | 24,818 |
| Net assets | 6,861,517 | (9,669) | 6,851,848 |
| Accumulated losses | 24,256,338 | 9,669 | 24,266,007 |
| Total equity | 6,861,517 | (9,669) | 6,851,848 |
| | 31 December 2022 (Originally stated) RMB' 000 | Adjustment RMB' 000 | 31 December 2022 (Restated) RMB' 000 |
| Condensed consolidated statement of financial position | | | |
| Deferred tax assets | 362,470 | 7,544 | 370,014 |
| Deferred tax liabilities | 63,367 | 5,129 | 68,496 |
| Net assets | 7,427,319 | 2,415 | 7,429,734 |
| Accumulated losses | 23,807,114 | (2,415) | 23,804,699 |
| Total equity | 7,427,319 | 2,415 | 7,429,734 |

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (Continued)

3.2 IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Continued)

| | Six months ended 30 June 2022 | | |
|--|---------------------------------|------------------------|------------------------|
| | (Originally stated) RMB' 000 | Adjustment RMB' 000 | (Restated) RMB' 000 |
| Condensed consolidated statement of profit or loss and other comprehensive income | | | |
| Income tax expense | 177,109 | (6,042) | 171,067 |
| Profit for the period | 555,642 | 6,042 | 561,684 |
| Total comprehensive income for the period | 555,642 | 6,042 | 561,684 |
| Earnings per shares | | | |
| Basic and diluted earnings per share (RMB) | 0.029 | 0.01 | 0.030 |

4. REVENUE AND SEGMENT INFORMATION

The Group's revenue is as follows:

| | For the six months ended 30 June | |
|-----------------------------|----------------------------------|---------------------------------|
| | 2023 RMB' 000 (Unaudited) | 2022 RMB' 000 (Unaudited) |
| Geophysics | 2,019,633 | 1,512,225 |
| Drilling engineering | 18,867,990 | 16,635,798 |
| Logging and mud logging | 1,564,589 | 1,202,466 |
| Special downhole operations | 4,699,568 | 4,292,870 |
| Engineering construction | 8,830,866 | 8,326,149 |
| Others | 1,150,882 | 1,179,144 |
| | 37,133,528 | 33,148,652 |

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4. REVENUE AND SEGMENT INFORMATION (Continued)

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.

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 operating 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 interest in joint venture and associates.

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

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

4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

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

(a) Segment revenue results, assets and liabilities

For the six months ended 30 June 2023 and as at that date, segment revenue results, assets and liabilities were as follows:

| | Geophysics | Drilling engineering | Logging and mud logging | Special downhole operations | Engineering construction | Unallocated | Eliminated | Total |
|---|------------------|----------------------|-------------------------|-----------------------------|--------------------------|------------------|--------------------|-------------------|
| | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 |
| For the six months ended 30 June 2023 (Unaudited) | | | | | | | | |
| Segment revenue and results | | | | | | | | |
| Revenue from external customers | 2,019,633 | 18,867,990 | 1,564,589 | 4,699,568 | 8,830,866 | 1,150,882 | – | 37,133,528 |
| Inter-segment revenue | 17,268 | 849,545 | 1,232,584 | 134,746 | 21,072 | 2,065,299 | (4,320,514) | – |
| Reportable segment revenue | 2,036,901 | 19,717,535 | 2,797,173 | 4,834,314 | 8,851,938 | 3,216,181 | (4,320,514) | 37,133,528 |
| Reportable segment (loss)/profit | (77,502) | 670,174 | 231,675 | 227,187 | 307,944 | (540,449) | – | 819,029 |
| Other income | 8,898 | 47,024 | 3,956 | 1,551 | 40,896 | 10,067 | – | 112,392 |
| Other expenses | (6,868) | (38,940) | (1,923) | (2,300) | (4,340) | (12,260) | – | (66,631) |
| (Loss)/Profit before income tax | (75,472) | 678,258 | 233,708 | 226,438 | 344,500 | (542,642) | – | 864,790 |
| Income tax expense | | | | | | | | (215,670) |
| Profit for the period | | | | | | | | 649,120 |
| Supplementary information | | | | | | | | |
| Depreciation and amortisation | | | | | | | | |
| – Property, plant and equipment | 175,209 | 984,745 | 100,298 | 265,148 | 148,879 | 149,273 | – | 1,823,552 |
| – Other non-current assets | 48,223 | 992,854 | 85,424 | 112,771 | 5,052 | 29,540 | – | 1,273,864 |
| – Intangible assets | 95 | 234 | 342 | 4,199 | 6,385 | 67,196 | – | 78,451 |
| Capital expenditure | | | | | | | | |
| – Property, plant and equipment | 11,968 | 26,617 | 127,885 | 39,245 | 20,219 | 116,558 | – | 342,492 |
| – Other non-current assets | 482 | 230,168 | – | 55,685 | 4,552 | 37,854 | – | 328,741 |
| – Intangible assets | – | – | – | – | 12,511 | – | – | 12,511 |
| Reversal of ECL on trade receivables, net | (3,611) | (32,480) | (13,847) | (4,715) | (31,897) | (755) | – | (87,305) |
| Provision/(Reversal of) for ECL on other receivables, net | 199 | 472 | 66 | (1,329) | (74,166) | (47) | – | (74,805) |
| (Reversal of)/Provision for ECL on contract assets, net | (1,837) | 2,942 | 1,554 | 1,384 | 4,455 | 138 | – | 8,636 |
| Impairment | | | | | | | | |
| – Property, plant and equipment | – | 4,959 | – | – | – | – | – | 4,959 |
| – Others | – | – | – | – | 2 | – | – | 2 |
| As at 30 June 2023 (Unaudited) | | | | | | | | |
| Assets | | | | | | | | |
| Segment assets | 5,410,364 | 28,075,096 | 4,758,711 | 7,855,331 | 22,451,361 | 39,335,215 | (35,055,107) | 72,830,971 |
| Liabilities | | | | | | | | |
| Segment liabilities | 4,546,595 | 21,623,937 | 3,329,017 | 4,827,604 | 21,554,531 | 43,925,540 | (35,055,107) | 64,752,117 |

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4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

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

For the six months ended 30 June 2022 and as at that date, segment revenue 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 (Restated) |
| For the six months ended 30 June 2022 (Unaudited) | | | | | | | | |
| Segment revenue and results | | | | | | | | |
| 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) | – |
| Reportable segment revenue | 1,539,266 | 17,837,177 | 1,585,710 | 4,449,432 | 8,353,849 | 3,869,990 | (4,486,772) | 33,148,652 |
| Reportable segment (loss)/profit | (101,305) | 623,980 | 119,914 | 217,338 | 160,210 | (361,235) | – | 658,902 |
| 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) |
| (Loss)/Profit before income tax | (91,121) | 636,374 | 128,433 | 217,630 | 190,196 | (348,761) | – | 732,751 |
| Income tax expense | | | | | | | | (171,067) |
| Profit for the period | | | | | | | | 561,684 |
| Supplementary information | | | | | | | | |
| Depreciation and amortisation | | | | | | | | |
| – 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 | – | 1,069,532 |
| – Intangible assets | 94 | 283 | 721 | 4,082 | 6,272 | 90,725 | – | 102,177 |
| Capital expenditure | | | | | | | | |
| – 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) |
| Provision for/(Reversal of) ECL on other receivables, net | (1,274) | 1,086 | 62 | 378 | (13,985) | (282) | – | (14,015) |
| Provision for/(Reversal of) ECL on contract assets, net | (1,972) | 148 | 2,553 | 1,335 | 3,813 | (4,526) | – | 1,351 |
| As at 31 December 2022 (Restated) | | | | | | | | |
| Assets | | | | | | | | |
| Segment assets | 5,709,085 | 30,373,430 | 4,636,423 | 7,743,455 | 22,352,376 | 37,592,428 | (37,199,136) | 71,208,061 |
| Liabilities | | | | | | | | |
| Segment liabilities | 4,680,689 | 24,488,460 | 3,359,394 | 4,850,991 | 21,672,974 | 41,924,955 | (37,199,136) | 63,778,327 |

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, interest 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 | |
|--------------------|---|-------------------------|
| | 2023 | 2022 |
| | RMB' 000 (Unaudited) | RMB' 000 (Unaudited) |
| The PRC | 29,308,887 | 27,450,310 |
| Middle East (Note) | 4,793,333 | 3,949,932 |
| Other countries | 3,031,308 | 1,748,410 |
| | 37,133,528 | 33,148,652 |

| | Specified non-current assets | |
|-----------------|------------------------------|------------------------|
| | As at 30 June 2023 | As at 31 December 2022 |
| | RMB' 000 (Unaudited) | RMB' 000 (Audited) |
| The PRC | 26,107,073 | 28,364,511 |
| Saudi Arabia | 3,493,137 | 3,736,517 |
| Other countries | 1,893,790 | 2,014,948 |
| | 31,494,000 | 34,115,976 |

Note:

Middle East and other countries are mainly represented Saudi Arabia and Kuwait.

(c) Major customer

For the six months ended 30 June 2023 and 2022, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

| | For the six months ended 30 June | |
|------------|----------------------------------|-------------------------|
| | 2023 | 2022 |
| | RMB' 000 (Unaudited) | RMB' 000 (Unaudited) |
| Customer A | 22,609,772 | 20,875,657 |

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 61% (2022: 63%) of the Group's revenue.

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4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

(d) Analysis on revenue from contracts

For the six months ended 30 June 2023 and 2022, 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 |
| For the six months ended 30 June 2023 (Unaudited) | | | | | | | |
| Timing of revenue recognition: | | | | | | | |
| – At a point in time | – | 3,097 | – | 1,605 | 3,265 | 224,850 | 232,817 |
| – Over time | 2,019,633 | 18,864,893 | 1,564,589 | 4,697,963 | 8,827,601 | 926,032 | 36,900,711 |
| Total | 2,019,633 | 18,867,990 | 1,564,589 | 4,699,568 | 8,830,866 | 1,150,882 | 37,133,528 |
| For the six months ended 30 June 2022 (Unaudited) | | | | | | | |
| Timing of revenue recognition: | | | | | | | |
| – 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 |
| Total | 1,512,225 | 16,635,798 | 1,202,466 | 4,292,870 | 8,326,149 | 1,179,144 | 33,148,652 |

5. FINANCE EXPENSES – NET

| | For the six months ended 30 June | |
|--|----------------------------------|---------------------------------|
| | 2023 RMB' 000 (Unaudited) | 2022 RMB' 000 (Unaudited) |
| Finance income | | |
| Interest income | | |
| – Sinopec Group's subsidiaries | 2,487 | 408 |
| – Third parties and other financial institutions | 8,410 | 4,022 |
| | 10,897 | 4,430 |
| Finance expenses | | |
| Interest expenses on loans wholly repayable within 5 years | | |
| – Sinopec Group and its subsidiaries | (347,686) | (263,629) |
| – Third parties and other financial institutions | (12,836) | (6,059) |
| Interest expenses on lease liabilities | | |
| – Sinopec Group and its subsidiaries | (9,268) | (9,545) |
| – Associates and joint ventures of Sinopec Group | (4,299) | (6,982) |
| – Third parties | (10,186) | (9,155) |
| Exchange gains, net | 39,756 | 47,529 |
| Bank and other charges | (40,195) | (38,477) |
| | (384,714) | (286,318) |
| | (373,817) | (281,888) |

6. REVERSAL OF/(PROVISION FOR) ECL – NET

| | For the six months ended 30 June | |
|---|----------------------------------|-------------------------|
| | 2023 | 2022 |
| | RMB' 000 (Unaudited) | RMB' 000 (Unaudited) |
| Reversal of ECL on trade and other receivables, net | 162,110 | 70,691 |
| Provision for ECL on contract assets, net | (8,636) | (1,351) |
| | 153,474 | 69,340 |

7. OTHER INCOME

| | For the six months ended 30 June | |
|--|----------------------------------|-------------------------|
| | 2023 | 2022 |
| | RMB' 000 (Unaudited) | RMB' 000 (Unaudited) |
| Gain on disposal of property, plant and equipment, net | 8,835 | 13,783 |
| Gain on disposal of other non-current assets, net | 30,708 | 13,322 |
| Government grants (Note) | 49,827 | 35,829 |
| Penalty income | 858 | 2,115 |
| Compensation received | 1,537 | 5,400 |
| Gain on debt restructuring | 14,650 | 10,840 |
| Others | 5,977 | 32,626 |
| | 112,392 | 113,915 |

Note:

For the six months ended 30 June 2023 and 2022, 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 | |
|---|----------------------------------|-------------------------|
| | 2023 | 2022 |
| | RMB' 000 (Unaudited) | RMB' 000 (Unaudited) |
| Penalty pay | 759 | 1,134 |
| Compensation | 17,058 | 2,138 |
| Impairment loss on property, plant and equipment and others | 4,961 | – |
| Others | 43,853 | 36,794 |
| | 66,631 | 40,066 |

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9. PROFIT BEFORE INCOME TAX

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

| | For the six months ended 30 June | |
|---|----------------------------------|---------------------------------|
| | 2023 RMB' 000 (Unaudited) | 2022 RMB' 000 (Unaudited) |
| Staff costs, including directors and supervisors emoluments | 7,715,501 | 7,146,661 |
| Retirement benefit plan contribution (including in the above mentioned staff costs) | | |
| – Municipal retirement scheme costs | 720,118 | 680,149 |
| – Supplementary retirement scheme costs | 356,431 | 338,800 |
| Changes in inventories of finished goods and work in progress | (10) | 30,267 |
| Raw materials and consumables used | 15,879,309 | 8,889,820 |
| Depreciation and amortisation | | |
| – Property, plant and equipment | 1,823,552 | 1,768,213 |
| – Other non-current assets | 1,273,864 | 1,069,531 |
| – Intangible assets | 78,451 | 102,177 |
| Short-term leases and leases with lease term of 12 months or less | 246,982 | 379,742 |
| (Reversal of)/Provision for ECL – net | | |
| – Trade and other receivables | (162,110) | (70,691) |
| – Contract assets | 8,636 | 1,351 |
| Rental income from property, plant and equipment after relevant expenses | (24,355) | (26,500) |
| Gain on disposal of property, plant and equipment, net | (8,835) | (13,783) |
| Gain on disposal of other non-current assets, net | (30,708) | (13,322) |
| Exchange gains, net | (39,756) | (47,529) |

10. INCOME TAX EXPENSE

| | For the six months ended 30 June | |
|---|----------------------------------|--------------------------------|
| | 2023 RMB' 000 (Unaudited) | 2022 RMB' 000 (Restated) |
| Current tax | | |
| PRC enterprise income tax | 86,070 | 91,201 |
| Overseas enterprise income tax | 137,550 | 80,492 |
| | 223,620 | 171,693 |
| Deferred tax | | |
| Origination and reversal of temporary differences | (7,950) | (626) |
| Income tax expense | 215,670 | 171,067 |

According to the Corporate Income Tax Law of the PRC, the applicable income tax for the six months ended 30 June 2023 and 2022 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 2023 and 2022, the majority of the companies of the Group are subject to 25% income tax rate.

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

11. EARNINGS PER SHARE

(a) Basic

For the six months ended 30 June 2023 and 2022, 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 | |
|--|----------------------------------|--------------------|
| | 2023 (Unaudited) | 2022 (Restated) |
| Profit for the period attributable to owners of the Company (RMB' 000) | 649,120 | 561,684 |
| Weighted average number of ordinary shares in issue (Shares) | 18,984,340,033 | 18,984,340,033 |
| Basic earnings per share (RMB) | 0.034 | 0.030 |

(b) Diluted

For the six months ended 30 June 2023 and 2022, 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 2023 (2022: Nil).

13. EMPLOYEE BENEFITS

| | For the six months ended 30 June | |
|---|----------------------------------|---------------------------------|
| | 2023 RMB' 000 (Unaudited) | 2022 RMB' 000 (Unaudited) |
| Salaries, wages and other benefits | 6,638,952 | 6,127,712 |
| Retirement benefit plan contribution (note) | | |
| – Municipal retirement scheme costs | 720,118 | 680,149 |
| – Supplementary retirement scheme costs | 356,431 | 338,800 |
| | 7,715,501 | 7,146,661 |

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 2023, the Group and the employees pay 16% and 8% (31 December 2022: 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 2022: 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.

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14. PROPERTY, PLANT AND EQUIPMENT AND OTHER NON-CURRENT ASSETS

(a) Property, Plant and Equipment

For the six months ended 30 June 2023 (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 |
| Cost | | | | | | |
| Balance at 1 January 2023 | 2,709,818 | 66,641,561 | 152,116 | 137,876 | 470,886 | 70,112,257 |
| Additions | 179,575 | 34,672 | 8,332 | 12,510 | 107,403 | 342,492 |
| Remeasurement of leases | 5,156 | 500 | 2,627 | – | – | 8,283 |
| Expiration of or early termination of contract | (68,190) | (391,655) | (17,486) | – | – | (477,331) |
| Disposals/Write-off | (9) | (781,881) | – | – | – | (781,890) |
| Transferred from construction in progress | – | 107,974 | – | – | (107,974) | – |
| At 30 June 2023 | 2,826,350 | 65,611,171 | 145,589 | 150,386 | 470,315 | 69,203,811 |
| Accumulated depreciation and impairment | | | | | | |
| Balance at 1 January 2023 | 1,126,625 | 42,428,938 | 86,484 | 34,626 | 3,502 | 43,680,175 |
| Depreciation | 203,150 | 1,593,897 | 24,757 | 1,748 | – | 1,823,552 |
| Expiration of or early termination of contract | (47,544) | (365,292) | – | – | – | (412,836) |
| Disposals/Write-off | (5) | (722,577) | (17,487) | – | – | (740,069) |
| Impairment | – | 4,959 | – | – | – | 4,959 |
| At 30 June 2023 | 1,282,226 | 42,939,925 | 93,754 | 36,374 | 3,502 | 44,355,781 |
| Carrying amounts | | | | | | |
| At 30 June 2023 (Unaudited) | 1,544,124 | 22,671,246 | 51,835 | 114,012 | 466,813 | 24,848,030 |
| At 31 December 2022 (Audited) | 1,583,193 | 24,212,623 | 65,632 | 103,250 | 467,384 | 26,432,082 |

Note:

As at 30 June 2023, right-of-use assets with carrying amounts of RMB1,002,734,000 are included in property, plant and equipment (31 December 2022: RMB1,115,600,000).

| | Carrying amounts | | Depreciation |
|--------------------------------------|--------------------|----------------------|--|
| | As at 30 June 2023 | As at 1 January 2023 | During the six months ended 30 June 2023 |
| | RMB' 000 | RMB' 000 | RMB' 000 |
| Buildings | 618,225 | 629,737 | 175,597 |
| Oil engineering equipment and others | 218,662 | 316,980 | 96,120 |
| Land | 51,835 | 65,632 | 24,757 |
| Prepaid land leases | 114,012 | 103,250 | 1,748 |
| | 1,002,734 | 1,115,599 | 298,222 |

14. PROPERTY, PLANT AND EQUIPMENT AND OTHER NON-CURRENT ASSETS (Continued)

(a) Property, Plant and Equipment (Continued)

For the six months ended 30 June 2022 (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 |
| Cost | | | | | | |
| 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 |
| Expiration of or early termination of contract | (155,629) | (20,000) | (21,385) | – | – | (197,014) |
| Disposals/Write-off | (2,794) | (585,341) | – | – | – | (588,135) |
| Transferred from construction in progress | – | 488,019 | – | – | (488,019) | – |
| At 30 June 2022 | 2,721,386 | 64,863,802 | 181,159 | 137,876 | 606,253 | 68,510,476 |
| Accumulated depreciation and impairment | | | | | | |
| Balance at 1 January 2022 | 1,129,101 | 42,087,442 | 112,286 | 31,410 | 3,502 | 43,363,741 |
| Depreciation | 163,396 | 1,582,879 | 20,329 | 1,609 | – | 1,768,213 |
| Expiration of or early termination of contract | (142,677) | (18,949) | – | – | – | (161,626) |
| Disposals/Write-off | (2,622) | (548,589) | (19,470) | – | – | (570,681) |
| At 30 June 2022 | 1,147,198 | 43,102,783 | 113,145 | 33,019 | 3,502 | 44,399,647 |
| Carrying amounts | | | | | | |
| At 30 June 2022 (Unaudited) | 1,574,188 | 21,761,019 | 68,014 | 104,857 | 602,751 | 24,110,829 |

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14. PROPERTY, PLANT AND EQUIPMENT AND OTHER NON-CURRENT ASSETS (Continued)

(b) Other Non-Current Assets

For the six months ended 30 June 2023

| | 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 |
| Cost | | | | | |
| At 1 January 2023 | 16,289,261 | 2,455,532 | 2,493,899 | 51,214 | 21,289,906 |
| Additions | 133,385 | 156,989 | 38,367 | – | 328,741 |
| At 30 June 2023 | 16,422,646 | 2,612,521 | 2,532,266 | 51,214 | 21,618,647 |
| Accumulated depreciation | | | | | |
| At 1 January 2023 | 10,605,349 | 1,669,883 | 1,716,021 | 43,214 | 14,034,467 |
| Depreciation | 961,951 | 176,161 | 131,727 | 4,025 | 1,273,864 |
| Other decrease | 279 | 4 | 292 | – | 575 |
| At 30 June 2023 | 11,567,579 | 1,846,048 | 1,848,040 | 47,239 | 15,308,906 |
| Carrying amounts | | | | | |
| At 30 June 2023 (Unaudited) | 4,855,067 | 766,473 | 684,226 | 3,975 | 6,309,741 |
| At 31 December 2022 (Audited) | 5,683,912 | 785,649 | 777,878 | 8,000 | 7,255,439 |

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 |
| Cost | | | | | |
| 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 |
| At 30 June 2022 | 14,272,203 | 1,997,690 | 2,159,669 | 51,842 | 18,481,404 |
| Accumulated depreciation | | | | | |
| 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 |
| At 30 June 2022 | 9,637,698 | 1,536,134 | 1,597,595 | 36,776 | 12,808,203 |
| Carrying amounts | | | | | |
| At 30 June 2022 (Unaudited) | 4,634,505 | 461,556 | 562,074 | 15,066 | 5,673,201 |

15. FINANCIAL ASSETS AT FVTOCI

| | As at 30 June 2023 | As at 31 December 2022 |
|---|--------------------|------------------------|
| | RMB' 000 | RMB' 000 |
| | (Unaudited) | (Audited) |
| Financial assets at FVTOCI (non-recycling) | | |
| Non-current assets: | | |
| Equity securities – the PRC | 134,492 | 134,492 |
| Current assets: | | |
| Notes receivables | 1,757,756 | 1,468,340 |

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 2023 and 31 December 2022, 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 2023 and 31 December 2022, none of the Group's notes receivables were pledged as collateral or overdue.
- (c) All financial assets at FVTOCI are denominated in RMB.

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16. TRADE RECEIVABLES

| | As at 30 June 2023 | As at 31 December 2022 |
|--|--------------------|------------------------|
| | RMB' 000 | RMB' 000 |
| | (Unaudited) | (Audited) |
| Trade receivables | | |
| – Sinopec Group and its subsidiaries | 2,941,186 | 4,362,460 |
| – Joint ventures of the Group | 15,344 | 11,341 |
| – Joint ventures and associates of Sinopec Group | 31,700 | 20,031 |
| – Third parties | 8,612,116 | 8,541,180 |
| | 11,600,346 | 12,935,012 |
| Less: ECL allowance | (2,373,086) | (2,397,795) |
| Trade receivables – net | 9,227,260 | 10,537,217 |

As at 30 June 2023 and 31 December 2022, 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 2023 | As at 31 December 2022 |
|----------------------|--------------------|------------------------|
| | RMB' 000 | RMB' 000 |
| | (Unaudited) | (Audited) |
| Within 1 year | 8,709,206 | 9,942,031 |
| 1 to 2 years | 337,234 | 380,380 |
| 2 to 3 years | 89,992 | 93,954 |
| Over 3 years | 90,828 | 120,852 |
| | 9,227,260 | 10,537,217 |

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

| | For the six months ended 30 June 2023 | For the year ended 31 December 2022 |
|--|--|--|
| | RMB' 000 | RMB' 000 |
| | (Unaudited) | (Audited) |
| At the beginning of the period/year | 2,397,795 | 2,415,495 |
| ECL allowance | 5,228 | 46,630 |
| Reversal | (92,533) | (129,145) |
| Others | 62,596 | 139,507 |
| Receivables write-off as uncollectible | – | (74,692) |
| At the end of the period/year | 2,373,086 | 2,397,795 |

17. PREPAYMENT AND OTHER RECEIVABLES

| | As at 30 June 2023 | As at 31 December 2022 |
|--|-------------------------|------------------------|
| | RMB' 000 (Unaudited) | RMB' 000 (Audited) |
| Prepayments (note (a)) | 505,355 | 410,442 |
| Other receivables (note (b)) | | |
| Petty cash funds | 30,364 | 5,188 |
| Guarantee deposits | 1,136,297 | 1,349,502 |
| Disbursement of funds | 1,606,942 | 1,254,411 |
| Temporary payment | 937,942 | 1,003,269 |
| Escrow payments | 4,762 | 5,920 |
| Deposits | 265,471 | 94,537 |
| Export tax refund receivables | 87,492 | 21,161 |
| Excess value-added tax paid | 1,296,971 | 1,123,184 |
| Value added tax to be certified | 28,115 | 61,174 |
| Prepaid value-added tax | 1,263,401 | 1,153,395 |
| Prepaid income tax | 35,164 | 25,110 |
| Dividend receivable | – | 540 |
| Others | 608,461 | 367,275 |
| | 7,806,737 | 6,875,108 |
| Less: ECL allowance | (808,882) | (861,554) |
| Prepayments and other receivables – net | 6,997,855 | 6,013,554 |

Notes:

- (a) As at 30 June 2023, prepayments included related party balances: Sinopec Group and its subsidiaries amounting to RMB37,618,000 (31 December 2022: RMB83,073,000), the associates and joint ventures of Sinopec Group amounting to RMB6,836,000 (31 December 2022: RMB6,836,000).
- (b) As at 30 June 2023, other receivables included related party balances: Sinopec Group and its subsidiaries amounting to RMB183,283,000 (31 December 2022: RMB349,639,000), the joint ventures of the Group amounting to RMB8,807,000 (31 December 2022: RMB8,199,000) and the associates and joint ventures of Sinopec Group amounting to RMB7,265,000 (31 December 2022: RMB23,587,000).
- (c) The amounts due from related parties are unsecured, interest free and repayable on demand.
- (d) The carrying amounts of the Group's prepayments and other receivables as at 30 June 2023 and 31 December 2022 approximate their fair value.

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

| | For the six months ended 30 June 2023 | For the year ended 31 December 2022 |
|--------------------------------------|--|--|
| | RMB' 000 (Unaudited) | RMB' 000 (Audited) |
| At the beginning of the period/year | 861,554 | 809,103 |
| ECL allowance | 59,817 | 127,187 |
| Reversal | (134,622) | (120,204) |
| Others | 22,133 | 45,468 |
| At the end of the period/year | 808,882 | 861,554 |

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18. CONTRACT ASSETS AND COST TO FULFIL CONTRACTS/CONTRACT LIABILITIES

(a) Contract assets and cost to fulfil contracts

| | As at 30 June 2023 | As at 31 December 2022 |
|---|-------------------------|------------------------|
| | RMB' 000 (Unaudited) | RMB' 000 (Audited) |
| Contract assets arising from construction and service contracts | 19,376,395 | 15,815,303 |
| Cost to fulfil contracts | 804,955 | 103,095 |
| Less: ECL allowance | (215,362) | (201,404) |
| | 19,965,988 | 15,716,994 |

Typical payment terms which impact 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 RMB2,465,233,000 (31 December 2022: RMB1,987,467,000).

(b) Contract liabilities

| | As at 30 June 2023 | As at 31 December 2022 |
|--|-------------------------|------------------------|
| | RMB' 000 (Unaudited) | RMB' 000 (Audited) |
| Contract liabilities arising from construction and service contracts | 4,459,447 | 5,115,819 |

The balance of contract liabilities as at 1 January 2023 is RMB5,115,819,000, in which RMB2,552,509,000 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 2023, 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 and partially satisfied performance obligation was RMB32.41 billion (31 December 2022: RMB31.63 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 2023 | As at 31 December 2022 |
|-------------------------------------|-------------------------|------------------------|
| | RMB' 000 (Unaudited) | RMB' 000 (Audited) |
| Raw materials | 950,678 | 923,489 |
| Work in progress | 13,585 | 6,257 |
| Finished goods | 90,497 | 97,835 |
| Turnover materials | 13,048 | 14,258 |
| | 1,067,808 | 1,041,839 |
| Less: Inventories write-down | (19,405) | (28,594) |
| | 1,048,403 | 1,013,245 |

For the six months ended 30 June 2023 and 2022, cost of inventories recognised as expenses and included in "cost of sales" amounting to RMB15,879,309,000 and RMB8,920,087,000 respectively. For the six months ended 30 June 2023, no addition provision for inventories was made to write down inventories to their net realisable value and no reversal of inventories write-down (For the six months ended 30 June 2022: RMB116,000) was made.

20. SHARE CAPITAL

| | As at 30 June 2023 | | As at 31 December 2022 | |
|---|--------------------------|------------------------------------|--------------------------|----------------------------------|
| | Number of shares (Share) | Share capital RMB' 000 (Unaudited) | Number of shares (Share) | Share capital RMB' 000 (Audited) |
| Registered, issued and paid: | | | | |
| – Domestic non-public legal person shares of RMB1.00 each | 11,786,045,218 | 11,786,046 | 11,786,045,218 | 11,786,046 |
| – Social public A shares of RMB1.00 each | 1,783,333,333 | 1,783,333 | 1,783,333,333 | 1,783,333 |
| – H shares of RMB1.00 each | 5,414,961,482 | 5,414,961 | 5,414,961,482 | 5,414,961 |
| | 18,984,340,033 | 18,984,340 | 18,984,340,033 | 18,984,340 |

21. NOTES AND TRADE PAYABLES

| | As at 30 June 2023 | As at 31 December 2022 |
|--|----------------------|------------------------|
| | RMB' 000 (Unaudited) | RMB' 000 (Audited) |
| Trade payables | | |
| – Sinopec Group and its subsidiaries | 2,456,312 | 2,406,778 |
| – Joint ventures of the Group | 29,022 | 107,009 |
| – Joint ventures and associates of Sinopec Group | 720 | 16,074 |
| – Third parties | 21,779,075 | 23,071,367 |
| | 24,265,129 | 25,601,228 |
| Notes payables | 9,046,723 | 7,990,225 |
| | 33,311,852 | 33,591,453 |

As at 30 June 2023 and 31 December 2022, 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 2023 | As at 31 December 2022 |
|---------------|----------------------|------------------------|
| | RMB' 000 (Unaudited) | RMB' 000 (Audited) |
| Within 1 year | 32,632,174 | 32,987,429 |
| 1 to 2 years | 394,053 | 370,450 |
| 2 to 3 years | 104,853 | 63,688 |
| Over 3 years | 180,772 | 169,886 |
| | 33,311,852 | 33,591,453 |

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22. OTHER PAYABLES

| | As at 30 June 2023 | As at 31 December 2022 |
|------------------------------|-------------------------|------------------------|
| | RMB' 000 (Unaudited) | RMB' 000 (Audited) |
| Salaries payables | 661,149 | 570,290 |
| Other tax payables | 487,178 | 746,168 |
| Interest payables (note (a)) | 38,117 | 21,885 |
| Other payables (note (b)) | | |
| Guarantee deposits | 937,489 | 819,893 |
| Deposits | 151,533 | 145,438 |
| Disbursement of funds | 971,099 | 645,731 |
| Temporary receipts | 347,417 | 238,069 |
| Escrow payments | 53,346 | 44,611 |
| Withheld payments | 51,448 | 56,067 |
| Others | 808,578 | 831,107 |
| | 4,507,354 | 4,119,259 |

Notes:

- (a) As at 30 June 2023, interest payables include related party balances with Sinopec Group and its subsidiaries amounting to RMB33,329,000 (31 December 2022: RMB16,816,000).
- (b) As at 30 June 2023, other payables include related party balances with Sinopec Group and its subsidiaries amounting to RMB59,970,000 (31 December 2022: RMB69,875,000), associates of the Group amounting to RMB120,000 (31 December 2022: RMB242,000).
- (c) The above amounts due to related parties are unsecured, interest free and repayable on demand.

23. BORROWINGS

| | As at 30 June 2023 | As at 31 December 2022 |
|---|-------------------------|------------------------|
| | RMB' 000 (Unaudited) | RMB' 000 (Audited) |
| Current liabilities | | |
| Loans from Sinopec Finance Company Limited (note (a)) | 18,185,000 | 16,095,000 |
| Loans from Sinopec Century Bright Capital Investment Limited (note (a)) | 1,531,870 | 1,828,208 |
| Loans from Sinopec Group (note (a)) | 1,000,000 | 1,000,000 |
| Lease liabilities (note (b)) | 468,990 | 517,190 |
| | 21,185,860 | 19,440,398 |
| Non-current liabilities | | |
| Bank borrowings (note (a)) | 440,774 | 480,557 |
| Lease liabilities (note (b)) | 366,761 | 497,045 |
| | 807,535 | 977,602 |
| | 21,993,395 | 20,418,000 |

Notes:

(a) The borrowings of the Group are repayable as follows:

| | As at 30 June 2023 | As at 31 December 2022 |
|---------------|-------------------------|------------------------|
| | RMB' 000 (Unaudited) | RMB' 000 (Audited) |
| Within 1 year | 20,716,870 | 18,923,208 |
| 1 to 2 years | 440,774 | 480,557 |
| | 21,157,644 | 19,403,765 |

As at 30 June 2023, annual interest rate of credit loans from related parties and bank ranged from 1.42% to 6.34% (31 December 2022: 1.42% to 4.82%).

(b) Lease liabilities

| | As at 30 June 2023 | As at 31 December 2022 |
|---|-------------------------|------------------------|
| | RMB' 000 (Unaudited) | RMB' 000 (Audited) |
| Total minimum lease payments | | |
| – Within 1 year | 489,392 | 539,279 |
| – 1 to 2 years | 201,449 | 377,161 |
| – 2 to 5 years | 128,932 | 94,684 |
| – Over 5 years | 67,511 | 50,938 |
| | 887,284 | 1,062,062 |
| Future finance charges on lease liabilities | (51,533) | (47,827) |
| Present value of lease liabilities | 835,751 | 1,014,235 |

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23. BORROWINGS (Continued)

(b) Lease liabilities (Continued)

| | As at 30 June 2023 | As at 31 December 2022 |
|--|--------------------|------------------------|
| | RMB' 000 | RMB' 000 |
| | (Unaudited) | (Audited) |
| Present value of minimum lease payments | | |
| – Within 1 year | 468,990 | 517,190 |
| – 1 to 2 years | 191,742 | 363,905 |
| – 2 to 5 years | 116,231 | 88,571 |
| – Over 5 years | 58,788 | 44,569 |
| | 835,751 | 1,014,235 |
| Less: Portion due within one year included under current liabilities | (468,990) | (517,190) |
| Portion due after one year included under non-current liabilities | 366,761 | 497,045 |

As at 30 June 2023, the Group leases various residential properties, office and equipment. The leases run for an initial period of 1 to 30 years (31 December 2022: 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 2023, total cash outflow for the lease payment is RMB629,995,000 (30 June 2022: RMB668,776,000).

24. COMMITMENTS

(a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding as at 30 June 2023 and 31 December 2022 are as follows:

| | As at 30 June 2023 | As at 31 December 2022 |
|---------------------------------|--------------------|------------------------|
| | RMB' 000 | RMB' 000 |
| | (Unaudited) | (Audited) |
| Contracted but not provided for | 20,528 | 15,905 |

(b) Lease commitments

The lease commitments for short-term leases as at 30 June 2023 and 31 December 2022 are as follows:

| | As at 30 June 2023 | As at 31 December 2022 |
|---------------|--------------------|------------------------|
| | RMB' 000 | RMB' 000 |
| | (Unaudited) | (Audited) |
| Within 1 year | 68,998 | 45,938 |

As at 30 June 2023 and 31 December 2022, 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 2023, the Group has outstanding commitments of RMB129,625,000 (31 December 2022: 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 2023.

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 2023, which were disclosed in the 2022 annual report.

(a) Contingent liabilities and financial impacts due to pending litigation

- (1) 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 on 24 January 2019. Both parties made statements on the disputed over the main factual issues and answered the inquiry raised by the arbitral tribunal. In November 2019, the arbitral tribunal started the appraisal work after confirmation of the appraisal fee. The hearing was held again on 3 July 2022. Both parties challenged the cost of appraisal fees. Also, both parties made statements and debated over other crucial topics.

On 21 April 2023, the Group has received an arbitral award (the "Arbitral Award") issued by the China International Economic and Trade Arbitration Commission. According to the Arbitral Award, the respective requests of the Applicant and the Respondent to the counter-party are confirmed. The main results of the Arbitral Award are as follows:

- The Respondent shall pay the Applicant RMB11,774,565.59 for the project payment, RMB19,638,188 for the losses due to stoppage of work, RMB38,018,100 for the refund of the advance payment guarantee paid by the Applicant, and RMB810,000 for attorney fees and travel expenses incurred for the investigation of evidence collection, and reject the Applicant's other arbitration requests;
 - The Applicant shall repay the project advances and borrowings as of 30 June 2018 of RMB322,187,057.90 to the Respondent, compensate the various losses of RMB29,622,931.76 brought to the Respondent as a result of the Applicant and attorney fees of RMB1,200,000, and reject the other arbitration counterclaims of the Respondent;
 - Cost appraisal fee is RMB5,200,000, which shall be borne by the Applicant as to 60% (i.e. RMB3,120,000) and the Respondent as to 40% (i.e. RMB2,080,000);
 - The arbitration fee is RMB4,300,511, which shall be borne as to 70% by the Applicant (i.e. RMB3,010,357.70) and 30% by the Respondent (i.e. RMB1,290,153.30); and
 - The counter-claim arbitration fee is RMB5,203,625, which shall be borne by the Applicant as to 60% (i.e. RMB3,122,175) and the Respondent as to 40% (i.e. RMB2,081,450).
- (2) On 8 October 2014, the Ecuador Banya Duri Company 厄瓜多爾斑尼亞杜麗公司 ("EBDC"), 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"). During the implementation of the I-L-Y oilfield comprehensive service project, the two parties had disputes over the oilfield production and payment amount from 2016 to 2017 and negotiations were unsuccessful. In October 2018, the EBDC has initiated an international legal arbitration plan. In April 2019, in accordance with the relevant provisions of the I-L-Y oilfield project contract, EBDC submitted a "Notice of Application for Legal Arbitration" to PAM for contract disputes to initiate legal arbitration procedures. In May 2020, the Company submitted an arbitration application for the compensation and the accrued interest, approximately amounting to USD79.22 million. In February 2022, Banya Duri Company received the international arbitration award issued by the arbitral tribunal on the dispute over the payment of oil production increase in the I-L-Y oilfield comprehensive service project. The overall result of the award is favourable for Banya Duri 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, and there is still uncertainty as whether the other party will perform the arbitral award. In August 2022, EBDC received a formal notification from the Santiago Court of Chile that PAM had hired a local Chilean law firm to submit an application for revocation of the arbitration award to the court in late July 2022. EBDC has to file the statement of defense within 10 working days of receipt of the notice. After receiving the notice, EBDC has hired a local law firm in Chile to provide litigation support in accordance with Chilean law, and submitted a statement of defense in August 2022. EBDC received an email from a supporting lawyer from Chile in October 2022, and the Chilean court has included the hearing of the case on the schedule. In November 2022, Chilean law firm received a notice from the local court to request confirmation of the hearing on 29 November 2022. PAM has then filed an application for postponement of the hearing, and PAM is waiting for the court to notify the latest hearing date.

As at 30 June 2023, the arbitration procedure had not been completed. The Company will make active response and safeguard the legitimate rights and interests of the Company. The Group considered the recoverability of the amount receivables under arbitration is low and full provision has been provided for the related trade receivables and contract assets.



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25. CONTINGENCIES AND GUARANTEES (Continued)

(b) Contingent liabilities and financial impacts from guarantee provided for other entities

As at 30 June 2023 there is no material contingency from guarantee provided for other entities except for disclosed in note 25(c) below (31 December 2022: none).

(c) Performance guarantee

As at 30 June 2023, 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 2023 and 2022.

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.

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 | |
|--|----------------------------------|---------------------------------|
| | 2023 RMB' 000 (Unaudited) | 2022 RMB' 000 (Unaudited) |
| Purchases of materials | | |
| – Sinopec Group and its subsidiaries | 4,834,015 | 5,183,876 |
| Sale of products | | |
| – Sinopec Group and its subsidiaries | 37,569 | 20,309 |
| Rendering of engineering services | | |
| – Sinopec Group and its subsidiaries | 22,492,325 | 20,755,730 |
| Receiving of community services | | |
| – Sinopec Group and its subsidiaries | 18,951 | 4,420 |
| Receiving of integrated services | | |
| – Sinopec Group and its subsidiaries | 224,060 | 192,458 |
| Rendering of integrated services | | |
| – Sinopec Group and its subsidiaries | 11,672 | 48,106 |
| Rendering of technology research and development services | | |
| – Sinopec Group and its subsidiaries | 67,796 | 51,312 |
| Rental income – Buildings | | |
| – Sinopec Group and its subsidiaries | 170 | 105 |
| Rental income – Equipment | | |
| – Sinopec Group and its subsidiaries | 241 | 95 |
| Lease payment – Lands and buildings | | |
| – Sinopec Group and its subsidiaries | 17,328 | 428,809 |
| Lease payment – Equipment | | |
| – Sinopec Group and its subsidiaries | 36,895 | 2,046 |
| Deposits interest income | | |
| – Sinopec Group's subsidiaries | 2,487 | 408 |
| Loans interest expenses | | |
| – Sinopec Group and its subsidiaries | 330,200 | 263,629 |

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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 | |
|---|----------------------------------|---------------------------------|
| | 2023 RMB' 000 (Unaudited) | 2022 RMB' 000 (Unaudited) |
| Interest expenses on lease liabilities | | |
| – Sinopec Group and its subsidiaries | 9,268 | 9,121 |
| Borrowings obtained | | |
| – Sinopec Group and its subsidiaries | 13,336,360 | 12,154,500 |
| Borrowings repaid | | |
| – Sinopec Group and its subsidiaries | 11,596,612 | 11,380,482 |
| Safety and insurance fund expenses | | |
| – Sinopec Group | 42,145 | 40,100 |
| Safety and insurance fund refund | | |
| – Sinopec Group | 46,171 | 36,821 |

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

| | For the six months ended 30 June | |
|--|----------------------------------|---------------------------------|
| | 2023 RMB' 000 (Unaudited) | 2022 RMB' 000 (Unaudited) |
| Rendering of engineering services | | |
| – Associates and joint ventures of the Group | 100,978 | 124,991 |
| Receiving of engineering services | | |
| – Associates and joint ventures of the Group | 956,860 | 898,095 |

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 | |
|--|----------------------------------|---------------------------------|
| | 2023 RMB' 000 (Unaudited) | 2022 RMB' 000 (Unaudited) |
| Purchases of materials | | |
| – Associates and joint ventures of Sinopec Group | 70,877 | 107,152 |
| Rendering of engineering services | | |
| – Associates and joint ventures of Sinopec Group | 2,206,549 | 1,701,371 |
| Receiving of integrated services | | |
| – Associates and joint ventures of Sinopec Group | 7 | 217 |
| Lease payment – Equipment | | |
| – Associates and joint ventures of Sinopec Group | 1,582 | 9,823 |
| Interest expenses on lease liabilities | | |
| – Associates and joint ventures of Sinopec Group | 4,299 | 6,982 |

(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 | |
|--------------------------------|----------------------------------|---------------------------------|
| | 2023 RMB' 000 (Unaudited) | 2022 RMB' 000 (Unaudited) |
| Fee | 300 | 300 |
| Salaries, allowances and bonus | 7,543 | 7,147 |
| Contributions to pension plans | 308 | 286 |
| | 8,151 | 7,733 |

(e) Provision for counter guarantee

As at 30 June 2023, the Group has provided the counter guarantee to Sinopec Group, amounting to RMB300,000,000 (30 June 2022: RMB300,000,000). The counter guarantee will be ended in September 2024.

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27. FAIR VALUE

Other than noted as below, the carrying amount 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 2023 RMB' 000 (Unaudited) | As at 31 December 2022 RMB' 000 (Audited) |
| Financial assets at FVTOCI (non-recycling) | | |
| – Unlisted equity investments | 134,492 | 134,492 |
| Financial assets at FVTOCI | | |
| – Notes receivables | 1,757,756 | 1,468,340 |
| | 1,892,248 | 1,602,832 |

The reconciliation of the carrying amounts of assets classified within Level 3 of the fair value hierarchy is as follows:

| | For the months ended 30 June 2023 | For the ended 31 December 2022 |
|---|--------------------------------------|-----------------------------------|
| | RMB' 000 (Unaudited) | RMB' 000 (Audited) |
| Opening balance | 1,602,832 | 1,317,731 |
| Addition, net | 289,416 | 277,562 |
| Movement in fair value recognised in other comprehensive income | – | 7,539 |
| Closing balance | 1,892,248 | 1,602,832 |

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 2023 (2022: Nil).

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amount of the Group's financial instruments measured at amortised cost are not materially different from fair value as at 30 June 2023 and 31 December 2022.



Section IX Documents Available for Inspection

The following documents will be available for inspection at the office address of the Company from 30 August 2023 (Wednesday) upon requests from related supervisory institutes and shareholders in accordance with the Articles of Association and the relevant regulations:

1. The original copy of the interim report for the six months ended 30 June 2023 signed by the Chairman of the Company;
 2. The interim financial report of the Company for the six months ended 30 June 2023 signed and sealed by the Chairman, General Manager, Chief Financial Officer and the person in charge of the accounts;
 3. The Articles of Association;
 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.