中国石化
SINOPEC

# 中石化石油工程技術服務股份有限公司
# Sinopec Oilfield Service Corporation

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

Annual Report **2023**

# IMPORTANT NOTE

1. The Board of directors 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 annual report ("Annual Report") and individually and jointly accept full responsibility for the authenticity, accuracy and completeness of the information contained in this Annual Report.

2. The 2023 Annual Report has been approved at the nineteenth meeting of the tenth session of the Board. A total of 5 directors of the Company attended the meeting. Mr. Wei Ran and Mr. Zhou Meiyun, directors of the Company, were absent from the meeting due to other working arrangements, and had authorized the independent director Mr. Zheng Weijun and the director Mr. Fan Zhonghai to attend the meeting and to exercise their rights on their behalf respectively.

3. The financial statements of the Company for 2023, which have been prepared in accordance with the PRC Accounting Standards for Business Enterprises ("PRC ASBE") and International Financial Reporting Standards ("IFRS") have been audited by BDO China Shu Lun Pan CPAs (LLP) and BDO Limited, respectively. Both auditors have issued unqualified opinions on the financial statements.

4. Mr. Chen Xikun, Chairman of the Board, Mr. Zhang Jiankuo, General Manager, Mr. Cheng Zhongyi, Chief Financial Officer and Mr. Yang Yulong, Manager of the Asset and Accounting Department of the Company warranted the authenticity, accuaracy and completeness of the financial statements contained in the Annual Report.

5. Consideration of the profit distribution proposal or the reserve capitalization proposal by the Board during the reporting period.

   In 2023, after the audit by BDO China Shu Lun Pan CPAs (LLP) and prepared in accordance with the PRC ASBE, the net profit attributable to shareholders of the Company is RMB589,216,000 (in accordance with the IFRS, the net profit attributable to shareholders of the Company is RMB576,083,000), and the parent company's undistributed profit at the end of 2023 is RMB-1,900,922,000. Since the undistributed profit of the parent company at the end of the year is negative, the Board recommends that no cash dividend distribution will be made for the financial year 2023, nor the capital reserve conversion to share capital. The proposal is subject to consideration at the general meeting.

6. Due to the uncertainty of the forward-looking statement about the future plan and development strategy in the Annual Report, these forward-looking statements do not represent any guarantee made by the Company to the investors. Investors are advised to exercise caution when making investments.

7. There was no appropriation of funds by the controlling shareholder of the Company and its connected parties for non-operation purpose.

8. The Company did not provide external guarantees 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 annual report.

10. There are no significant risks that need to be prompted in the Company.

# Contents

# Section I Definitions

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

| | |
|---|---|
| Company | Sinopec Oilfield Service Corporation, a joint stock limited company incorporated in the PRC whose A Shares are listed on the SSE (Stock code 600871) and H Shares are listed on the Main Board of the HKSE (Stock code 1033) |
| Group | The Company and its subsidiaries |
| Board | The board of directors of the Company |
| Articles of Association | The articles of association of the Company, as amended, modified or supplemented from time to time |
| CPC | China Petrochemical Corporation, a wholly state-owned company established in the PRC and the controlling shareholder of the Company |
| Sinopec | China Petroleum & Chemical Corporation, a joint stock limited company established in the PRC and listed on the Main Board of the HKSE as well as SSE, and the subsidiary of CPC |
| A Shares | Outstanding shares of the Company which are listed on the SSE and par value per share is RMB1.00 |
| H Shares | Overseas listed foreign share(s) each which is (are) listed on the Main Board of the HKSE and par value per share is RMB1.00 |
| SSE | Shanghai Stock Exchange |
| HKSE | The Stock Exchange of Hong Kong Limited |
| Listing Rules | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| Model Code | Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 of the Listing Rules |
| CSRC | China Securities Regulatory Commission |
| Century Bright Company | Sinopec Century Bright Capital Investment, Ltd. |
| Qi Xin Gong Ying Scheme | Qi Xin Gong Ying Scheme for the management of the Company |
| Geophysical exploration or geophysics | A method and theory of exploring the underground mineral and researching the geological formations by using physics principles, such as seismic exploration, electrical and magnetism exploration |
| Drilling | The engineering of drilling formations down to a certain depth by using the mechanical equipment, and finally forming a cylindrical hole |
| CCUS | Carbon capture, utilization and storage |
| Logging | Collecting, analyzing and interpreting data related to the geological characteristics and hydrocarbon potential of the area obtained downhole by using special tools or equipment and technology |
| Mud logging | Recording and acquiring the information during the drilling process. Mud logging is the most basic technique in oil and gas exploration and development activities, and is the most timely and direct way to find and evaluate the oil and gas reservoir. It has the characteristics of obtaining timely and various downhole information and analyzing and interpreting it quickly. |
| Downhole operation service | Providing all oil, gas and water wellbore operations for oil and gas field exploration and development, except for drilling, logging and mud logging, mainly including oil and gas testing, acid fracturing, workover and completion etc. |
| Two dimensional geophysical or 2D | 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 | A method for seismic data gathering by using two sets of sound source and two or more collection points; 3D is generally used for acquiring sophisticated seismic data, and improving the chances of successful drilling to the oil and gas wells |
| HSE | Health, safety and environment management system |
| LPR | The loan interest rate announced by the People's Bank of China |
| CNPC | China National Petroleum Corporation |
| CNOOC | China National Offshore Oil Corporation |
| Four improvements | The improvement of the quality, efficiency, service speed and production |
| Five transformations | Standardized design, factory prefabrication, modular construction, mechanized operation and informatization management |
| PipeChina | China Oil & Gas Pipeline Network Corporation |
| CNSPC | SINOPEC Star Petroleum Co.,Ltd |
| PRC | People's Republic of China |
| Hong Kong | 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 Person and Contact Information

| | Secretary to the Board | Company Secretary/ Securities Affairs Representative |
|---|---|---|
| Name | Cheng Zhongyi | Shen Zehong |
| Address | Office of the Board, #9 Jishikou Road, Chaoyang District, Beijing, China. | |
| Telephone | 86-10-59965998 | |
| Fax | 86-10-59965997 | |
| Email | ir.ssc@sinopec.com | |

## 3. 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. Disclosing information and inspection place

| | |
|---|---|
| Domestic Newspapers disclosing the annual report | China Securities, Shanghai Securities News, Securities Times |
| Websites designated by the stock exchange to publish the annual report | http://www.sse.com.cn<br>http://www.hkexnews.hk |
| Place where the Annual Report available for inspection | Office of the Board |

## 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 | – |

## 6. Other related Information

| | | |
|---|---|---|
| Domestic Auditors | Name | BDO China Shu Lun Pan CPAs (LLP) |
| | Address | 4th Floor, 61 Nanjing East Road, Shanghai |
| | Signing accountants | Jin Chunhua, Miao Song |
| Overseas Auditors | Name | BDO Limited |
| | Address | 25th Floor, Wing On Centre, 111 Connaught Road, Central, Hong Kong |
| | Signing accountants | Chen Zihong |
| Domestic Legal advisor | Name | Beijing Haiwen & Partners |
| | Address | 20/F, Fortune Financial Center, 5 Dong San Huan Central Road, Chaoyang District, Beijing |
| Overseas Legal advisor | Name | Zhong Lun Law Firm |
| | Address | 4/F, Jardine House, 1 Connaught Place, Central, Hong Kong |
| Share registrars and transfer office | A Share | China Securities Registration and Clearing Corporation Limited Shanghai Branch |
| | Address | No.188 Yanggao South Road, China (Shanghai) Pilot Free Trade Zone |
| | H Share | Hong Kong Registrars Limited |
| | Address | Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Roads East, Hong Kong |

## 7. The principal financial information and financial indicators of the Company in the last 3 years (Extracted from the consolidated financial statements prepared in accordance with the PRC ASBE)

### (1) Principal financial data

Unit: RMB'000

| | **For the year ended 31 December 2023** | For the year ended 31 December 2022 | | Increase/ (Decrease) (%) | For the year ended 31 December 2021 |
|---|---|---|---|---|---|
| | | After Adjustment | Before Adjustment | | |
| Operating income | **79,980,939** | 73,772,688 | 73,772,688 | 8.4 | 69,533,053 |
| Operating profit | **899,969** | 732,392 | 732,392 | 22.9 | 347,678 |
| Profit before income tax | **928,340** | 729,361 | 729,361 | 27.3 | 490,522 |
| Net profit attributable to equity shareholders of the Company | **589,216** | 475,898 | 463,814 | 23.8 | 179,791 |
| Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company ("-" for losses) | **359,452** | 389,447 | 377,363 | -7.7 | -100,263 |
| Net cash inflow from operating activities | **5,576,913** | 4,197,869 | 4,197,869 | 32.9 | 6,206,909 |

| | **As at 31 December 2023** | As at 31 December 2022 | | Year-on-year increase/(decrease) (%) | As at 31 December 2021 |
|---|---|---|---|---|---|
| | | After Adjustment | Before Adjustment | | |
| Net assets attributable to shareholders of the Company | **8,023,202** | 7,429,734 | 7,427,319 | 8.0 | 6,861,517 |
| Total assets | **75,162,974** | 71,208,061 | 71,200,517 | 5.6 | 64,052,447 |

### (2) Principal financial indicators

| | For the year ended 31 December 2023 | For the year ended 31 December 2022 | | Year-on-year increase/(decrease) (%) | For the year ended 31 December 2021 |
|---|---|---|---|---|---|
| | | After Adjustment | Before Adjustment | | |
| Basic earnings per share (RMB) | **0.031** | 0.025 | 0.024 | 24.0 | 0.009 |
| Diluted earnings per share (RMB) | **0.031** | 0.025 | 0.024 | 24.0 | 0.009 |
| Basic earnings per share deducted extraordinary gain and loss (RMB) ("-" for losses) | **0.019** | 0.021 | 0.020 | -9.5 | -0.005 |
| Weighted average return on net assets (%) | **7.63** | 6.70 | 6.54 | increased by 0.93 percentage points | 2.64 |
| Weighted average return on net assets deducted extraordinary gain and loss (%) | **4.65** | 5.49 | 5.32 | decreased by 0.84 percentage points | -1.47 |

Explanations of the principal financial information and financial indicators of the Company in the last 3 years.

√ Applicable ☐ Not Applicable

Since 1 January 2023, the Company has implemented the provisions of the Interpretation of Accounting Standards for Business Enterprises No.16 (Accounting [2022] No.31, hereinafter referred to as "Interpretation No.16") issued by the Ministry of Finance. At the beginning of the earliest period for which the financial statements of Interpretation No.16 are presented, the Company shall adopt the accounting treatment of Interpretation No.16 and make retrospective adjustments to the above circumstances. "Increase/decrease of the current period over the same period of last year (%)"and "Increase/decrease of the end of the current period over the end of the same period of last year (%)" are the results of comparison with the "adjusted" data. The accounting data, financial indicators, financial statements and related notes for the comparative period of the 2023 annual report are all "restated" data.

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

Unit: RMB'000

| | Net profit ("-" for losses) attributable to owners of the Company | | Net assets attributable to owners of the Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **For the year ended 31 December 2023** | For the year ended 31 December 2022 |
| PRC ASBE | **589,216** | 475,898 | **8,023,202** | 7,429,734 |
| Difference items and amount: | | | | |
| Special reserve (a) | **-13,133** | 107,801 | | – |
| IFRS | **576,083** | 583,699 | **8,023,202** | 7,429,734 |

**Explanation of differences between domestic and foreign accounting standards:**

### (a) Special reserve

In accordance with the PRC ASBE, the safety production expenses withdrawn in accordance with national regulations are recorded in the current profit and loss and separately reflected in the special reserve in the owner's equity. When expenses related to production safety are incurred, the special reserve is directly offset. When using or forming 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. Quarterly Financial Data of 2023 (Prepared in accordance with PRC ASBE)

Unit: RMB'000

| | The first quarter (January~March) | The second quarter (April~June) | The third quarter (July~September) | The fourth quarter (October~December) |
|---|---|---|---|---|
| Operating income | 17,941,753 | 19,191,775 | 18,709,448 | 24,137,963 |
| Net profit attributable to equity shareholders of the Company ("-" for loss) | 145,114 | 180,790 | 117,701 | 145,611 |
| Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company ("-" for loss) | 164,011 | 121,033 | 76,107 | -1,699 |
| Net cash inflow from operating activities ("-" for outflow) | -521,584 | 943,196 | 812,989 | 4,342,312 |

**Explanations of the differences between the quarterly data and the data in the disclosed periodically report**

☐ Applicable √ Not Applicable

## 10. Extraordinary gain and loss items and amounts (Extracted from the financial statements prepared in accordance with PRC ASBE)

Unit: RMB'000

| Extraordinary gain and loss item | 2023 | 2022 | 2021 |
|---|---|---|---|
| Gain and loss on disposal of non-current assets | **156,514** | -6,205 | 88,723 |
| Government grants recognised in profit or loss during the year | **83,467** | 104,391 | 123,873 |
| Gain and loss from debt restructuring | **34,011** | 18,157 | 29,404 |
| In addition to the company normal business related effective hedging business, holding transactional financial assets, derivative financial assets, transactional financial liabilities, the fair value of profits and losses, and the disposal of transactional financial assets, derivative financial assets, transactional financial liabilities, derivative financial liabilities and other creditor's rights investment of investment income | **-1,020** | 798 | – |
| Reversal of provision for impairment of receivables and contractual assets subject to separate impairment test | **49,867** | – | – |
| Other non-operating income and expenses excluding the aforesaid items | **-40,300** | -7,642 | 107,666 |
| Tax effect | **-52,775** | -23,048 | -69,612 |
| Total | **229,764** | 86,451 | 280,054 |

## 11. Items measured by fair value

Unit: RMB'000

| Item | Balance for the year ended 31 December 2022 | Balance for the year ended 31 December 2023 | The change during the period | Affected amount of profit during the period |
|---|---|---|---|---|
| Other benefits tools | 134,492 | 135,763 | 1,271 | 1,200 |
| Receivables financing | 1,468,340 | 2,735,081 | 1,266,741 | 0 |
| Total | 1,602,832 | 2,870,844 | 1,268,012 | 1,200 |

## 12. Financial information extracted from the financial statements prepared in accordance with IFRS

Unit: RMB'000

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2023** | 2022 | 2021 | 2020 | 2019 |
| Total assets | **75,162,974** | 71,208,061 | 64,052,447 | 61,091,195 | 62,069,378 |
| Total liabilities | **67,139,772** | 63,778,327 | 57,190,930 | 54,368,329 | 55,305,506 |
| Equity attributable to owners of the Company | **8,023,202** | 7,429,734 | 6,861,517 | 6,722,866 | 6,763,872 |
| Net assets per share attributable to owners of the Company (RMB) | **0.42** | 0.39 | 0.36 | 0.35 | 0.36 |
| Equity ratio of owners | **10.67%** | 10.43% | 10.71% | 11.00% | 10.90% |
| Return on net assets | **7.18%** | 7.86% | 2.05% | (0.53%) | 14.59% |

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2023** | 2022 | 2021 | 2020 | 2019 |
| Revenue | **79,980,939** | 73,772,688 | 69,533,053 | 68,073,394 | 69,870,147 |
| Profit before income tax | **915,207** | 837,162 | 451,181 | 233,339 | 1,428,397 |
| Income tax expense | **339,124** | 253,463 | 310,731 | 269,076 | 441,524 |
| Profit/(Loss) attributable to owners of the Company | **576,083** | 583,699 | 140,450 | (35,737) | 986,873 |
| Basic and diluted earnings/(loss) per share (RMB) | **0.030** | 0.031 | 0.007 | (0.002) | 0.052 |

# Section III Chairman's Statement


## Dear Shareholders,

On behalf of the Board, I would like to express my sincere gratitude to our shareholders and people from all walks of life for your interest and support to the Company.

In 2023, the Company thoroughly studied and followed the spirit of the 20th National Congress of the Communist Party of China and the important instructions given by General Secretary Xi Jinping during his visit to Shengli Oilfield and Sinopec Jiujiang. We kept in mind the earnest instructions, strengthened our mission and responsibility by making every effort to ensure exploration and development, expanding domestic and foreign markets and deepening reform and management. As such, we overfulfilled our annual goals and tasks. We achieved "one profit, five rates" and "one stability, one increase and four improvements" and took high-quality development to a new level. In 2023, the Company's consolidated revenue under PRC ASBE amounted to RMB79.98 billion, representing a year-on-year increase of 8.4%, the best level since the "13th Five-Year Plan"; the net profit attributable to the shareholders of the Company amounted to RMB590 million, representing a year-on-year increase of 23.8%.

Firstly, we focused on high-quality and efficient service assurance. By comprehensively deepening the integration and collaboration between Party A and Party B, efficiently organizing production, upgrading core equipment and strengthening technical support, we exceeded all indicators of the "four improvements". In particular, although the number of drilling teams was reduced by 189 compared to 2014, the drilling footage reached 10 million meters once again after ten years, amounting to 10.98 million meters. Among them, there were 31 wells with a depth of over 8,000 meters, which helped Sinopec to develop its "deep-ground engineering" by drilling ultra-deep horizontal wells. Meanwhile, the construction of the Shengli Jiyang Shale Oil National Demonstration Zone was efficiently advanced, and a new shale oil resource site with billion tons of reserves was discovered in the Sichuan Basin.

Secondly, our technological strength continued to improve. As our technological innovation achievements continued to emerge, we had 20 major technological innovation achievements throughout the year, received 20 provincial and ministerial-level technological awards, set 419 records in construction projects, and obtained 541 patent authorizations. Key core technologies such as ultra-deep shale oil and gas good and fast drilling and completion have accelerated breakthroughs, with a drilling depth of 9,432 meters in the Yuejin 3-3XC well, providing core technology and equipment reserves for advancing to the 10,000-meter-deep exploration. The independently developed rotary geosteering drilling system has been selected as one of the "Top Ten Iconic Achievements of National Oil and Gas Exploration and Development in 2023", with a large-scale application in 190 wells and drilling footage of 220,000 meters, demonstrating better performance and wider application areas.

Thirdly, we have achieved excellent results again in market development. The total value of newly signed contracts for the whole year was RMB82.4 billion, representing a year-on-year increase of RMB1.4 billion, of which 112 newly signed projects were valued at over RMB100 million. As such, we have accelerated the gathering of large-scale and efficient markets. Good performance has been achieved in stabilizing our main position in the Chinese petrochemical market, building a new layout of the domestic external markets, and creating growth poles for overseas markets. In particular, in respect of the overseas markets, the newly signed contracts amounted to RMB16.7 billion and the operation revenue from the principal business amounted to RMB16.09 billion, representing a year-on-year growth of 7.1% and 23.6% respectively. The contribution of benefits from the overseas markets has reached a record high.

Fourthly, our reform and management have achieved significant results. We have formulated and implemented the "Implementation Plan for Accelerating High – Quality Development of the Company", systematically and accurately implementing policies in areas such as continuous streamlining, overall team layout, and strict cost management. We have integrated 3 professional operating units and merged 97 homogeneous project departments, thereby improving management efficiency and reducing operating costs. We have optimized and adjusted the team size and further enhanced the team's ability to create efficiency, so that the annual drilling footage of a single drilling team was increased from 17,900 meters to 21,100 meters, representing an efficiency increase of 17.9%. As we deepened the management of cost targets for all employees, RMB560 million was achieved throughout the year by tapping potential and improving efficiency. Labor productivity for all employees also increased by RMB21,000 per person year-on-year and the efficiency of lean management continued to be demonstrated.

Fifthly, we have solidly promoted green and low-carbon development. We have deeply implemented the concept of safe and green development by accelerating the low-carbon development of oil and gas exploration and development, strengthening the upgrading and transformation of energy-saving and environmental protective technology and equipment, and carrying out on-site environmental protection standardization. All 10 domestic subsidiaries have been awarded "Sinopec Green Enterprise in 2023", of which 7 subsidiaries were graded A. We focused on the new needs of oil companies to build a multi-energy complementary green supply system and vigorously developed emerging markets such as geothermal, wind power, photovoltaic, hydrogen energy, CCUS, etc. The "Qilu Petrochemical-Shengli Oilfield Million-ton CCUS" pipeline undertaken by the Company has been officially put into operation, and the Xinjiang Kuqa Green Hydrogen Project we participated in has been completed for hydrogen production. We have actively participated in rural revitalization and social welfare undertakings and were listed "Top 100 ESG Listed Companies in China in 2023" by the Securities Times.

Looking forward to 2024, international oil prices will remain at a moderate to high level with wide fluctuations, and the global oil service industry is in an upward economic cycle. In light of the background of ensuring energy security, comprehensively enhancing supply guarantee capabilities, and achieving the "dual carbon" goal in China, oil companies will continue to increase upstream capital investment, and strive to build a green energy supply system that complements multiple energy sources, promotes coordinated development, and is safe and reliable, bringing significant business expansion space to oil service companies. Overall, the Company is facing more opportunities than challenges, with favorable conditions outweighing unfavorable factors, and has promising prospects and great potential.

In 2024, the Company will focus on enhancing the core functions of service assurance, improving core competitiveness in the market, and deeply carrying out actions with the theme of "keeping in mind the instructions, forging ahead with gratitude, innovating development, and creating first-class quality". We will shoulder strong responsibilities and strengthen assurances, innovate technology to break through bottlenecks, optimize the layout to expand the market, reform management to increase momentum, and control risks in accordance with laws and regulations, so as to strive to create a new situation of high-quality development and accelerate the building of a world-class technology leading oil service company.

Firstly, we will accelerate the improvement of exploration and development service capabilities, and make every effort to ensure national energy security. We will efficiently organize production, strictly implement the connection of processes, vigorously promote the application of scientific drilling decision-making optimization technology, and promote the "four improvements" and "five megatrends" to a new level. We will dynamically adjust the scale of the team, upgrade core equipment, strengthen technological integration, and accurately ensure the efficient implementation of key work areas and key engineering projects, in a bid to achieve a team utilization rate of over 85%. We will orderly expand the "factory" construction model of drilling and fracturing, with a view to achieving quick installation and removal and batch construction, promoting the transformation of production models, sparing no effort in improving construction efficiency and production timeliness, and enhancing service assurance.

Secondly, we will expand the market, increase efficiency and optimize our layout, in order to make every effort to expand the room for the Company's development. We plan to sign new contracts worth over RMB83.5 billion. With respect of the petrochemical market in China, we take service assurance as the foundation, and consolidate and increase market share and team utilization rate. For the domestic external markets, we aim to improve quality and efficiency, continuously enhance the concentration of high-quality and large-scale markets, and increase overall efficiency creation capabilities. Focusing on economic benefits in overseas markets, we will continue to increase our efforts to explore target markets such as Saudi Arabia, Kuwait, Ecuador, Mexico and Uganda, as well as high-end technology service markets. We will focus on the operation and management of oil reservoir projects, with a view to accelerating the "going out" of high-end businesses and creating high profitability and efficiency.

Thirdly, we will anchor on high-level technology for self-reliance and self-strengthening, and strive to accelerate to become a technology-leading enterprise. We will actively promote breakthroughs in key core equipment such as drilling rigs that can deal with cold weather at a high altitude, fully-automated shale oil drilling rigs, rotary steering systems conditioned for high temperatures and high inclination rates, and a series of instruments conditioned for high temperatures, thereby accelerating the iteration and upgrading of 10,000-meter ultra-deep shale oil and gas good and fast drilling and completion technologies, and comprehensively improving technological innovation and performance. We will vigorously develop green and low-carbon technologies, strengthen research on photovoltaic, wind power, geothermal and waste heat utilization engineering technologies, promote the iteration and upgrading of CCUS full chain technology, develop key technologies in hydrogen energy production, storage and transportation, so as to actively expand green and low-carbon emerging businesses and cultivate new profit growth poles.

Fourthly, we will continue to deepen our reform and adjustment to strive to enhance development momentum. The Company will focus on the implementation of the "reform deepening and improving action" and the "special action for creating efficiency", in an effort to continuously amplify the reform effect, improve efficiency and effectiveness, prevent and resolve risks, and effectively solve development problems. We will focus on the operation of the project-oriented management system, and actively build a "market-oriented, regional, platform-based, shared and intensive" operating model to coordinate and optimize the organizational structure and team structure at all level and reduce management levels, thereby reducing management costs and improving efficiency. We will improve the collaborative operation mechanism of internal control, risk control and compliance, firmly holding the bottom line of preventing systemic risks, in order to promote the high-quality development of the Company to achieve stable and far-reaching results.

Dear shareholders, those who refuse to take the easy path will succeed; those who meet challenges head-on will prevail. In the new year, we will work hard and steadfastly to promote the Company's transformation and upgrading into an integrated comprehensive contractor of "engineering contracting+technical services+oil reservoir operation", leading the Company towards a more optimized structure, higher efficiency, better quality, lower costs, and green and low-carbon development. We will use our best endeavours to write a new chapter of high-quality development for petrochemical and oil services and strive to create greater value for the shareholders and the society.

**Chen Xikun**

*Chairman*

Beijing, PRC

26 March 2024

# 1. Discussion and analysis of operation during the reporting period

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

## Annual Results

In 2023, the Company actively grasped the favorable opportunities arising from the continuous recovery of the oilfield services market, overcame adverse factors such as the increased raw material prices and oilfield service prices which had not yet recovered, continued to deepen reform and management, expanded the market and created efficiency with both quality and quantity, further expanded the high-quality scale market, firmly promoted scientific and technological innovation, further promoted the construction of project management system, and steadily implemented the development of characteristic business. The Company achieved better growth in drilling footage, newly signed contracts amount, operating income, total profit, net profit and other major production and operation indicators, and high-quality development achieved effective promotion.

In 2023, the Company's consolidated revenue was RMB79.98 billion, representing a year-on-year increase of 8.4%, and net profit attributable to shareholders of the Company amounted to RMB590 million, representing a year-on-year increase of 23.8%. Basic earnings per share was RMB0.031, representing a year-on-year increase of RMB0.006. Net cash generated from operating activities amounted to RMB5.58 billion, representing a year-on-year increase in net inflow of RMB1.38 billion.

## Operation Review

In 2023, the Company focused on both quality and quantity, and made every effort to expand the high-quality scale market. The total cumulative amount of newly signed contracts reached RMB82.4 billion, representing a year-on-year increase of 1.7%, the best level since the "13th Five-Year" Plan, of which the newly signed contracts in the China Petrochemical Corporation's market amounted to RMB50 billion, representing a year-on-year decrease of 0.8%; the newly signed contracts in domestic external markets amounted to RMB15.7 billion, representing a year-on-year increase of 4.7%; the newly signed contracts in overseas markets amounted to RMB16.7 billion, representing a year-on-year increase of 7.1%. As the Company provided good and efficient engineering and technical services, 419 new records of engineering construction were set throughout the year; scientific and technological innovation achievements were constantly emerging, and breakthroughs in a number of key core technologies were accelerated; new progress was made in the overall optimization of resources, solid progress was made in the construction of project management system, and risk prevention leaped to a new level; the Company's production and operation remained safe and stable throughout the year, and new achievements and developments were made in all aspects of work.

### 1. Geophysical services

In 2023, the Company's operation revenue from the principal business of geophysical service was RMB5.67 billion, representing an increase of 19.2% from RMB4.76 billion in the same period of the previous year. The completed 2D seismic exploration accumulated for 2,783 kilometers in the year, representing a decrease of 43.6% than the previous year; while the 3D seismic exploration accumulated for 15,273 square kilometers, representing a decrease of 3.3% than the previous year. The pass rate of 2D and 3D records was 100%, and the proportion of the seismic data acquired with first-grade quality was 4.1 percent points higher than required by the contracts. Key geophysical technologies such as single-point high-density, broadband vibroseis, full-node acquisition and high-precision exploration were comprehensively promoted and applied. As a result, production efficiency and service quality were effectively improved. New businesses related to wellbore seismic, Beidou application, energy conservation and environmental protection grew steadily, and the amount of newly signed contracts for the whole year reached RMB797 million, representing a year-on-year increase of 58.8%, which is the best record in our history.

### 2. Drilling service

In 2023, the Company's operation revenue from the principal business of drilling service was RMB39.80 billion, representing an increase of 8.1% from RMB36.81 billion in the same period of the previous year. Our completed drilling footage reached 10,980 kilometers, representing a year-on-year increase of 10.0%. The Company made every effort to promote the improvement of the quality, service speed, efficiency and production, i.e., the Four Improvements, further improving the efficiency of drilling construction. Despite an increase of 92.3 meters in average well depth year-on-year, the average drilling cycle and the time on complicated failures were reduced by 5.6% and 12% respectively. The drilling cycles of the Shunbei work area and the Shengli shale oil work area were iteratively shortened by 33% and 39% respectively. The drilling depth of the Yuejin 3-3XC well was 9,432 meters, and the Shunbei 10X well has achieved high oil and gas production through blowout testing and was tracked and reported by CCTV's all forms of media. The Shunbei 6-4X well (with a drilling cycle of 97 days) has for the first time controlled the drilling cycle of wells with a depth of over 8,000 meters to within 100 days, and the Xingye 9 well has helped to develop the shale oil resource site with billion tons of reserves.

### 3. Logging/Mud logging service

In 2023, the Company's operation revenue from the principal business of logging and mud logging service was RMB3.56 billion, representing an increase of 9.2% from RMB3.26 billion in the same period of the previous year. Our completed logging projects had a total of 307,800 standard kilometers, representing an increase of 10.2% than the previous year. Our completed mud logging projects had a total of 8,680 kilometers, representing an increase of 3.3% than the previous year. The pass rate of logging and mud logging data was 100% and the one-time success rate of logging was above 97%. The Company has been consistently improving its logging, mud logging and directional drilling technical service capabilities, and leveraged its resource aggregation advantages to establish a strong integrated standard team for geological engineering and directional drilling, logging, mud logging and rotary steering, which assists in obtaining accurate data, accurately discovering and evaluating oil and gas reservoirs, in a bid to fully ensure safe and fast drilling and completion, improve the drilling encounter rate of reservoirs, and support high-quality exploration and profitable development in key areas.

### 4. Downhole operation service

In 2023, the Company's operation revenue from the principal business of downhole operation service was RMB10.70 billion, representing an increase of 14.2% from RMB9.37 billion in the same period of the previous year. It completed downhole operation for 6,959 wells, representing an increase of 1.3% than the previous year. The one-time pass rate of downhole operation was 99.8%. The Company continued to improve the technical service capabilities of download operation, and has assisted Sinopec in the testing of discovering a total of 26 high-yield oil and gas wells in the Shunbei oil and gas field of "Shendi No.1." For the first time, a single platform "dual unit" fracturing construction was adopted in the Niuye Zone 1 test well group, the largest shale oil development platform in Eastern China. The fracturing construction efficiency in key work areas in "Northwest China, North China, Northeast China and Sichuan" was improved by 11.8% year-on-year. The Company continued to improve the operational level of oil reservoir business, focusing on hard-to-recover blocks to actively explore new cooperation models. The Company has provided comprehensive oil reservoir production-increasing services for more than 150 hard-to-recover blocks of Sinopec, achieving the profitable development of cooperative blocks.

### 5. Engineering and construction service

In 2023, the Company's operation revenue from the principal business of engineering and construction service was RMB17.82 billion, representing an increase of 2.2% from RMB17.44 billion in the same period of the previous year. In 2023, the cumulative value of newly signed contracts was RMB22.54 billion, representing a decrease of 10.9% than the same period of the previous year. The natural gas processing plant in Shunbei Zone 2 undertaken by the Company was completed and put into operation in 168 days, with the construction period shortened by about 40% compared to similar projects. We have successfully completed key projects such as the Qilu Petrochemical-Shengli Oilfield Million-ton CCUS Demonstration Project's Carbon Dioxide Transportation Pipeline, Section Four of Western-Eastern China Natural Gas Transmission Pipeline Three, Guangxi LNG Guilin Branch Pipeline, New Gas Pipeline Guangxi Branch Line, and Shengli Niuzhuang Shale Oil Demonstration Project with high quality, demonstrating our ability and advantages in increasing oil and gas reserves and production and constructing large-scale projects. We continued our expansion in PipeChina's market, forming a large-scale and efficient market base, with newly signed contracts amounting to RMB5.18 billion. As such, the high-quality and large-scale markets are more concentrated.

## International business

In 2023, the Company's operation revenue from the principal business of international business service was RMB16.09 billion, representing an increase of 23.6% from RMB13.01 billion in the same period of the previous year, accounting for 20.4% of the revenue from our principal business, with a year-on-year increase of 2.4 percentage points. In 2023, by seizing strategic opportunities such as the joint construction of the Belt and Road Initiative and the continued recovery of the industry, the Company focused on the main markets in the Middle East, South America and Central Asia, optimized the market layout in-depth, won bids and signed contracts for new high-quality long-term projects in Saudi Arabia, Kuwait, Mexico and Ecuador, and maintained efficient operation of key projects such as well drilling and workover projects, 3D seismic acquisition, ground construction and reservoir operation. As such, the operating efficiency of overseas markets has reached a historic high. In the Saudi Arabian market, we have entered the Saudi Aramco exploration well service market for the first time, signing contracts for 5 new exploration well daily fee drilling rig projects with a contract value of US$330 million. Our market share in the unconventional field continued to expand as we signed two new contracts for unconventional daily fee drilling rig projects with a contract value of US$210 million. We renewed the contract for the Saudi Aramco S84 3D acquisition project for one year, with a contract value of US$58 million. Our technical service business has accelerated its development, and we have successively obtained multiple service contracts from Saudi Aramco, including ground testing, coiled tubing and hydrogen sulfide detection. We have successfully passed the acid qualification review for coiled tubing operations, achieving a breakthrough in the field of chemical qualifications for increasing production in the Saudi Aramco oilfields. In the Kuwaiti market, we have renewed contracts for 18 drilling and workover rigs, with a total contract value of US$180 million. Among them, 9 were extended for the 8th year beyond the 5+1-year contract, setting a record for the longest contract period for KOC drilling and workover rigs. We also successfully obtained the service qualification for all-terrain seismic acquisition projects. In the Ecuadorian market, we have renewed the contract for the first phase of the WAYRA and SACHA drilling and completion general contracting project, and won the bid for the second phase of the SACHA drilling and completion general contracting project, further consolidating our advantageous position in the local market. In the Mexican market, we have strengthened and deepened our cooperation with Petróleos Mexicanos, signing the contract for the IXACHI 3D seismic acquisition and processing project with a contract value of US$160 million.

## Technology research & development

In 2023, the Company continued to increase its investment in scientific research and overcoming difficulties, won 20 science and technology awards at the provincial and ministerial level, applied for 1,004 patents, including 8 foreign-related patents, and was licensed for 541 patents. Our technological innovation achievements continued to emerge, and our independently developed rotary steering system continued to iterate and upgrade, with a large-scale application of 190 wells and drilling footage of 220,000 meters. As a high-end drilling technology equipment, it has been selected as one of the "Top 10 Iconic Achievements of National Oil and Gas Exploration and Development in 2023" by the National Energy Administration. The national major special project "Beidou Intelligent Oilfield Construction Comprehensive Application Demonstration Project" has cultivated 22 "petrochemical+Beidou" application scenarios, while high standard construction of the National Industry Metrology and Testing Center for Petroleum and Petrochemical Industry – Petroleum Drilling Instrument Industry Metrology and Testing Center has been achieved. High-temperature logging, post-drilling logging and other technical equipment have become more mature, providing core tools to support and ensure the construction of "deep-ground engineering." Our research and development have resulted in key technologies for non-oil-or-gas medium long-distance pipelines such as supercritical CO2 pipelines and large-scale hydrogen pipelines, which have effectively supported the construction and operation of the first million-ton, 100km Qilu Petrochemical-Shengli Oilfield CO2 transmission pipeline in China. 88 equipment and instruments, including column automation equipment and direct-push storage logging tools, have been applied on a large scale. As a result, the industrialization of products and the commercialization of research achievements have achieved a production value of RMB3.1 billion. As we efficiently promoted digital transformation, the integrated cloud platform for petroleum engineering has been launched and operated well. The in-depth integration and application of well site acquisition and decision-making integration, drilling and completion digital twins, geological engineering integration and other systems have effectively supported real-time optimization and intelligent decision-making throughout the drilling and completion cycle.

### Internal reform and management

In 2023, the Company continued to deepen internal reform and empower high-quality development. We developed and implemented the "Implementation Plan for Accelerating High-Quality Development of the Company", with 20 key measures implemented in an orderly manner in 8 aspects. Sinopec Jingwei Co., Ltd. has effectively promoted the development of the "Technology Reform Demonstration Action" and the "World-class Professional Leading Demonstration Enterprise". The construction of a project-based management system has been solidly promoted, integrating 3 professional operating units, merging 97 homogeneous project departments, and reducing 36 lower-ranked drilling teams, thereby further improving management efficiency and reducing operating costs. The development of special businesses has been accelerated, as the average concentration rate of 13 wellbore special businesses increased from 41% in 2022 to 62%. We continued to improve the level of first-line management, and deepen the integration of internal control, risk control and compliance management, in order to further consolidate the foundation of high-quality development. As we deepened the management of cost targets for all employees, we achieved a cost reduction and efficiency increase of RMB560 million for the whole year.

### Capital expenditures

In 2023, the Company had a capital expenditure of RMB4.01 billion, of which RMB3.47 billion was fixed asset investment. In 2023, guided by the enhancement of exploration and development service capabilities and market competitiveness, the Company increased investment in equipment and actively optimized the equipment structure, increased investment in the upgrading of drilling rigs and electric fracturing equipment, and continued to promote the standardization construction of drilling sites and downhole operation sites. The Company also increased investment in equipment required by overseas high-quality markets, so as to further enhance its competitiveness in the high-end business market. Throughout the year, the investment projects such as the upgrading and reconstruction of 23 drilling rigs, 16 fracturing trucks (skids), 6,100 underwater OBN acquisition instruments, 5 sets of automatic welding units, 3 sets of rotary steering instruments, 4 sets of high temperature measurement instruments as well as safety hazard treatment and environmental protection were mainly arranged.

## 2. The industry situation of the Company in the reporting period

In 2023, the world economy maintained a moderate growth momentum, China's economy rebounded, and the gross domestic product (GDP) grew by 5.2% year-on-year, which strongly promoted the sustained growth of domestic market demand for refined oil and natural gas. Although international crude oil prices fluctuated downward, the price remained at medium to high level as a whole. The average spot price of Brent crude oil in the North Sea for the whole year was $82.25 per barrel. The high international oil price pushed oil companies to continue to increase investment in upstream exploration and development, and the oilfield service industry recovered steadily. Benefiting from the continuous and vigorous promotion of the national energy security strategy and the "Seven-year Action Plan" for increasing reserves and production, domestic oil and gas production reached a record high and the domestic oilfield service market maintained a good warming trend. Affected by this, the Company's main professional workload and team utilization rate increased to varying degrees.

## 3. The business situation of the Company in 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 oilfied services. By the end of 2023, the Company provided oilfield services with more than 70 basins and more than 550 blocks in more than 20 provinces in China, while its overseas business scale 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 shale gas oilfield supporting technologies featuring five technological series of drilling, logging, fracturing and testing, equipment manufacturing, and engineering and construction 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. Most key and core technologies have realized localization, which making the Company a national leader in this respect.

Committed to the vision of "serving customers, supporting oil and gas, leading technology, creating value", the Company will vigorously promote its specialized, market-oriented, international, high-end and distinctive development strategy. 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.

## 4. Analysis on core competitiveness in the reporting period

The Company has the service ability to cover the full industrial-chain of oilfield service. As of the end of 2023, there were 622 land drilling rigs (including 337 rigs above 7,000 meters), 9 offshore drilling platforms, 60 seismograph hosts, 120 imaging logging systems, 471 integrated logging tools, and 357 sets of 2500 above fracturing trucks, 76 workover rigs above 750HP, 1,539 drilling, geophysical and other professional teams. The Company has ranked top in the comprehensive ranking of drilling contractors of Saudi Aramco, Kuwait Oil Company and Ecuador National Oil Company for many years, and is an important international geophysical contractor in Algeria.

The Company is the large-scale integrated provider of petroleum engineering services and integrated oilfield technical services in China, with over 60 years of experiences for oilfield service and strong execution capabilities. Its representative projects include 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, highly acidic oil and gas reservoirs, and ultra-deep well drilling, 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 Sinopec Group in China, and the growing number of clients overseas.

During the reporting period, there was no material change in the core technical team and key technical personnel of the Company.

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

### (1) Main business analysis

**A. The analysis table of changes related to the income statement and cash flow statement**

| | 2023<br>RMB'000 | 2022<br>RMB'000 | The rate of change<br>(%) |
|---|---|---|---|
| Operating revenue | **79,980,939** | 73,772,688 | 8.4 |
| Operating cost | **74,187,497** | 68,003,487 | 9.1 |
| Selling and distribution expenses | **82,689** | 75,044 | 10.2 |
| General and administrative expenses | **2,394,486** | 2,303,286 | 4.0 |
| Financial expenses | **894,073** | 627,596 | 42.5 |
| Research and development expenditures | **2,083,796** | 1,838,968 | 13.3 |
| Net cash inflow from operating activities | **5,576,913** | 4,197,869 | 32.9 |
| Net cash inflow from investing activities | **-4,059,383** | -3,951,162 | Not applicable |
| Net cash inflow from financing activities | **-558,226** | -1,051,249 | Not applicable |

The change in operating income was mainly due to increases in exploration and development workload.

The change in operating costs was mainly due to increases in operating income which led to increases in operating costs.

The change in selling and distribution expenses was mainly due to the development of product industrialization and the increase of market promotion.

The change in general and administrative expenses was mainly due to the increase in labor costs such as social insurance and travel expenses.

The change in financial expense was mainly due to the increase in comprehensive financing costs, depreciation of US dollar and related currencies and the increase in exchange losses.

The change in research and development expenditure was mainly due to the increase in R&D investment by the affiliated high-tech enterprises.

The change in net cash inflow from operating activities was mainly due to the increase in the collection of the two funds and the payment of the unsettled project funds of last year by the owner.

The change in net cash inflow from investing activities was mainly due to an increase in investment for equipments.

The change in net cash inflow from financing activities was mainly due to the failure to repay the loan in time on non-working days at the end of the year.

**The detailed description of material change in Company business type, profit composition or source of profit**

☐ Applicable √ Not Applicable

## B. Income and cost analysis

### a. Statement of operations by industries and products

| Industry | Operating income for 2023 (RMB'000) | Operating cost for 2023 (RMB'000) | Gross profit margin (%) | Increase or decrease in operating income as compared with last year (%) | Increase or decrease in operating cost as compared with last year (%) | Gross profit margin compared with last year |
|---|---|---|---|---|---|---|
| Geophysical | **5,672,348** | **5,201,043** | 8.3 | 19.2 | 16.6 | Increased by 2.1 percentage points |
| Drilling | **39,803,724** | **37,601,945** | 5.5 | 8.1 | 8.8 | Decreased by 0.6 percentage points |
| Logging/Mud logging | **3,555,682** | **2,930,260** | 17.6 | 9.2 | 9.0 | Increased by 0.1 percentage points |
| Downhole operation | **10,697,995** | **9,958,187** | 6.9 | 14.2 | 14.1 | Increased by 0.1 percentage points |
| Engineering and construction | **17,817,700** | **16,486,641** | 7.5 | 2.2 | 3.6 | Decreased by 1.2 percentage points |
| Other | **1,377,596** | **1,359,260** | 1.3 | 61.8 | 62.2 | Decreased by 0.3 percentage points |
| Total | **78,925,045** | **73,537,336** | 6.8 | 8.9 | 9.4 | Decreased by 0.5 percentage points |

### b. Statement of operations by regions

| Region | Operating income for 2023 (RMB'000) | Operating cost for 2023 (RMB'000) | Gross profit margin (%) | Change in operating income as compared with last year (%) | Change in operating cost as compared with last year (%) | Gross profit margin compared with last year |
|---|---|---|---|---|---|---|
| Mainland China | **62,834,035** | **59,541,827** | 5.2 | 5.7 | 6.9 | Decreased by 1.1 percentage points |
| Hong Kong, Macau, Taiwan, and overseas | **16,091,010** | **13,995,509** | 13.0 | 23.6 | 21.7 | Increased by 1.5 percentage points |

c. Cost analysis

| Product | Item of costs structure | Amount in 2023 | Percentage of amount in 2023 in total cost | Amount in 2022 | Percentage of amount in 2022 in total costs | Year-on-year change |
|---|---|---|---|---|---|---|
| | | RMB'000 | (%) | RMB'000 | (%) | (%) |
| Geophysical Service | Raw materials | 431,687 | 8.3 | 369,170 | 8.3 | 16.9 |
| | Fuel and power | 243,921 | 4.7 | 198,665 | 4.5 | 22.8 |
| | Employees costs | 1,497,900 | 28.8 | 1,436,185 | 32.2 | 4.3 |
| | Depreciation and amortization | 488,898 | 9.4 | 418,229 | 9.4 | 16.9 |
| | Subcontracting costs and outsourcing services expenditures | 338,068 | 6.5 | 292,005 | 6.5 | 15.8 |
| | Others | 2,200,569 | 42.3 | 1,746,337 | 39.1 | 26 |
| | Sub-total | 5,201,043 | 100 | 4,460,591 | 100 | 16.6 |
| Drilling Service | Raw materials | 8,347,632 | 22.2 | 7,289,226 | 21.1 | 14.5 |
| | Fuel and power | 1,799,982 | 4.8 | 1,855,796 | 5.4 | -3 |
| | Employees costs | 8,686,049 | 23.1 | 8,047,819 | 23.3 | 7.9 |
| | Depreciation and amortization | 3,609,787 | 9.6 | 3,398,938 | 9.8 | 6.2 |
| | Subcontracting costs and outsourcing services expenditures | 3,873,000 | 10.3 | 3,520,525 | 10.2 | 10 |
| | Others | 11,285,495 | 30 | 10,463,721 | 30.2 | 7.9 |
| | Sub-total | 37,601,945 | 100 | 34,576,025 | 100 | 8.8 |
| Logging/Mud logging Service | Raw materials | 721,358 | 24.6 | 648,943 | 24.1 | 11.2 |
| | Fuel and power | 39,587 | 1.3 | 40,293 | 1.5 | -1.8 |
| | Employees costs | 1,560,120 | 53.2 | 1,455,415 | 54.1 | 7.2 |
| | Depreciation and amortization | 328,423 | 11.2 | 287,729 | 10.7 | 14.1 |
| | Subcontracting costs and outsourcing services expenditures | 90,903 | 3.1 | 86,980 | 3.2 | 4.5 |
| | Others | 192,069 | 6.6 | 169,050 | 6.4 | 13.6 |
| | Sub-total | 2,932,460 | 100 | 2,688,410 | 100 | 9.1 |
| Downhole operation service | Raw materials | 2,230,634 | 22.4 | 1,946,196 | 22.3 | 14.6 |
| | Fuel and power | 699,333 | 7 | 574,255 | 6.6 | 21.8 |
| | Employees costs | 1,728,405 | 17.4 | 1,562,112 | 17.9 | 10.6 |
| | Depreciation and amortization | 806,151 | 8.1 | 751,079 | 8.6 | 7.3 |
| | Subcontracting costs and outsourcing services expenditures | 2,242,675 | 22.5 | 1,971,001 | 22.6 | 13.8 |
| | Others | 2,250,989 | 22.6 | 1,922,688 | 22 | 17.1 |
| | Sub-total | 9,958,187 | 100 | 8,727,331 | 100 | 14.1 |
| Engineering and construction service | Raw materials | 3,264,599 | 19.8 | 3,145,124 | 19.8 | 3.8 |
| | Fuel and power | 317,579 | 1.9 | 293,058 | 1.8 | 8.4 |
| | Employees costs | 2,439,978 | 14.8 | 2,416,070 | 15.2 | 1 |
| | Depreciation and amortization | 296,754 | 1.8 | 301,420 | 1.9 | -1.5 |
| | Subcontracting costs and outsourcing services expenditures | 2,341,060 | 14.2 | 2,271,402 | 14.3 | 3.1 |
| | Others | 7,826,671 | 47.5 | 7,490,475 | 47 | 4.5 |
| | Sub-total | 16,486,641 | 100 | 15,917,549 | 100 | 3.6 |

**d. Changes in the equity of major subsidiaries during the reporting period led to changes in the scope of mergers**

☐ Applicable √ Not Applicable

**e. Changes in business, products or services during the reporting period**

☐ Applicable √ Not Applicable

**f. Information about major customer and major suppliers**

During the reporting period, the aggregate operating revenue from the top five largest customers was RMB65,488,024,000, accounting for 81.9% of the Company's total operating revenue in 2023. Among the operating revenue form the top five largest customers, the sales amount of related parties was RMB53,823,306,000, accounting for 67.3% of the Company's total operating revenue in 2023. The operating revenue of the top five customers in 2023 are as follows:

| Number | Name of client | Amount | Percentage to operating income |
|---|---|---|---|
| | | (RMB'000) | (%) |
| 1 | CPC and its subsidiaries | 49,343,486 | 61.7 |
| 2 | SAUDI ARABIAN OIL COMPANY | 5,532,401 | 6.9 |
| 3 | PipeChina | 4,479,820 | 5.6 |
| 4 | CNPC | 3,085,429 | 3.9 |
| 5 | KUWAIT OIL COMPANY | 3,046,888 | 3.8 |
| Total | | 65,488,024 | 81.9 |

During the reporting period, the aggregate purchase amount from the top five largest suppliers was RMB13,983,966,000, accounting for 29.2% of the Company's total purchase amounts in 2023. Among the purchase amount form the top five largest suppliers, the purchase amount of related parties was RMB12,654,902,000, accounting for 26.4% of the Company's total purchase amount in 2023. The purchase amount from the largest supplier accounted for 23.7% of the total purchase amount of the Company. The largest supplier was China Petrochemical Corporation and its subsidiaries.

During the reporting period, except the disclosure information about the connected transactions with controlling shareholder and its subsidiaries in the part of "Information on connected transactions" in "Significant Events", the directors, supervisors of the Company and their close contacts or any other shareholders holding over 5% of shares of the Company are not found having any equity interest in the above main customers and suppliers.

During the reporting period, procurement proportion from an individual supplier exceeded 50% of the total or the existence of a new supplier among the top five suppliers or relying on a small number of suppliers.

☐ Applicable √ Not Applicable

## C. Expense

| Item | 2023 | 2022 | Year-on-year change | Reason for change |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | (%) | |
| General and administrative expenses | 2,394,486 | 2,303,286 | 4.0 | Mainly due to the increase in labor costs such as social insurance and travel expenses |
| Selling and distribution expenses | 82,689 | 75,044 | 10.2 | Mainly due to the development of product industrialization and the increase of market promotion |
| Financial cost | 894,073 | 627,596 | 42.5 | Mainly due to the increase in comprehensive financing costs, depreciation of US dollar and related currencies and the increase in exchange losses |
| Credit impairment loss | -398,994 | -75,530 | Not applicable | Mainly due to the recovery of receivables from China National Chemical Engineering No.11 Construction Co., Ltd. and Turkmenistan and the reversal of provision for bad debts |
| Asset impairment loss | 707 | 99,883 | -99.3 | Mainly due to the provision for impairment of contract assets of the Ecuador Banya Duri Company in last year |
| Income tax expenses | 339,124 | 253,463 | 33.8 | Mainly due to the increase in overseas profit |

## D. Statement of research and development expenditure

### a. research and development expenditure

Unit: RMB'000

| | |
|---|---|
| Expenditure research and development expenditure for 2023 | 2,083,796 |
| Capitalized research and development expenditure for 2023 | – |
| Total research and development expenditure for 2023 | 2,083,796 |
| Percentage of total research and development expenditure in operating income (%) | 2.6 |
| The proportion of R&D investment of capital (%) | – |

In 2023, the Company's research and development expenditure was RMB2,083,796,000, representing an increase of 13.3 percent as compared with RMB1,838,968,000 in last year. It is mainly due to the increase in R&D investment by the affiliated high-tech enterprises.

### b. R&D personnel status sheet

| | |
|---|---|
| Number of R&D personnel in Company | 3,367 |
| Percentage of R&D personnel number in the total personnel number of the Company (%) | 5.31 |

| Academic structure of R&D personnel | |
|---|---|
| **Education level** | **Number of personnel** |
| Doctor degree | 73 |
| Postgraduate degree | 954 |
| Undergraduate degree | 1,816 |
| Junior college education | 291 |
| High school and below | 233 |

| Age structure of R&D personnel | |
|---|---|
| **Age structure** | **Number of personnel** |
| Under 30 years old (not include 30) | 332 |
| 30-40 years old (include 30, not include 40) | 856 |
| 40-50 years old (include 40, not include 50) | 1,157 |
| 50-60 years old (include 50, not include 60) | 985 |
| 60 years old and above | 37 |

## E. Changes in cash flow statement items

Unit: RMB'000

| Item | 2023 | 2022 | Increased/ decreased by | Change (%) | Reason for change |
|---|---|---|---|---|---|
| Net cash inflow from operating activities ("-" for outflow) | **5,576,913** | 4,197,869 | Net inflow increased by 1,379,044 | Inflow increased by 32.9% | Mainly due to the increase in the collection of two funds and the owner's payment of the unsettled project funds of the previous year |
| Net cash inflow from investing activities ("-" for outflow) | **-4,059,383** | -3,951,162 | Net outflow increased by 108,221 | Not applicable | Mainly due to an increase in investment for equipments |
| Net cash inflow from financing activities | **-558,226** | -1,051,249 | Net inflow increased by 493,023 | Not applicable | Mainly due to the failure to repay the loan in time due to cash collection on non-working days at the end of the year |

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

☐ Applicable √ Not Applicable

## (3) Statement of assets and liabilities analysis

### a. Assets and liabilities

| Item | Amount at 31 December, 2023 | Percentage of amount at 31 December, 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 this year |
|---|---|---|---|---|---|
| | RMB'000 | (%) | RMB'000 | (%) | (%) |
| Cash at bank and on hand | **2,816,116** | **3.7** | 1,838,229 | 2.6 | 53.2 |
| Accounts receivable | **10,602,242** | **14.1** | 10,537,217 | 14.8 | 0.6 |
| Accounts receivable financing | **2,735,081** | **3.6** | 1,468,340 | 2.1 | 86.3 |
| Inventories | **1,204,295** | **1.6** | 1,116,341 | 1.6 | 7.9 |
| Contract assets | **16,203,248** | **21.6** | 15,613,899 | 21.9 | 3.8 |
| Other current assets | **2,492,849** | **3.3** | 2,362,863 | 3.3 | 5.5 |
| Long-term equity investments | **553,496** | **0.7** | 50,215 | 0.1 | 1002.3 |
| Investment in other equity instruments | **135,763** | **0.2** | 134,492 | 0.2 | 0.9 |
| Fixed assets | **24,870,821** | **33.1** | 24,896,607 | 35.0 | -0.1 |
| Construction in progress | **695,614** | **0.9** | 467,385 | 0.7 | 48.8 |
| Right-of-use assets | **799,633** | **1.1** | 1,012,350 | 1.4 | -21.0 |
| Intangible assets | **442,778** | **0.6** | 481,490 | 0.7 | -8.0 |
| Long-term deferred and prepaid expenses | **7,938,767** | **10.6** | 7,255,439 | 10.2 | 9.4 |
| Short-term borrowings | **19,907,435** | **26.5** | 17,923,208 | 25.2 | 11.1 |
| Notes Payable | **8,821,760** | **11.7** | 7,990,225 | 11.2 | 10.4 |
| Accounts Payable | **26,373,928** | **35.1** | 25,601,228 | 36.0 | 3.0 |
| Contract liabilities | **5,361,274** | **7.1** | 5,115,819 | 7.2 | 4.8 |
| Other payables | **3,362,683** | **4.5** | 2,728,144 | 3.8 | 23.3 |
| Non-current liabilities due within one year | **436,121** | **0.6** | 1,517,190 | 2.1 | -71.3 |
| long-term borrowings | **318,722** | **0.4** | 480,557 | 0.7 | -33.7 |
| Lease liabilities | **317,120** | **0.4** | 497,045 | 0.7 | -36.2 |
| Long-term payables | **58,829** | **0.1** | 74,657 | 0.1 | -21.2 |
| Deferred income | **18,189** | **0.0** | 11,576 | 0.0 | 57.1 |
| Other comprehensive income | **22,618** | **0.0** | 5,232 | 0.0 | 332.3 |
| Special reserves | **313,849** | **0.4** | 326,983 | 0.5 | -4.0 |
| Taxes payable | **1,000,904** | **1.3** | 998,894 | 1.4 | 0.2 |
| Deferred income tax liabilities | **87,028** | **0.1** | 68,496 | 0.1 | 27.1 |
| Salaries payable to employees | **863,071** | **1.1** | 570,290 | 0.8 | 51.3 |

Reasons for the changes:

(1) Cash at bank and on hand increased by RMB977,887,000 compared with the end of the previous year, mainly due to the increase in revenue and the increase in the collection of two funds.

(2) Accounts receivable financing increased by RMB1,266,741,000 compared with the end of the previous year, mainly due to the increase in revenue and the corresponding increase in settlement of owner's bills.

(3) Long-term equity investments increased by RMB503,281,000 compared with the end of the previous year, mainly due to the accounting of long-term investment of joint ventures.

(4) Construction in progress increased by RMB228,229,000 compared with the end of the previous year, mainly due to the fact that some equipment was not ready for use and could not be transferred to capital.

(5) Non-current liabilities due within one year decreased by RMB1,081,069,000 compared with the end of the previous year, mainly due to the repayment of long-term borrowings due within one year.

(6) Long-term borrowings decreased by RMB161,835,000 compared with the end of the previous year, mainly due to the repayment of some US dollar loans.

(7) The decrease in lease liabilities of RMB179,925,000 as compared with the end of the previous year was mainly due to the payment of due lease payments.

(8) Deferred income increased by RMB6,613,000 compared with the end of the previous year, mainly due to the receipt of government subsidies for scientific research projects.

(9) Other comprehensive income increased by RMB17,386,000 as compared with the end of the previous year, mainly due to the recognition of translation differences of foreign currency statements of joint ventures.

(10) Salaries payable to employees increased by RMB292,781,000 compared with the end of the previous year, mainly due to the increase in workload and efficiency.

### b. Statement of overseas assets

The amount of overseas assets is RMB24,490,023,000, accounting for 32.6% of total assets.

Relevant instructions on the relatively high proportion of overseas assets

√ Applicable ☐ Not Applicable

Unit: RMB'000

| Overseas assets | Forming reason | Operation pattern | Operating income in this reporting period | Net profit in this reporting period |
|---|---|---|---|---|
| Drilling machines, well repair machines, geophysical collection instruments, ground construction equipments, engineering receivables, monetary funds, etc. | Undertake overseas oilfield engineering projects | Self-operation | 16,091,010 | 1,647,909 |

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

√ Applicable ☐ Not Applicable

On 31 December 2023, the Company's funds with restricted use such as margin deposit, etc. was RMB27,318,000 (On 31 December 2022: RMB37,079,000).

## (4) Analysis of the industry operation information

### 1. Market of crude oil and natural gas

In 2023, domestic oil and gas production exceeded 390 million tons, maintaining a rapid growth momentum of 10 million tons for seven consecutive years, with an average annual growth rate of 11.70 million tons of oil equivalent. According to the data of the National Bureau of Statistics, the annual crude oil output was 208 million tons, representing an increase of more than 3 million tons year-on-year and a significant increase of nearly 19 million tons compared with 2018, and the long-term stable production of 200 million tons of domestic crude oil was further consolidated. The natural gas output was 235.3 billion cubic meters, maintaining the momentum of 10 billion cubic meters for seven consecutive years.

In 2023, domestic demand for refined oil and natural gas increased. The domestic crude oil processing volume for the year was 734.78 million tons, representing a year-on-year increase of 9.3%. The annual domestic consumption of refined oil products was 360 million tons, representing a year-on-year increase of 10.5%, of which, the consumption of gasoline, diesel and kerosene increased by 7.2%, 9.4% and 11.2% respectively; the annual domestic apparent consumption of natural gas was 395.3 billion cubic meters, representing a year-on-year increase of 8.4%.

### 2. The capital expenditure in exploration and exploitation of domestic and overseas companies

In 2023, the international oil price fluctuated in a wide range, and the overall investment scale of international oil companies in exploration and development increased significantly; domestic oil companies continued to promote the "seven-year action plan" to increase reserves and production, and continued to increase capital expenditure on upstream exploration and development. Investment in domestic oil and gas exploration and development for the year amounted to approximately RMB390 billion, representing a year-on-year increase of 10%.

### 3. Business information in oilfield service industry

In 2023, the global oilfield service industry as a whole showed a warming trend, but the state of oversupply in the market still existed, and the price of oilfield services didn't recover to the previous level. The global oil service industry is undergoing profound changes in digitalization, intellectualization and greening. International oil service companies promote transformation and development by promoting high-efficiency and low-emission oil and gas exploration and development technologies and actively laying out new energy frontier technologies. With the exploration and development of "deep, high, long, unconventional" and other complex areas, the number of ultra-deep wells, ultra-long horizontal wells, unconventional and other urgent and dangerous tasks continues to increase.

## (5) Analysis of investments

### 1. Significant equity investment

During the reporting period, no significant equity investment items of the Company occurred.

### 2. Significant non-equity investment

During the reporting period, no significant non-equity investment items of the Company occurred.

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

☐ Applicable √ Not Applicable

### 4. Specific progress of major asset reorganization and integration during the reporting period.

☐ Applicable √ Not Applicable

## (6) Sales of major assets and equity

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

## (7) Information on the Company's subsidiaries and shareholding companies

| 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 |
|---|---|---|---|---|---|---|---|
| | | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| Sinopec Shengli Oil Engineering Company Limited* | RMB 700,000,000 | 100 | 13,347,218 | 12,906,338 | 440,880 | 149,236 | Petroleum engineering technical service |
| Sinopec Zhongyuan Oil Engineering Company Limited* | RMB 450,000,000 | 100 | 11,998,321 | 11,915,984 | 82,337 | -110,504 | Petroleum engineering technical service |
| Sinopec Jianghan Oil Engineering Company Limited* | RMB 250,000,000 | 100 | 5,303,243 | 3,986,342 | 1,316,901 | 47,230 | Petroleum engineering technical service |
| Sinopec Southwest Oil Engineering Company Limited* | RMB 300,000,000 | 100 | 6,411,914 | 3,135,329 | 3,276,585 | 20,823 | Petroleum engineering technical service |
| Sinopec North China Oil Engineering Company Limited* | RMB 890,000,000 | 100 | 4,471,456 | 2,598,298 | 1,873,158 | -28,966 | Petroleum engineering technical service |
| Sinopec East China Oil Engineering Company Limited* | RMB 860,000,000 | 100 | 4,937,141 | 4,383,489 | 553,652 | 1,015 | Petroleum engineering technical service |
| Sinopec Offshore Oilfield Services Company* | RMB 2,000,000,000 | 100 | 4,161,582 | 407,308 | 3,754,274 | 46,624 | Offshore Oil Engineering Technology Service |
| Sinopec International Petroleum Service Corporation* | RMB 700,000,000 | 100 | 2,469,458 | 1,376,229 | 1,093,229 | 68,342 | Petroleum engineering technical service |
| Sinopec Oil Engineering and Construction Corporation* | RMB 500,000,000 | 100 | 23,102,441 | 22,120,847 | 981,594 | 281,471 | Construction |
| Sinopec Oil Engineering Geophysical Company Limited* | RMB 300,000,000 | 100 | 5,435,205 | 5,103,620 | 331,585 | 30,322 | Geophysical exploration |
| Sinopec Jingwei Company Limited | RMB 1,000,000,000 | 100 | 4,457,471 | 2,970,292 | 1,487,179 | 221,055 | Testing, logging and locating service |

| Name of company | Revenue | Operating profit |
|---|---|---|
| | RMB'000 | RMB'000 |
| Sinopec Shengli Oil Engineering Company Limited* | 17,031,489 | 226,311 |
| Sinopec Zhongyuan Oil Engineering Company Limited* | 11,850,824 | -6,889 |
| Sinopec Jianghan Oil Engineering Company Limited* | 5,812,390 | 52,330 |
| Sinopec Southwest Oil Engineering Company Limited* | 6,252,403 | 25,156 |
| Sinopec North China Oil Engineering Company Limited* | 4,655,697 | -14,926 |
| Sinopec East China Oil Engineering Company Limited* | 4,107,307 | -6,462 |
| Sinopec Offshore Oilfield Services Company* | 2,014,238 | 44,584 |
| Sinopec International Petroleum Service Corporation* | 1,775,153 | 151,557 |
| Sinopec Oil Engineering and Construction Corporation* | 17,952,330 | 266,816 |
| Sinopec Oil Engineering Geophysical Company Limited* | 5,500,642 | 79,562 |
| Sinopec Jingwei Company Limited | 5,848,131 | 219,332 |

* Note: 1.Sinopec Zhongyuan Oil Engineering Company Limited main market workload declined, and revenue growth failed to effectively dilute fixed costs, resulting in current operating losses.

2.The market price of Sinopec North China Oil Engineering Company Limited engineering services is lower than that of the same period last year with the owner shortening the construction period, and the fixed cost was not effectively diluted, resulting in current operating losses.

## (8) Information on the structured subjects controlled by the Company

☐ Applicable √ Not Applicable

## 6. Discussion and analysis on the Company's business in the future

### (1) Competitive Structure and Development Trend

Looking forward to 2024, the world economy is expected to continue to recover moderately, China's economy is facing more opportunities than challenges, more favorable conditions than unfavorable factors, and the basic trend of economic recovery and long-term improvement has not changed. The global demand for crude oil will continue to grow, geopolitical conflicts still have a risk premium, and it is expected that the international oil price will continue to fluctuate at a medium and high level; the high oil price will drive the total capital expenditure of global upstream exploration and development to continue to increase, and the domestic oil and gas exploration and development and investment will continue to increase under the environment of ensuring energy security and enhancing supply security in an all-round way. Affected by this, the overall workload and demand for drilling rigs in the oilfield service market will remain stable and rising, and the prosperity of the oilfield service market will continue to improve.

### (2) Operation Plans for 2024

In 2024, facing the market situation of continuous recovery, the Company will continue to give full play to its comprehensive oil and gas service capabilities and unique technological advantages, focusing on enhancing the core functions of service support, improving the core competitiveness of the market, shouldering responsibilities and strengthening support, tamping the foundation and ensuring security, expanding the market and optimizing the layout, developing science and technology to increase stamina, grasping reform to increase momentum, and striving to create a new situation of high-quality development, and speeding up the construction of a world-class technology-oriented oilfield service company. The Company plans to sign new contract to reach a yearly value of over RMB83.5 billion, in which RMB56.5 billion will be from China Petrochemical Corporation's internal market, RMB11 billion from domestic external market, and RMB16 billion from overseas market. The Company puts emphasis on the following aspects:

#### 1. Geophysical service

In 2024, the Company will continue to improve quality control measures such as intelligent nodes, enhance the integrated capabilities of seismic data acquisition, processing and interpretation, and use high-quality seismic data to assist oil companies in achieving major breakthroughs in exploration. The Company will vigorously develop technologies such as high-density, full-node and controllable seismic sources, focus on tackling key issues in wellbore seismic technology, and shape the brand with first-class technology and high-quality services. The Company will strengthen the market development of energy conservation, environmental protection and pipeline technology service businesses, and actively expand businesses such as fiber optic monitoring, pipeline testing and fiber optic cable survey. The Company will explore markets in the extended field of seismic business by focusing on expansion into businesses such as the construction of gas storage facilities and seismic detection. The Company will concentrate on the construction of the Beidou application demonstration zone and promote the Beidou business to achieve new breakthroughs. The Company plans to complete the annual acquisition of 2D seismic data of 3,600 kilometers and 3D seismic data of 15,000 sq. kilometers.

#### 2. Drilling service

In 2024, the Company will focus on the goals of expanding mining rights and resources and increasing storage and production of CPC, comprehensively deepening the linkage between Party A and Party B, integrated operation, efficient organization of production and strict implementation of the connection of processes, in order to strengthen technical support, strictly curb complicated failures, and continuously improve the drilling encounter rate of reservoirs and construction quality rate. The Company will accelerate the upgrading and transformation of drilling rig electrification, as well as the installation of automated and intelligent devices, and will orderly expand "factory" drilling to effectively improve construction efficiency and production timeliness. The annual drilling cycle will be shortened by 5%, the time spent on tackling complicated failures will be reduced by 10%, and a team utilization rate of over 85% will be achieved. In the domestic external markets, the Company continued to increase the concentration of high-quality large-scale markets such as CNPC, CNOOC, and PipeChina, enhancing the overall efficiency creation ability of the external market. The Company plans to complete drilling footage of 10,700 kilometers for the year.

#### 3. Logging/Mud logging service

In 2024, the Company will continue to leverage its advantages in logging and mud logging throughout the entire exploration and development process, implement an integrated operating mechanism, highlight model innovation and service upgrading, and deeply build a "project general contracting+technical services+reservoir operation" linkage service model to promote the synchronous improvement of market quality, scale, and efficiency. The Company will consolidate the internal market of CPC by strengthening the assurance of key work areas, optimizing applicable technical solutions in different regions, and providing better services and assurances. The Company will optimize the domestic external markets by strengthening advanced research and prediction and pre-calculation of the possibility of success, efficiently operating integrated general contracting projects, and vigorously developing emerging markets such as coalbed methane and geothermal energy. The Company plans to complete logging footage of 277,500 standard kilometers and mud logging footage of 8,000 kilometers for the year.

### 4. Downhole operation service

In 2024, the Company will adhere to the concept of specialized development by steadily expanding the scale of the fracturing and oil and gas testing markets, focusing on and strengthening high-end businesses such as high-pressure operations and coiled tubing, promoting the three-dimensional development of shale gas in the Sichuan Basin and the profitable development of Shengli shale oil, enhancing its ability to provide exploration and development assurance for “deep-ground engineering” services, in an effort to create a new position for increasing storage and production. The annual efficiency of fracturing construction will increase by 10%. The Company will focus on Sinopec’s proven non-producing and low-grade reserves, strive to improve the comprehensive service level of oil reservoirs, and increase beneficial cooperation and development efforts in hard-to-recover blocks such as Shengli, Puyang, Western Sichuan, Southern Sichuan and Southern Hubei. The Company plans to complete downhole operations for 6,000 wells for the year.

### 5. Engineering and construction service

In 2024, the Company will continue to take full advantage of specialization and integration, refine measures to overcome difficulties, improve the risk prevention and control mechanism, comprehensively increase its market share, maintain a high-quality market, and ensure efficiency at the source. In the market of CPC, the Company will improve the service quality and focus on the construction of projects, such as the Dongying crude oil commercial reserve facility, the acidic gas pressure boosting project in the main body of the Puguang Gas Field, and the Zaozhuang branch line of the Shandong pipeline network. The Company leverages the advantages of large-diameter long-distance pipelines to expand the domestic long-distance pipeline engineering market and focuses on projects, such as the second line of the Sichuan-Eastern China Natural Gas Transmission Pipeline and the west section of the fourth line of the Western-Eastern China Natural Gas Transmission Pipeline. In domestic overseas markets, the Company will seize the opportunities of new energy development and strengthen the market expansion of large LNG storage tanks, CCUS, green power hydrogen production, maritime wind power and hydrogen transmission. In 2024, the Company plans to sign new contracts valued at RMB20.0 billion and complete contracts valued at RMB17.2 billion.

### 6. International business

In 2024, the Company will increase its efforts to develop target markets such as Saudi Arabia, Kuwait, Ecuador, Mexico, and Uganda to further consolidate its main position for increasing revenue and creating efficiency. The Company continues to expand the market of technical services, such as coiled tubing and well washing, and strives to meet the business qualification review of technical services such as drilling fluid, cementing and fracturing, and promotes the transformation into a comprehensive contractor providing “engineering package + technical services + geological engineering integrated services” in overseas regions. The Company consolidates the market scale of daily-paid services for conventional drilling and workovers in Saudi Arabia and Kuwait and accelerates the “export” of domestic leading drilling and completion technologies such as unconventional development and deep – and ultra-deep wells. The Company enhances its competitiveness in geophysical prospecting business in the overseas market, gains a firm foothold in the Middle East market, and completes the HUELITLI and IXACHI 3D geophysical prospecting projects with high quality and efficiency, thus maintaining its market competitive advantage in Mexico. The Company also promotes the improvement of the quality and efficiency of its ground business, continues to deepen the development of core markets such as Saudi Arabia, Uganda and Thailand, and focuses on the development of long-distance oil and gas pipelines, station warehouses, and municipal road and bridge construction projects. In addition, the Company promotes the geological engineering integrated service business to achieve greater development, actively keeps abreast of market information in the Middle East, fully utilizes the Company’s drilling and workover brand advantages, and strives to undertake relevant geological engineering integrated projects in Saudi Arabia and Kuwait. The value of newly signed contracts throughout the year is planned to reach US$2.25 billion, and the value of completed contracts throughout the year is planned to reach US$2.11 billion.

### 7. Technology development

In 2024, the Company will coordinate internal and external resources, innovate the research and development mechanism, make every effort to overcome technical “obstacles”, forge core products, and unswervingly become a technology-leading oilfield services company. The Company accelerates the iteration and upgrade of high-quality and rapid drilling and completion technologies for deep, ultra-deep and shale oil and gas, and promotes the R&D and application of key core equipment such as fully automated drilling rigs for shale oil, high-temperature and high-build rate high-build rate rotary steering tools, and ultra-high-temperature and high-pressure oil and gas well testing tools. Through in-depth industrial development, the Company promotes the large-scale application of advantageous special products such as rotary steering, drilling and completion tools, automation equipment and oilfield chemical additives. The Company promotes the transformation of characteristic scientific and technological achievements into actual productivity, accelerates the cultivation of “specialized, special and new” businesses and products in sub-sectors, expands the application scenarios and the scope of use, and enhances the concentration of characteristic and advantageous businesses. As a result, the Company’s industrialization and new technology transformation-related annual output value has reached more than RMB3.5 billion. By promoting the transformation and development of digital intelligence, the Company continues to improve the application scenarios of the Services Integrated Cloud Platform (SICP), strengthens organic integration with the domestic upstream petroleum engineering business management and control platform (IPPE), establishes a remote decision-making platform for well site operations and a new model of scientific, efficient and rapid drilling and remote command of operations, leading to the promotion and upgrading of project management. The Company accelerates the development of its new energy business, strengthens research on new energy engineering technologies such as CCUS, geothermal, photovoltaic, and hydrogen storage and transportation, promotes the iteration and upgrades of CCUS technology throughout the chain, tackles key technologies in all aspects of hydrogen energy production, storage, and transportation, and accelerates the cultivation of new economic growth poles.

### 8. Internal reform and management

In 2024, the Company will continue to optimize its system and mechanism and make every effort to enhance its internal development capabilities. Firstly, the Company will further promote the project management system based on “two pools, two repositories and one platform” to break down management barriers and promote the concentration of core resources to accurately and efficiently ensure the implementation of key projects for increasing reserves and production, so as to enhance the concentration and conservation level of project resource allocation. Secondly, the Company will comprehensively optimize the organizational structure, streamline the management level, actively build a “market-oriented, regionalized, platform-based, shared-based and intensive” operation model, coordinate and optimize the sector organization and team structure, and reduce management levels to reduce management costs and improve efficiency creation capabilities. Thirdly, the Company will vigorously promote the development of specialized businesses. By making full use of the Company’s integration advantages and the comparative advantages of each subsidiary, it aims to highlight the Company’s characteristics, reduce homogeneity, and orderly develop 13 types of characteristic businesses in wellbores and geophysical, surface, and detection, recording and directional wells, as well as marine engineering and other specialized businesses. Fourthly, the Company will organize and carry out an action to tackle difficulties and create benefits, accelerate the all-around optimization of production and operation, promote efficient allocation of resources, and promote the reduction of management costs such as labor costs, variable costs of RMB100 and institutional operating costs. The Company plans to reduce costs and increase efficiency by RMB650 million for 2024.

### 9. Capital expenditure

In 2024, the Company’s capital expenditure is expected to be RMB4.0 billion, of which fixed asset investment is RMB3.5 billion. The Company will continue to promote the renewal and upgrading of drilling rig electrification, automation and grid electrification, including arranging for the renewal and renovation of 21 drilling rigs; optimize the structure of downhole operation equipment, promote the updating of high-power, high-displacement and high-pressure fracturing equipment, and purchase 14 fracturing trucks (skids); promote the upgrade and iteration of its independently developed rotary steering instruments, strengthen the matching of high-temperature and high-pressure MWD tools and comprehensive logging tools, and purchase 3 sets of high-temperature rotary steering instruments; upgrade the geophysical prospecting equipment and the technical level of micro-seismic fracturing monitoring technology and set up engineering construction automation equipment such as hydraulic rock drilling rigs to improve the prefabrication level of the factory; and according to the bidding status of unconventional gas well drilling and deep well drilling and workover projects in Saudi Arabia, Kuwait and other markets, the Company will purchase service equipment to meet the needs of the projects.

## (3) Potential risks

In the course of its production and operation, the Company actively took various measures to avoid and mitigate various types of risks. However, in practice, it may not be possible to prevent all risks and uncertainties completely.

### A. Market competition risk

At present, the international pattern is evolving in a complex way, geopolitical conflicts are frequent, and the external environment is becoming more complex, severe and uncertain. The complex and changeable international political and economic situation has a profound impact on global oil and gas exploration activities, bringing many uncertain and unstable factors to the oil service industry. At the same time, there is no fundamental change in the competition pattern of the current oilfield service market, and there is still a situation of oversupply. In addition, some countries or regions may protect the local oilfield service industry market, so the oilfield service market is still facing greater operational pressure, and the market competition risk is still the risk that the Company needs to face.

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

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

### C. Overseas operation risk

The Company has business in many foreign countries and regions, 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, commercial secret disputes or leaks, the inability of technical equipments to 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.

## 7. Statements for the Company failed to disclose information in accordance with the standards due to special reasons such as non-applicability, national or business secrets, etc.

☐ Applicable √ Not Applicable

## 8. Assets, liabilities, equity and cash flow (extracted from the financial statements prepared in accordance with IFRS)

The Group's main sources of funds are operating activities, short-term and long-term borrowings, and the main uses of funds are operating expenses, capital expenditures and repayment of short – and long-term borrowings.

### (1) Assets, liabilities and equity analysis

| | **As at 31 December 2023** | As at 31 December 2022 | **The rate of change** |
|---|---|---|---|
| | **RMB'000** | RMB'000 | **%** |
| **Total assets** | **75,162,974** | 71,208,061 | 5.6 |
| Current assets | **39,402,551** | 36,587,579 | 7.7 |
| Non-current assets | **35,760,423** | 34,620,482 | 3.3 |
| **Total liabilities** | **67,139,772** | 63,778,327 | 5.3 |
| Current liabilities | **66,186,004** | 62,519,655 | 5.9 |
| Non-current liabilities | **953,768** | 1,258,672 | -24.2 |
| **Total equity attributable to owners of the Company** | **8,023,202** | 7,429,734 | 8.0 |

Total assets were RMB75,162,974,000, representing an increase of RMB3,954,913,000 from that at the end of 2022, of which: current assets were RMB39,402,551,000, representing an increase of RMB2,814,972,000 from that at the end of 2022. This was mainly due to the combined effect of an increase in cash and bank balances of RMB987,648,000, an increase in financial assets at fair value through other comprehensive income of RMB1,266,741,000 and an increase in contract assets and contract performance costs of RMB647,990,000. Non-current assets amounted to RMB35,760,423,000, representing an increase of RMB1,139,941,000 as compared with the end of 2022, which was mainly due to the increase of RMB494,621,000 in interests in joint ventures and the increase of RMB683,328,000 in other long-term assets as a result of the purchase of special tools for petroleum engineering.

Total liabilities were RMB67,139,772,000, representing an increase of RMB3,361,445,000 from that at the end of 2022, of which: current liabilities were RMB66,186,004,000, representing an increase of RMB3,666,349,000 as compared with the end of 2022, which was mainly due to the combined effect of an increase in notes and trade payables of RMB1,604,235,000, an increase in other payables of RMB959,512,000, and an increase in short-term borrowings of RMB903,158,000. Non-current liabilities amounted to RMB953,768,000, representing a decrease of RMB304,904,000 as compared with the end of 2022, which was mainly due to the combined effect of a decrease of RMB341,761,000 in long-term borrowings and an increase of RMB18,532,000 in deferred income tax liabilities.

Total equity attributable to owners of the Company was RMB8,023,202,000, representing an increase of RMB593,468,000 as compared with the end of 2022, mainly because the gains attributable to equity holders of the Company in 2023 achieved RMB576,083,000.

As at 31 December 2023, the ratio of total liabilities to total assets was 89.3%, and 89.6% as at 31 December 2022.

### (2) Cash flow analysis

The main items of cash flow of the Group in 2023 and 2022 showed in the following table.

| Main items of cash flow | 2023 | 2022 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Net cash (outflow)/inflow from operating activities | **5,576,913** | 4,197,869 |
| Net cash (outflow)/inflow from investing activities | **(4,059,383)** | (3,951,162) |
| Net cash (outflow)/inflow from financing activities | **(558,226)** | (1,051,249) |
| Increase/(Decrease) in cash and cash equivalents | **959,304** | (804,542) |
| Effect of exchange rate changes | **28,344** | 130,386 |
| Cash and cash equivalents at the beginning of the year | **1,801,150** | 2,475,306 |
| Cash and cash equivalents at the end of the year | **2,788,798** | 1,801,150 |

During the year ended 31 December 2023, the Group's net cash inflow from operating activities was RMB5,576,913,000, representing an increase of cash inflow by RMB1,379,044,000 as compared with last year. This was mainly due to the increase in the collection of the two funds and the landlord's payment of the unsettled project funds last year.

During the year ended 31 December 2023, the Group's net cash outflow from investing activities was RMB4,059,383,000, representing an increase of cash outflow by RMB108,221,000 as compared with last year. It was mainly due to an expenditure on equipment acquisitions.

During the year ended 31 December 2023, the Group's net cash inflow from financing activities was RMB558,226,000, representing an increase of cash inflow by RMB493,023,000 compared with last year. This was mainly due to the failure to repay the loan in time on non-working days at the end of the year.

### (3) Bank and affiliated company borrowings

As at 31 December 2023, the Company's bank and related company borrowings were RMB20,226,157,000 (31 December 2022: RMB19,403,765,000). These borrowings included the short-term borrowings of RMB19,907,435,000, the long-term borrowings of RMB318,722,000, the fixed-rate loans of RMB19,185,000,000 and the floating rate loans were RMB1,041,157,000. Of the borrowings as at 31 December 2023, the balance of RMB borrowings accounted for approximately 94.9% and the balance of US dollar borrowings accounted for 5.1%.

### (4) Gearing ratio

As at 31 December 2023, the gearing ratio of the Group was 69.4% (31 December 2022: 71.5%). The gearing ratio is computed as the following formula: (liability with interest – cash & cash equivalents)/(liability with interest – cash & cash equivalents + shareholders' equity)

## 9. The required financial information disclosure according to the Listing Rules of HKSE

### (1) Assets pledge

As at year ended 31 December 2023, there was no pledge on the Group's assets.

### (2) Foreign Exchange Risk Management

It is set forth in note 41 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

## (3) Financial Summary

A summary of the results and of the assets and liabilities of the Company for the last five financial years (extracted from the financial statements prepared in accordance with the IFRSs) is set forth in the section "Company Profile and Principal Financial Indicators" of the Annual Report.

A summary of the results and of the assets and liabilities of the Company for the last three financial years (extracted from the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises) is set forth in the section "Company Profile and Principal Financial Indicators" of the Annual Report.

## (4) Reserves

Changes in reserves of the Company during the reporting period are set forth in note 29 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

## (5) Fixed assets

Movements in fixed assets of the Group, during the reporting period, are set forth in note 17 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

## (6) Bank loans and other borrowings

Details of bank loans and other borrowings of the Company as at 31 December 2023 are set out in note 34 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

## (7) Retirement plan

Particulars of the retirement plan operated by the Group are set forth in note 16 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

## (8) Income tax

As of the twelve months ended 31 December 2023, the Company's incoming tax was RMB339,124,000 (2022: RMB253,463,000). The change in effective income tax rate was mainly due to the fact that the Group paid tax in the foreign countries and regions where it has business activities.

## (9) Capitalized Interest

For the year ended 31 December 2023, there was no capitalized interest of the Company.

## (10) Donations

During the reporting period, the Group donated approximately RMB966,000.

## (11) The Company's environmental policy and performance

(1) The Company's environmental policy: guided by the construction of ecological civilization and green low-carbon strategy, the Company continues to carry out clean production, energy saving and emission reduction, carbon asset inventory and verification, and the "Energy Efficiency Doubling" plan, and in-depth implementation of the clear water blue sky environmental protection special action. The effectiveness of energy and environmental work continued to improve.

(2) In 2023, the Company was not included in the list of companies with serious pollution published by the Chinese environmental protection department, and there will be no major environmental protection or other major social safety issues.

(3) The Company has established a comprehensive environmental impact assessment system to further strengthen environmental management and control. In 2023, the Company did not have any environmental pollution accidents.

## (12) Compliance with laws and regulations

(1) For details of the relevant laws and regulations that have a significant impact on the Company, please refer to the disclosure of the principal laws and regulations in the Regulatory Overview set out in Appendix I to the circular of the Company dated 27 October 2014 in relation to the significant asset reorganization on the SSE website www.sse.com.cn and the HKSE website www.hkexnews.hk.

(2) In 2023, the Company strictly complied with the relevant laws and regulations that have a significant impact on the Company, and did not receive complaints, fines or sanctions for violating major laws and regulations.

### (13) Key employees, customers and suppliers of the company

(1) Employees, customers and suppliers of the Company have no significant influence on the prosperity of the Company.

(2) For details, please refer to item (1) B. (f) of subsection 5 “Statement of main business during the reporting period” in this section.

### (14) Management contract

During the reporting period, the Company has not signed or has any contracts for the management and administration of the whole or any important business.

### (15) Pre-emptive rights

There are no provisions for pre-emptive rights in the Company’s Articles of Association or PRC laws.

### (16) Share repurchase, sale and redemption

The Company has not repurchased, sold or redeemed any of the Company’s listed shares during the twelve months ended 31 December 2023.

### (17) Directors’ interests in competing businesses

Some directors of the Company hold positions in China Petrochemical Corporation and its subsidiaries. For details, please refer to the item 4 “Information on directors, supervisors and senior management holding positions” of section 5 “Corporate Governance” of the Annual Report.

### (18) Directors’ interests in contracts

No director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to which the Company, its parent company or any of their subsidiaries was a party during and at the end of the year.

### (19) Directors’ service contracts

No Director has a service contract with the Company or any of its subsidiaries which is not terminated by the Company within one year without payment of compensation, other than statutory compensation.

### (20) Permitted indemnity provisions

During the reporting period, the Company has purchased liability insurance for all directors to minimize their losses that may arise from the proper performance of their duties. The permitted indemnity provisions are provided in such directors’ liability insurance in respect of potential liability and costs associated with legal proceedings that may be brought against such directors for negligent acts in the performance of their duties.

### (21) Equity-linked agreement

For the year ended 31 December 2023, the Company has not entered into any equity-linked agreement.

On Behalf of the Board

**Chen Xikun**

*Chairman*

Beijing, PRC, 26 March 2024

# Section V Corporate Governance

## 1. Information on Corporate Governance

During the reporting period, the Company strictly complied with the domestic and overseas regulatory requirements and continued to standardize its operation. The corporate governance of the Company was in compliance with the requirements of the regulatory documents on corporate governance of listed companies issued by the regulatory authorities and stock exchanges in the places where the Company is listed. Through the coordinated operation and effective checks and balances of the general meeting of shareholders, the board of directors and the corresponding special committees, the supervisory committee and the management responsible for the general manager, together with the implementation of an effective internal control management system, the internal management operation of the Company had been further standardized and the management level had been continuously improved. The supervisory committee of the Company operated in accordance with the law, devoted to its duties, performed its duties diligently, held meetings in schedule to approve relevant proposals in strict accordance with regulatory requirements, and expressed its opinions and suggestions in a timely manner, which promoted the improvement of the Company's operation and management.

During the Reporting Period, the Company formulated, improved and effectively implemented various working systems and procedures of the board of directors and its special committees in accordance with the Articles of Association, relevant laws and regulations and the securities regulatory rules of the listed places, taking into account the actual situation of the Company. In order to further improve the construction of the board of directors, give full play to the role of independent directors in corporate governance, and promote the improvement of the quality of listed companies, the Company revised and improved supporting systems such as the Working Rules for Independent Directors, the Terms of Reference of the Audit Committee, the Terms of Reference of the Remuneration Committee, the Terms of Reference of the Nomination Committee and the Terms of Reference of the Strategy Committee according to the actual work, which were approved at the nineteenth meeting of the tenth session of the Board on 26 March 2024.

The Company has always attached great importance to information disclosure, and disclosed all kinds of announcements in a timely and compliant manner in strict accordance with the requirements and procedures of the regulatory rules of the listed places. During the reporting period, the Company disclosed all information in a timely, truly, accurately and completely manner to ensure that all shareholders have equal access to the relevant information of the Company and continuously improve the transparency of corporate governance. The Company focused on investor communication, continued to strengthen communication with the capital market, regularly organized performance announcements, maintained positive interaction with investors through receiving investor visits, holding reverse roadshows, answering investor hotlines, answering questions from SSE e-interaction and other ways, promoted the Company's performance results, responded to the concerns of the capital market, and achieved new results in investor relations business.

The Company continued to improve the compliance awareness of directors, supervisors and senior management, and invited domestic and overseas legal advisers and ESG advisers to conduct centralized training on domestic and overseas regulatory rules and ESG for directors, supervisors and senior management by convening shareholders' meetings. At the same time, the Company actively organized directors, supervisors and senior management to participate in special training organized by China Association of Listed Companies, Beijing Association of Listed Companies and SSE to continuously improve their performance ability.

During the reporting period, the Company carried out inside information and insider management in accordance with regulatory requirements and company regulations, continuously optimized the inside information management mechanism, improved the compliance awareness of insiders of inside information, and did a good job in inside information and insiders registration. During the reporting period, there was no insiders' illegal trading of Company's shares by using inside information.

In strict accordance with the requirements of relevant laws and regulations including "Company Law", "the Securities Law", "Administrative Measures for the Disclosure of Information of Listed Companies", domestic and overseas listing rules, the Company will continuously perfect management system of the Company, improve the standard operation and management level of the Company, protect the interests of the Company and all the shareholders and promote the sustainable and healthy development of the Company.

## 2. The Specific Measures taken by the Company's Controlling Shareholder or De Facto Controller to Guarantee the Independence with respect to Assets, Personnel, Finance, Organisation and Business of the Company and the Solution, Work Progress and Continuous Work Plan to Avoid Affecting the Independence of the Company

☐ Applicable √ Not Applicable

The situation with the controlling shareholder, de facto controller and its controlling unit engaging in the same or similar industry as the Company, as well as the impact on the Company of competition in the same industry or substantial changes in the competition in the same industry, the measures taken to resolve the situation, the progress of the resolution, and the plan to resolve the situation in the future.

☐ Applicable √ Not Applicable

## 3. 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 on 6 June 2023 in Beijing. Details are as follows:

| Name of meeting | Date of meeting | Website designated for publishing the resolutions | Domestic disclosure date of resolutions | Resolutions |
|---|---|---|---|---|
| The annual general meeting for the year 2022 | 6 June 2023 | www.sse.com.cn<br>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 re-appoint 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<br>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<br>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. |

## 4. Information about Directors, Supervisors and Senior Management

### (1) Information on the changes of shareholdings and the remuneration of directors, supervisors and senior management

| Name | Position | Gender | Age | The beginning of the term | The end of the term | Number of shares at the beginning of the year | Number of shares at the end of the year | Reason for change | Salaries from the Company during reporting period (RMB) (before taxation) | Whether get payment from related party of the Company |
|---|---|---|---|---|---|---|---|---|---|---|
| Chen Xikun | Chairman | male | 59 | 19 December 2019 | 1 February 2024 | 0 | 0 | No Change | 1,030,200 | No |
| | Executive Director | | | 8 February 2018 | | | | | | |
| Fan Zhonghai | Non-Executive Director | male | 58 | 8 February 2018 | 1 February 2024 | 0 | 0 | No Change | – | Yes |
| Wei Ran | Non-Executive Director | male | 56 | 20 June 2018 | 1 February 2024 | 0 | 0 | No Change | – | No |
| Zhou Meiyun | Non-Executive Director | male | 54 | 2 February 2021 | 1 February 2024 | 0 | 0 | No Change | – | Yes |
| Chen Weidong | Independent Non-Executive Director | male | 68 | 20 June 2018 | 1 February 2024 | 0 | 0 | No Change | 200,000 | No |
| Dong Xiucheng | Independent Non-Executive Director | male | 62 | 20 June 2018 | 1 February 2024 | 0 | 0 | No Change | 200,000 | No |
| Zheng Weijun | Independent Non-Executive Director | male | 57 | 2 February 2021 | 1 February 2024 | 0 | 0 | No Change | 200,000 | No |
| Wang Jun | Chairman of the Supervisory Committee | male | 56 | 26 May 2022 | 1 February 2024 | 0 | 0 | No Change | 876,000 | No |
| Du Jiangbo | Supervisor | male | 59 | 16 June 2015 | 1 February 2024 | 0 | 0 | No Change | – | Yes |
| Zhang Qin | Supervisor | female | 61 | 9 February 2015 | 1 February 2024 | 0 | 0 | No Change | 55,000 | No |
| Sun Yongzhuang | Employee Representative Supervisor | male | 58 | 2 February 2021 | 1 February 2024 | 0 | 0 | No Change | 970,700 | No |
| Zhang Bailing | Employee Representative Supervisor | male | 58 | 2 February 2021 | 1 February 2024 | 0 | 0 | No Change | 821,400 | No |
| Du Guangyi | Employee Representative Supervisor | male | 60 | 2 February 2021 | 1 February 2024 | 0 | 0 | No Change | 1,029,300 | No |
| Zhang Jiankuo | General Manager | male | 49 | 8 December 2023 | 1 February 2024 | 0 | 0 | No Change | 0 | No |
| Zhang Congbang | Deputy General Manager | male | 53 | 8 December 2023 | 1 February 2024 | 0 | 0 | No Change | 0 | No |
| Cheng Zhongyi | Chief Financial Officer | male | 47 | 27 April 2021 | 1 February 2024 | 0 | 0 | No Change | 869,971 | No |
| | Secretary to the Board | | | 3 August 2021 | | | | | | |
| Du Kun | Deputy General Manager | male | 45 | 27 October 2022 | 1 February 2024 | 0 | 0 | No Change | 851,614 | No |
| Sun Bingxiang | Deputy General Manager | male | 52 | 3 August 2021 | 1 February 2024 | 50,300 | 50,300 | No Change | 862,131 | No |
| Yuan Jianqiang | Former General Manager | male | 60 | 20 May 2019 | 8 December 2023 | 0 | 0 | No Change | 1,030,200 | No |
| | Former Executive Director | | | 26 June 2019 | | | | | | |
| Lu Baoping | Former Non-Executive Director | male | 62 | 8 February 2018 | 27 July 2023 | 0 | 0 | No Change | 35,000 | Yes |
| Zhang Jianbo | Former Supervisor | male | 61 | 8 February 2018 | 13 February 2023 | 0 | 0 | No Change | – | Yes |
| Zhang Yongjie | Former Deputy General Manager | male | 60 | 9 February 2015 | 8 December 2023 | 0 | 0 | No Change | 986,900 | No |
| Zhang Jinhong | Former Deputy General Manager | male | 60 | 28 April 2015 | 29 May 2023 | 0 | 0 | No Change | 442,083 | No |

Notes:

1. Mr. Chen Xikun, Mr. Wang Jun, Mr. Sun Yongzhuang, Mr. Zhang Bailing, Mr. Du Guangyi, Mr. Cheng Zhongyi, Mr. Du Kun and Mr. Sun Bingxiang all received 12 months of salary in 2023. Ms. Zhang Qin received 11 months of subsidy in 2023. Mr. Zhang Jiankuo started to serve as general manager of the Company since 8 December 2023 and didn't receive salary in 2023. Mr. Zhang Congbang started to serve as deputy general manager of the Company since 8 December 2023 and didn't receive deputy general manager's salary in 2023.
2. Mr. Yuan Jianqiang resigned as executive Director, general manager and member of the Strategy Committee of the Company on 8 December 2023 and received 12 months of salary in 2023. Mr. Lu Baoping resigned as non-executive Director and member of the Strategy Committee of the Company on 27 July 2023 and received 7 months of subsidy in 2023. Mr. Zhang Yongjie resigned as deputy general manager of the Company on 8 December 2023 and received 12 months of salary in 2023. Mr. Zhang Jinhong resigned as deputy general manager of the Company on 29 May 2023 and received 5 months of salary in 2023.
3. Mr. Chen Weidong, Mr. Dong Xiucheng and Mr. Zheng Weijun all received 12 months of directors' fee in 2023.
4. The terms of the tenth session of the Board and the Supervisory Committee of the Company have expired on 1 February 2024. In view of the fact that the nomination of candidates for the new session of the Board of Directors and the Supervisory Committee of the Company is still in progress, in order to ensure the continuity and stability of the relevant work of the Board and the Supervisory Committee of the Company, the expiration of the tenth session of the Board and Supervisory Committee will be postponed, and the term of office of senior management of the Company will be extended accordingly.

# Section V Corporate Governance

## Information about current directors, supervisors and senior management

### Director

**Mr. CHEN Xikun#,** aged 59, Chairman, Party Secretary. Mr Chen is a professor-level senior accountant with a master degree. He served as deputy director and director of financial department, deputy chief accountant in Sinopec Jiangsu Oilfield. In January 2003, he was appointed as the chief accountant of Sinopec Jiangsu Oilfield Branch Company; in April 2006, he was appointed as deputy manager and chief accountant of Sinopec Shengli Oilfield Branch Company; in December 2008, he was appointed as deputy general manager and chief accountant of Sinopec Shengli Oilfield Branch Company; in December 2011, he was appointed as chief accountant of Sinopec Exploration & Production Department; since March 2015, he acted concurrently as deputy general director of Sinopec Oilfield Exploration & Production Department; from June 2015 to June 2018, he acted as director of Sinopec Oilfield Equipment Corporation; from June 2017 to February 2018, he was appointed as executive deputy general manager of the Company; in January 2018, he was appointed as the secretary of the Party Committee of the Company. Since February 2018, he has been appointed as the director of the Company. From February 2018 to May 2019, he has been appointed as deputy general manager of the Company. Since May 2019, he has been appointed as the vice chairman of the Board. Since December 2019, he has been appointed as the chairman of the Board. In February 2021, he renewed the chairman of the Board.

**Mr. FAN Zhonghai*,** aged 58, non-executive director. Mr. Fan is a professor-level senior engineer with a master degree. Mr. Fan joined the Henan Petroleum Exploration Bureau in 1989 and was appointed as deputy chief geologist, chief geologist and Vice Dean of Research Institute of Petroleum Exploration and Development of Henan Petroleum Exploration Bureau consecutively. In September 2000, he was appointed as deputy chief geologist of Henan Petroleum Exploration Bureau of China Petrochemical Corporation. In November 2001, he was appointed as deputy general manager of Sinopec Henan Oilfield Branch Company of China Petrochemical Corporation. In June 2016, he was appointed as Deputy Director of Sinopec Oilfield Exploration & Production Department. Since December 2019, he has been appointed as the Deputy Manager of Sinopec Oilfield Exploration & Production Department. Since February 2018, he has been appointed as the non-executive director of the Company. In February 2021, he renewed the non-executive director of the Company.

**Mr. WEI Ran*,** aged 56, non-executive director. Mr. Wei is a Senior Economist and obtained a Master degree in Finance from Maastricht School of Management in the Netherlands. Mr. Wei has successively served as the deputy head and the deputy general manager of Credit Department, vice president of Hunan Branch, general manager of Investment Management Department and general manager of Business Development and Innovation Department of the Export-Import Bank of China. Since April 2016, he has served as general manager of China Chengtong Fund Management Co., Ltd., since September 2016, he has served concurrently as secretary to the Board of China Structural Reform Fund Co., Ltd., and since September 2022, he has served as chairman and general manager of China Chengtong Fund Management Co., Ltd. From June 2018, he has been appointed as the non-executive director of the Company. And in February 2021, he renewed the non-executive director of the Company.

**Mr. ZHOU Meiyun*,** aged 54, non-executive director. Mr. Zhou is a professor-level senior accountant with a Master degree. Mr. Zhou joined the Shanghai Petrochemical General Plant in 1991 and served successively as the head, assistant to the director, deputy director, and director of the Finance Department of Sinopec Shanghai Petrochemical Company Limited (hereinafter referred to as Shanghai Petrochemical); he was appointed as the director of financial department of Shanghai Secco Petrochemical Company Limited in May 2011; served as deputy general manager and Chief Financial Officer of Shanghai Petrochemical in February 2017; and served as the executive director of Shanghai Petrochemical in June 2017, chairman of China Jinshan United Trading Co., Ltd. in July 2017, he served concurrently as the general counsel of Shanghai Petrochemical in May 2019; in September 2020, he was appointed as deputy general manager of the Finance Department of China Petrochemical Corporation. In May 2022, he was appointed as deputy chairman and general manager of Sinopec Capital Co., Ltd., and in December 2022, he served concurrently as deputy general manager of Capital and Finance Department of China Petrochemical Corporation. Since June 2023, he has been appointed as the general manager of Capital and Finance Department of China Petrochemical Corporation, and as the chairman, party secretary of Sinopec Capital Co., Ltd. Since February 2021, he has been appointed as the non-executive director of the Company.

**Mr. CHEN Weidong+,** aged 68, independent non-executive Director. Mr. Chen held a bachelor's degree in marine geophysical exploration from Ocean University of China, a master's degree in MBA from Guanghua School of Management, Peking University, and a master's degree in civil and commercial law from China University of Political Science and Law. In 1982, Mr. Chen joined China National Offshore Oil Corporation ("CNOOC") and successively served as deputy manager of Exploration Department of CNOOC, general manager of China Offshore Geophysical Company Limited under CNOOC, as well as executive vice president, secretary to the Board, and chief strategy officer of China Oilfield Services Limited, etc. Since May 2017, he has served as the Dean of Beijing Zhongguancun Smart Energy Technology Innovation Institute. Since June 2018, he has been appointed as the independent non-executive Director of the Company. And in February 2021, he renewed the independent non-executive director of the Company.

**Mr. DONG Xiucheng+,** aged 62, independent non-executive director. Mr. Dong is currently a Ph.D. Supervisor, and concurrently serves as vice president of China Petroleum Circulation Association, Vice Chairman of Energy Resources System Engineering Branch of Systems Engineering Society of China, member of the Price Expert Advisory Committee of National Development and Reform Commission and Distinguished Expert of National Energy Administration, etc. In 1985, Mr. Dong joined the Business Administration School of China University of Petroleum (Beijing) and he has been successively promoted as a Lecturer, Associate Professor and Professor, during which period he also served as Assistant Dean and secretary of the Party Committee of the school and other administrative positions. Since October 2017, he has served as a Professor and Ph.D. Supervisor in the International Trade and Economics School of University of International Business and Economics. Since June 2018, he has been appointed as the independent non-executive director of the Company. And in February 2021, he renewed the independent non-executive director of the Company.

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# Executive Director

* Non-executive Director

+ Independent non-executive Director

**Mr. ZHENG Weijun**+, aged 57, independent non-executive director. Mr. Zheng was graduated from MBA. Mr Zheng is a certified public accountant, certified tax agent, senior accountant, senior member of the Chinese Institute of Certified Public Accountants, a leading talent in the national certified public accountant industry of the Ministry of Finance and an extracurricular tutor for master's degree students in the College of Accounting, Central University of Finance and Economics. Mr. Zheng served as a full-time member of the 13th, 14th and 15th Main Board Issuance Review Committee of the CSRC, and a member of the Professional Ethics Standards Committee and Professional Technical Steering Committee of the Chinese Institute of Certified Public Accountants. From November 2001 to September 2023, he was a partner of ShineWing Certified Public Accountants. Since October 2023, he has been a supervisor of ShineWing International Investment Group Co., Ltd. Since September 2018, he has been a director of Hehui Group Co., Ltd. Since July 2021, he served as an independent director of Shanghai Yaohua Pilkington Glass Group Co., Ltd. Since April 2023, Mr. Zheng served as an independent director of Huachuang Yunxin Digital Technology Service Co., Ltd., and he has been appointed as the independent non-executive director of the Company since February 2021.

**Supervisor**

**Mr. Wang Jun,** aged 56, chairman of the supervisory committee. Mr. Wang is a professor-level senior administration engineer with a master degree. In May 2007, he was appointed as the secretary of Communist Party Committee of Bohai Drilling Company of Shengli Petroleum Administration Bureau of China Petrochemical Corporation. In April 2015, he was appointed as the deputy secretary of Committee for Discipline Inspection and director of Inspection Department of Shengli Petroleum Administration Bureau of China Petrochemical Corporation. In August 2017, he was appointed as the deputy secretary of Communist Party Committee, secretary of Committee for Discipline Inspection, Chairman of Labour Union and Supervisor of Sinopec Shengli Oil Engineering Company Limited. Since January 2022, he has been appointed as the deputy secretary of the Communist Party Committee, secretary of the Commission for Discipline Inspection and chairman of the Labour Union of the Company. Since May 2022, he has been appointed as the chairman of the supervisory committee of the Company.

**Mr. DU Jiangbo,** aged 59, supervisor of the Company. Mr. Du is a professor-level senior economist with a master degree. In September 2006, he was appointed as head of the Legal Affairs Division of Headquarters of Sichuan-East China Gas Transmission Construction project. In November 2010, he was appointed as deputy director of the Legal Affairs Division of China Petrochemical Corporation; and in March 2015, he was appointed as director of the Legal Affairs Department of China Petrochemical Corporation. In December 2019, he was appointed as deputy general manager of Business Reform and Legal Affairs Department of China Petrochemical Corporation. Since Decemeber 2021, he was appointed as general manager of Business Reform and Legal Affairs Department of China Petrochemical Corporation. Since May 2022, he has served concurrently as chief legal counsel of China Petrochemical Corporation, and has also served as the Chief Compliance Officer of China Petrochemical Corporation since July 2023. Since June 2015, he has been appointed as supervisor of the Company. And in February 2021, he renewed the supervisor of the Company.

**Ms. ZHANG Qin,** aged 61, supervisor of the Company. Ms. Zhang is a professor-level senior administration engineer with a master degree. In December 1998, she was appointed as head of the Propaganda Office of the Political Work Department of China Petrochemical Corporation; in December 2008, she was appointed as the deputy director of the Political Work Department of China Petrochemical Corporation; and since January 2009, she served as the direct deputy secretary of Communist Party Committee, and the direct secretary of Discipline Inspection Committee of China Petrochemical Corporation. In March 2015, she was appointed as the deputy director of the Party Work Department (administrative office of the Party Committee) of China Petrochemical Corporation. From December 2019 to January 2023, she was appointed as deputy director of Party Work Department of China Petrochemical Corporation. Since September 2014, she has been serving as a supervisor of Sinopec Oilfield Service Corporation. Since February 2015, she has been appointed as the supervisor of the Company. And in February 2021, she renewed the supervisor of the Company.

**Mr. SUN Yongzhuang,** aged 58, employee representative supervisor. Mr. Sun is a professor-level senior engineer with a doctoral degree. In June 2004, he served as the manager of the Second Downhole Operation Company of Shengli Petroleum Administration Bureau of China Petrochemical Corporation; in June 2008, he served as the general manager of Dongsheng Jinggong Petroleum Development Group Co., Ltd., of Sinopec Shengli Oilfield Co., Ltd.; in January 2013, he served as deputy general manager of Sinopec Shengli Oil Engineering Company Limited; in December 2018, he served as general manager of Sinopec Shengli Oil Engineering Company Limited; in December 2020, he served as executive director, party secretary and general manager of Sinopec Shengli Oil Engineering Company Limited. In January 2022, Mr. Sun was appointed as executive director and party secretary of Sinopec Shengli Oil Engineering Company Limited. Since July 2023, he has served as an executive director and secretary of the party committee of Shengli Petroleum Administration Bureau Co., Ltd. of China Petrochemical Corporation and representative of Sinopec Shengli Oilfield Branch. Since February 2021, he has been appointed as the employee representative supervisor of the Company.

**Mr. ZHANG Bailing**, aged 58, employee representative supervisor. Mr. Zhang is a professor-level senior engineer with a doctoral degree. Since December 2003, he has successively served as the director of the dispatching department, the director of the production operation department of the Sinopec Southwest Oil and Gas Branch, and the director of the West Sichuan Gas Production Plant; in July 2011, he served as the deputy chief engineer of the Sinopec Southwest Oil and Gas Branch and the deputy manager of the Yuanba Project Department. From August 2012 to November 2020, he served as the deputy general manager of Sinopec Southwest Oil and Gas Branch; in March 2017, he served as the secretary of the Party Committee of Sinopec Southwest Petroleum Engineering Co., Ltd.; in August 2017, he served as secretary of the Party Committee and deputy general manager of Sinopec Southwest Petroleum Engineering Co., Ltd.; in May 2020, he served as executive director and party secretary of Sinopec Southwest Petroleum Engineering Co., Ltd.; from November 2020, he served as executive director and party secretary of Sinopec Zhongyuan Petroleum Engineering Co., Ltd. Since February 2021, he has been appointed as the employee representative supervisor of the Company.

**Mr. DU Guangyi**, aged 60, employee representative supervisor. Mr. Du is a professor-level senior engineer with a doctoral degree. From December 2001 to June 2017, he served as deputy director of Zhongyuan Petroleum Exploration Bureau of China Petrochemical Corporation; in January 2013, he served as party secretary of Sinopec Zhongyuan Petroleum Engineering Co., Ltd.; from March 2016, he served as executive director and general manager of Sinopec Zhongyuan Petroleum Engineering Co., Ltd.; in June 2017, he served as executive director and general manager of Sinopec Oil Engineering and Construction Corporation; in June 2019, he served as chairman and party secretary of Sinopec Oilfield Equipment Corporation; from November 2020 to December 2023, he served as executive director and party secretary of Sinopec Oil Engineering and Construction Corporation. From September 2014 to June 2017, he served as the employee representative supervisor of the Company; in February 2021, he has been re-elected as the employee representative supervisor of the Company.

+ Independent non-executive Director

**Senior management**

**Mr. ZHANG Jiankuo,** aged 49, general manager. Mr. Zhang is a professor-level senior engineer with a master's degree. In November 2015, he served as the manager and deputy secretary of the Communist Party Committee of Sinopec Shengli Oil Engineering Company Limited. in December 2018, he served as the deputy general manager of Yellow River Drilling Corporation; of Sinopec Shengli Oil Engineering Company Limited. In October 2020, he served as the deputy general manager of the Company. In June 2022, he served as the deputy general manager of Petroleum Exploration & Development Research Department of China Petroleum & Chemical Corporation. Since December 2023, he has been appointed as the general manager of the Company.

**Mr. ZHANG Congbang,** aged 53, deputy general manager. Mr. Zhang is a professor-level senior engineer with a bachelor's degree. In May 2006, he served as the deputy general manager of the Saudi Arabia branch of Sinopec International Petroleum Service Corporation; in May 2008, he served as the general manager of the Kuwait branch of Sinopec International Petroleum Service Corporation; in March 2011, he served as the deputy chief engineer of Sinopec International Petroleum Service Corporation and the general manager of the Kuwait branch; in March 2012, he served as the deputy chief engineer of Sinopec International Petroleum Service Corporation and the general manager of the Kuwait branch, UAE Subsidiary branch and Abu Dhabi branch; in July 2019, he served as the deputy general manager of Sinopec International Petroleum Service Corporation; in December 2020, he served as the general manager and deputy secretary of the Communist Party Committee of Sinopec International Petroleum Service Corporation; since December 2023, he served as the executive director and secretary of the party committee of Sinopec International Petroleum Service Corporation. Since December 2023, he has been appointed as the deputy general manager of the Company.

**Mr. CHENG Zhongyi**, aged 47, chief financial officer and secretary to the Board. Mr. Cheng is a senior accountant with a master degree in Engineering. In January 2015, he served as deputy director of financial planning department and chief financial officer of overseas engineering management center of Sinopec Shengli Oil Engineering Company Limited. In October 2017, he served as director of financial planning department of Sinopec Shengli Oil Engineering Company Limited. In April 2018, he served as chief financial officer of Sinopec Oil Engineering Geophysical Company Limited. In May 2020, he served as deputy general manager of Sinopec Shared Services Company Limited. Since April 2021, he served as the chief financial officer of the Company, and since August 2021, he served concurrently as the secretary to the Board.

**Mr. Du Kun**, aged 45, deputy general manager. Mr. Du is a senior engineer with a master degree. In November 2015, he was appointed as the manager of management department in Yan'an Project of Sinopec Shengli Oil Engineering Company Limited (as deputy mid-level position). In August 2017, he served as the manager of management department in Fuling Project of Sinopec Shengli Oil Engineering Company Limited (as deputy mid-level position). In July 2018, he served as the manager and deputy secretary of the Communist Party Committee of Southwest branch and manager of management department in Fuling Project of Sinopec Shengli Oil Engineering Company Limited. In December 2020, he served as the deputy general manager of Sinopec Shengli Oil Engineering Company Limited. Since October 2022, he was appointed as deputy general manager of the Company.

**Mr. SUN Bingxiang**, aged 52, deputy general manager. Mr. Sun is a senior engineer with a master degree. In April 2009, he was appointed as deputy head of general management division of the engineering and technology department of headquarters of Sichuan-East China Gas Transmission Construction project. In February 2011, he served as deputy head of technology information division of petroleum engineering management department of China Petrochemical Corporation. In November 2012, he served as deputy manager of technology development department of Sinopec Oilfield Service Corporation. In January 2018, he served as deputy manager of technology information department of the Company. In August 2018, he served as deputy manager (treated as principal middle-level position) of technology information department of the Company. In July 2020, he served as manager of technology information department of the Company, and since August 2021, he served as the deputy general manager of the Company.

## (2) Information on directors, supervisors and senior management holding positions

### a. Positions in shareholders

| Name | Name of corporate shareholders | Position held in corporate shareholders | The starting date of term in office | The termination date of term in office |
|---|---|---|---|---|
| Zhou Meiyun | CPC | Deputy Chairman and General Manager of Sinopec Capital Co., Ltd. | May 2022 | June 2023 |
| | CPC | Deputy General Manager of Capital and Finance Department | December 2022 | June 2023 |
| | CPC | General Manager of Capital and Finance Department, Chairman and Party Secretary of Sinopec Capital Co., Ltd. | June 2023 | – |
| Du Jiangbo | CPC | General manager of business reform and Legal Affairs Department | December 2021 | – |
| | CPC | Chief Legal Counsel | May 2022 | – |
| | CPC | Chief Compliance Officer | July 2023 | – |
| Zhang Qin | CPC | Deputy Director of the Political Work Department | December 2019 | January 2023 |
| Zhang Jianbo | CPC | Deputy Director of the Office of the Supervisory Administration | May 2020 | January 2023 |

### b. Positions in other enterprises

| Name | Name of other enterprises | Position held in other enterprises | Beginning date of term | End date of term |
|---|---|---|---|---|
| Fan Zhonghai | Sinopec | Deputy Manager of Petroleum Exploration & Development Research Department | December 2019 | – |
| Zhang Jiankuo | Sinopec Petroleum Engineering Technology Research Institute Co., Ltd. | Director | April 2023 | – |
| Cheng Zhongyi | Sinopec Finance Co., Ltd. | Supervisor | May 2021 | – |
| Sun Bingxiang | Sinopec Petroleum Engineering Technology Research Institute Co., Ltd. | Director | November 2021 | – |
| Zhang Jinhong | Sinopec Oilfield Equipment Corporation | Director | June 2018 | September 2024 |

## (3) Remuneration of the Company's directors, supervisors and senior management

| | |
|---|---|
| Decision procedure of the remuneration of directors, supervisors and senior management. | The remuneration of directors and supervisors in 2023 is submitted to the general meeting of shareholders after being approved by the remuneration committee of the Board and the Board. The remuneration of senior management is approved by the Board after approved by the remuneration committee of the Board. |
| Whether the directors have abstained from discussing their own remuneration matters in the board of directors. | No. |
| Details of the recommendations made by the remuneration and appraisal committee or the special meeting of independent directors on the remuneration of directors, supervisors and senior management. | On 22 March 2024, the Company convened the seventh meeting of the remuneration committee of the tenth session of the board, at which the resolution on the remuneration of directors, supervisors and senior management of the Company for the year 2023 was considered and approved, and no objection was raised. |
| The basis of remuneration determination of directors, supervisors and senior management. | The duties and responsibilities of directors, supervisors and senior management, and by the performance of the Company. |
| Actual payment of remunerations to directors, supervisors and senior managers. | RMB10,405,499 |
| As to the end of reporting period, the actual obtained remuneration of the directors, supervisors and senior management. | RMB10,405,499 |

## (4) Information on the change of company's directors, supervisors and senior management

| Name | Position | Change | Reasons for change |
|---|---|---|---|
| Lu Baoping | Non-executive director | Resigned | Age |
| Yuan Jianqiang | Executive director General manager | Resigned | Age |
| Zhang Jianbo | Supervisor | Resigned | Age |
| Zhang Yongjie | Deputy general manager | Resigned | Age |
| Zhang Jinhong | Deputy general manager | Resigned | Age |
| Zhang Jiankuo | General manager | Appointed | Appointed by the Board |
| Zhang Congbang | Deputy general manager | Appointed | Appointed by the Board |

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

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

On 27 July 2023, Mr. Lu Baoping resigned as the non-executive director and member of strategic committee of the board of the Company due to his age.

On 8 December 2023, Mr. Yuan Jianqiang resigned as the executive director, member of strategic committee of the board and general manager of the Company due to his age.

On 8 December 2023, Mr. Zhang Yongjie resigned as the deputy general manager of the Company due to his age.

On 8 December 2023, the Company held the eighteenth meeting of the tenth session of the board. According to the management and development needs of the Company, upon the qualification review of the nomination committee of the Board, the Board decided to appoint Mr. Zhang Jiankuo as the general manager of the Company and Mr. Zhang Congbang as the deputy general manager of the Company, with a term of office from 8 December 2023 to the date when the term of the tenth session of the Board expires.

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

## (5) Information of any punishment by securities in the last three years

☐ Applicable √ Not Applicable

## 5. Summary of Board Meetings during the Report Period

| Name of meeting | Date of meeting | Resolutions |
|---|---|---|
| The fourteenth meeting of the tenth session of the Board | 28 March 2023 | The meeting approved: 1. The Report of the Board of the Directors of the Company for the year 2022. 2. The completeness of goal tasks for 2022 and the work arrangements for 2023. 3. The profit distribution plan of the Company for 2022. 4. The daily related transactions of the Company in 2022. 5. The financial report for the year 2022. 6. Remuneration to the directors, supervisors and senior managers for 2022. 7. The annual report of the Company for the year 2022 and the abstract of the annual report. 8. The Environment, Safety and Governance Report of the Company for 2022. 9. The internal control system report for 2022. 10. The internal control assessment report for 2022. 11. Revision of the Terms of Reference of the Remuneration Committee under the Board of Directors. 12. Proposed amendments to the internal control handbook (2023). 13. Proposal on Provision for Asset Impairment in 2022. 14. Proposal on Re-appointment of external auditor for 2023. 15. Proposal on the key points of internal audit work of the Company in 2023. 16. The annual cap of continuing related transactions between the Company and China Oil&Gas Pipeline Network Corporation for 2023. 17. The provision of guarantee for wholly owned subsidiaries and joint venture. 18. Proposed the authorisation to the Board to repurchase domestic shares and/or overseas listed foreign shares of the Company. 19. Ongoing risk assessment report of Sinopec Finance Co., Ltd. and Century Bright Company. 20. Convening 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. |
| The fifteenth meeting of the tenth session of the Board | 26 April 2023 | The meeting approved 2023 first quarterly report of the Company. |
| The sixteenth meeting of the tenth session of the Board | 29 August 2023 | The meeting approved: 1. 2023 interim financial report. 2. 2023 interim report of the Company and the summary of interim report. 3. The proposal on no dividend distribution for mid of 2023. 4. Risk assessment report of financial business in deposits and loans associated with the Company and Sinopec Finance Co., Ltd. and Century Bright Company. 5. The Company's risk disposal plan for carrying out financial business in related financial companies. 6. Proposal of the Company on fully implementing the tenure system and contractual management of the Company's leaders. 7. The Company's Compliance Management Measures (Revised) and Regulations on the Work of the Overseas Risk Control Committee of the Company (Revised). |
| The seventeenth meeting of the tenth session of the Board | 27 October 2023 | The meeting approved the third quarterly report of the Company for 2023. |
| The eighteenth meeting of the tenth session of the Board | 8 December 2023 | The meeting approved proposal on appointment of senior management of the Company. |

## 6. Performance of the Directors

### (1) The Directors' attendance at the Board Meetings and Shareholders' Meetings

| | | Attendance at shareholders' meetings | | | | | | Attendance at shareholders' general meetings |
|---|---|---|---|---|---|---|---|---|
| Name of Director | Whether as Independent Director | Supposed Number of times for attending at meetings of the Board during the year | Number of times for attending in person (no. of times) | Attendance by correspondence (no. of times) | Attendance by proxy (no. of times) | Absence (no. of times) | Whether or not attending in person for two consecutive times | Number of times for attending at shareholders' general meetings |
| Chen Xikun | No | 5 | 5 | 3 | 0 | 0 | No | 3 |
| Yuan Jianqiang | No | 4 | 4 | 2 | 0 | 0 | No | 3 |
| Lu Baoping | No | 2 | 2 | 1 | 0 | 0 | No | 3 |
| Fan Zhonghai | No | 5 | 5 | 3 | 0 | 0 | No | 0 |
| Wei Ran | No | 5 | 3 | 3 | 2 | 0 | No | 0 |
| Zhou Meiyun | No | 5 | 5 | 3 | 0 | 0 | No | 0 |
| Chen Weidong | Yes | 5 | 5 | 3 | 0 | 0 | No | 3 |
| Dong Xiucheng | Yes | 5 | 5 | 3 | 0 | 0 | No | 3 |
| Zheng Weijun | Yes | 5 | 5 | 3 | 0 | 0 | No | 3 |

| | |
|---|---|
| The Board meetings held during the year (No. of times) | 5 |
| Including: meetings held on site (No. of times) | 2 |
| Meetings held by correspondence (No. of times) | 3 |
| Meetings held by correspondence on site and by correspondence (No. of times) | 0 |

### (2) The information of the objections proposed by the directors

During the reporting period, the Company's directors did not raise objections against the proposals of the meetings of board of directors or the proposals which does not require the review on the board meetings for 2023.

The detail information related to the performance of the independent directors is published in the report of the Company's independent directors for 2023 on the websites of SSE and HKSE.

## 7. Information about Special Committees under the Board of Directors

### (1) Members of special committee under the board of directors

| Name of special committee | Name of members |
|---|---|
| Strategy Committee | Chairman: Mr. Chen Xikun<br>members: Mr. Fan Zhonghai, Mr. Dong Xiucheng |
| Audit Committee | Chairman: Mr. Zheng Weijun<br>members: Mr. Zhou Meiyun, Mr. Chen Weidong, Mr. Dong Xiucheng |
| Remuneration Committee | Chairman: Mr. Chen Weidong<br>members: Mr. Fan Zhonghai, Mr. Dong Xiucheng, Mr. Zheng Weijun |
| Nomination Committee | Chairman: Mr. Dong Xiucheng<br>members: Mr. Chen Xikun, Mr. Chen Weidong, Mr. Zheng Weijun |

### (2) 8 meetings were held in the reporting period

| Name of meeting | Date of meeting | Resolutions |
|---|---|---|
| The nineteenth audit committee meeting of the tenth session of the board | 13 January 2023 | Considered the report on the audit plan for 2022 annual financial report and relevant explanation on 2022 financial and accounting statements (unaudited) made by BDO China Shu Lun Pan CPAs, external auditor of the Company, and approved estimated increase in performance announcement for the year 2022. |
| The tenth audit committee meeting of the tenth session of the board | 23 March 2023 | Considered the Company's statement on the operating results, financial situation and related matters in 2022, as well as the audit opinions of BDO China Shu Lun Pan CPAs on the Company's financial report and internal control in 2022. Nine proposals were approved at the meeting, including the financial report for the year 2022, the profit distribution plan of the Company for 2022, the internal control system report for 2022, the internal control assessment report for 2022, amendments to the internal control handbook (2023), proposal on re-appointment of external auditor for 2023, proposal on the key points of internal audit work of the Company in 2023, the annual cap of continuing related transactions between the Company and China Oil&Gas Pipeline Network Corporation for 2023 and the performance report of the audit committee in 2022. |
| The eleventh audit committee meeting of the tenth session of the board | 26 April 2023 | Approved the first quarterly financial statement of the Company for 2023. |
| The twelfth audit committee meeting of the tenth session of the board | 25 August 2023 | Considered the Company's statement on the financial situation and related matters in the first half of 2023, and approved 2022 interim report of the Company and the proposal on no dividend distribution for mid of 2023. |
| The thirteenth audit committee meeting of the tenth session of the board | 27 October 2023 | Approved the third quarterly financial statement of the Company for 2023. |
| The fifth remuneration committee meeting of the tenth session of the board | 23 March 2023 | Approved remuneration of directors, supervisors and senior managers for 2022, revision of the Terms of Reference of the Remuneration Committee under the Board of Directors and the performance report of remuneration committee for the year 2022. |
| The sixth remuneration committee meeting of the tenth session of the board | 25 August 2023 | Approved the proposal of the Company on fully implementing the tenure system and contractual management of the Company's leaders. |
| The second nomination committee meeting of the tenth session of the board | 8 December 2023 | Approved proposal on appointment of senior management of the Company. |

The audit committee made significant suggestions as follows:

a. Firstly, the Company should continue reducing the gearing ratio of the Company. Although the Company has achieved continuous profitability in recent years, its gearing ratio remains at a high level of around 90%. The Company is suggested to reduce the overall debt and improve its cash flow condition by increasing profits, reducing costs, optimizing the debt structure, and putting more efforts to recover accounts receivable and inventory, etc.

b. Secondly, the Company should improve profitability continuously and strengthen its ability to resist risks. In recent years, the operating income and net profit of the Company have achieved year-on-year growth, but the gross profit margin of the main business is still at a low level compared with the listed companies in the same industry. We suggested that the Company should give full play to the advantages of industrial chain integration, continuously improve the engineering and technical service capabilities, strive to open up external markets, expand and strengthen the traditional dominant markets, increase the proportion of high-end technical service business and increase the gross profit margin.

c. Thirdly, the Company should continue to strengthen the recovery of accounts receivable and inventory, especially the collection of overseas accounts receivable. Due to the increase in the occupancy of the two receivables, the scale of the Company's interest-bearing debt has increased, and the pressure of financial costs has continued to increase. We suggested that the Company further strengthen the collection efforts, especially the collection efforts of receivables from non-related parties and overseas customers, further shorten the collection cycle of accounts receivable, strengthen the bottom-line thinking, prevent contract risks, exchange rate risks and government political risks, build multiple risk protection walls, and steadily and orderly promote the development of overseas market.

### (3) Statements on objected matters

☐ Applicable √ Not Applicable

## 8. The Information on the Existence of Risk Found by the Supervisory Committee

The supervisory committee has no objection on the supervised matters during the reporting period.

# 9. Information on the Personnel of the Company and its Subsidiaries at the End of the Reporting Period

## (1) Personnel information

| | |
|---|---|
| The number of the Company' serving staff | 112 |
| The number of the Company's main subsidiaries' serving staff | 63,280 |
| The total number of the serving staff | 63,392 |
| The number of retired staff whose expense should be born by the Company and its principal subsidiaries | 21,585 |
| **Professional composition** | |
| **Type of Professional** | **Number of the staff** |
| Production Staff | 34,403 |
| Technical Staff | 19,525 |
| Researcher | 3,367 |
| Financial Staff | 1,623 |
| Market and Administrative Staff | 3,421 |
| Others | 1,053 |
| Total | 63,392 |
| **Education** | |
| **Type** | **Number of the staff** |
| Master or above | 3,991 |
| Bachelor | 21,194 |
| Junior college | 12,669 |
| Others | 25,538 |
| Total | 63,392 |
| **Gender** | |
| Male | 54,918 |
| Female | 8,474 |
| Total | 63,392 |

## (2) Remuneration Policies

The Company's Remuneration Distribution system consists of mid/long-term incentives and short-term incentives which include basic salary, allowance, monthly and annual performance bonuses. The Company has established differentiated incentive scheme based on different positions and different kinds of professionals, not only to create a reasonable and fair environment but also give full play to the incentive and restraint role of performance appraisal, linking remuneration incentives to performance appraisal results and job responsibilities and contributions and aiming at stimulating employees' creativity and motivated by keeping the remuneration in reasonable income difference.

## (3) Training plan

Committed to staff training, the Company has established a differentiated and multi-tiered training management system which focuses on promoting staff performance capability and personal growth. Centered on central tasks in production and operation, the Company carries out training programs for the management, professional skills staff, operating skills staff and international staff, highlights trainings in key positions such as domestic and international market development and project managers, and make effective use of various trainings such as on-job training, off-job training and online training, steadily carries out technical and operation trainings for front-line staff, to improve the ability of employees to perform their duties and realize the mutual development of employees and the Company.

## (4) Labor outsourcing

☐ Applicable √ Not Applicable

## 10. Profit Distribution Plan for Ordinary Shares or Plan to Convert Surplus Reserves into Share Capital

### (1) Formulation, implementation or adjustment of dividend policy

The Company's current dividend policy is as follows: during the reporting period, under the situation of: 1) Company's profit gaining, 2) the Company's positive accumulated undistributed profit and 3) the Company's cash flow meets the requirement of its normal operation and sustainable development, the Company shall distribute the cash dividends and the annual dividends shall not be less than 40% of the current net profit attributed to the Company's shareholders. The specific amount of dividends shall be proposed by the Board of the Company, and be finally approved by the general meeting. During the process of enacting and executing of the Company's dividend policy, the independent directors fulfilled their responsibilities following the corresponding obligations, which fully reflected the opinions and demands of minority shareholders and protected their legitimate rights and interests.

Due to the negative of the Company's undistributed profits at the end of 2023, the Board suggests no cash dividends and no capital reserve conversion to equity for 2023. The proposal still needs to be approved by the shareholders' meeting. The Company would strictly implement its dividend policy in Articles of Association, and as long as it has capability for cash dividends, the Company will perform decision-making process in accordance with relevant provisions. And independent directors will play their roles to safeguard the legitimate rights and interests of the minority shareholders.

### (2) Special statement on cash dividend policy

√ Applicable ☐ Not Applicable

| | |
|---|---|
| Whether the cash dividend policy is in accordance with the rules of Articles of Association or resolutions of shareholders' meeting | √Yes ☐No |
| Whether the dividend standard and ratio is accurate and clear | √Yes ☐No |
| Whether the relevant decision making procedures are complete | √Yes ☐No |
| Whether the independent directors of the board undertake their responsibilities | √Yes ☐No |
| Whether minority shareholders are given the chance to express opinions and fully protect their rights | √Yes ☐No |

### (3) If the Company records profits and the parent company records a positive distribution of profit available to shareholders of ordinary shares during the Reporting Period but there is no proposal for cash dividend for ordinary shares, the Company shall disclose the reasons and the usage of the undistributed profits and the usage plan in details

☐ Applicable √ Not Applicable

## 11. Company's Share Option Incentive Plan and its Respective Effect

☐ Applicable √ Not Applicable

## 12. Information on Share Option Held by Directors and Senior Management during the Reporting Period

### (1) Share option held by current directors and senior management

☐ Applicable √ Not Applicable

### (2) Qi Xin Gong Ying Scheme participated by Directors, Supervisors and senior management

On 25 January 2018, the Company non-publicly issued 1,503,568,702 and 23,148,854 shares of restricted-sale A shares to the China Petrochemical Corporation and the Qi Xin Gong Ying Scheme respectively. Qi Xin Gong Ying Scheme is managed by Changjiang Pension Insurance Co., Ltd., and its shares shall be subscribed by certain Directors, Supervisors, senior management and other core management personnel of the Company. The number of subscribers is 198, and the subscription amount is RMB60.65 million in total. The subscription price for each scheme unit 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, and 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 held by Qixin Gong Ying Scheme with limited selling conditions ended and was listed for trading. In 2021, a total of 11,574,427 A shares were sold through centralized bidding by Qi Xin Gong Ying Scheme, and 11,574,427 A shares were still held by Qi Xin Gong Ying Scheme at the end of the reporting period.

In Qi Xin Gong Ying Scheme, the Company's incumbent and former directors, supervisors and senior management subscribed for a total of 5.45 million scheme units, accounting for approximately 9.0% of the total units of Qi Xin Gong Ying scheme. The total number of incumbent and former directors, supervisors and senior management of the Company who subscribed for the Qi Xin Gong Ying Scheme was 16 persons. For details of the participation of the incumbent and former directors, supervisors and senior management of the Company in the Qi Xin Gong Ying Scheme, please see the following table.

| Name | Position | Subscription scheme amount under Qi Xin Gong Ying Scheme (RMB) | Subscription scheme units under Qi Xin Gong Ying Scheme (unit) | Subscription price (RMB/A Share) | Approximate subscription amount of A share (share) |
|---|---|---|---|---|---|
| Chen Xikun | Chairman, Secretary of 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 Jiankuo | General Manager | 300,000 | 300,000 | 2.62 | 114,503 |
| Zhang Congbang | Deputy General Manager | 300,000 | 300,000 | 2.62 | 114,503 |
| Sun Qingde | Former Deputy Chairman, General Manager | 400,000 | 400,000 | 2.62 | 152,671 |
| Li Wei | Former Chairman of the Supervisory 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 |
| Zhang Yongjie | Former Deputy General Manager | 350,000 | 350,000 | 2.62 | 133,587 |
| Zhang Jinhong | Former Deputy General Manager | 350,000 | 350,000 | 2.62 | 133,587 |
| Zuo Yaojiu | Former Deputy General Manager | 350,000 | 350,000 | 2.62 | 133,587 |
| 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 | / | 5,450,000 | 5,450,000 | – | 2,080,140 |

## (3) Directors', supervisors' and chief executive's interests in the shares of the Company

As at 31 December 2023, the Company's deputy general manager Mr. Sun Bingxiang held 50,300 A shares of the Company. Save as disclosed above and Qi Xin Gong Ying Scheme disclosed above, none of the directors, supervisors or other senior management of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations within the meaning of Part XV of the SFO, as recorded in the register 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.

## (4) Directors' and supervisors' service contracts

Each Directors and supervisors entered into a service contract with the Company. Main contents are set out below:

a. For more details about the expired date of the terms of directors in the tenth session of the Board and the supervisors in tenth session of supervisory committee, please see the section in "Information on the changes of shareholdings and the remuneration of directors, supervisors and senior management."

b. The remuneration for the tenth session of executive directors, chairman of supervisory committee Mr. Wang Jun and the employee representative supervisors under the service contract shall be determined in accordance with relevant national regulations and the Company's senior management remuneration implementation measures. It is provided in the measures for implementation of remuneration packages for senior management of the Company that the remuneration consists of a basic salary, performance bonus and mid-and-long term incentives, with specific functions and responsibilities of the management members and performance of the Company as a whole being taken into account. An independent non-executive Director entitled to a director's fee of RMB200,000 per annum (pre-tax). Non-executive directors and Mr. Du Jiangbo, Mr. Zhang Jianbo and Ms. Zhang Qin, who are non-employee representative supervisors shall not receive any remuneration from the Company.

In addition, the Company has purchased liability insurance for the directors and supervisors in order to safeguard the interests of the directors and supervisors. The permitted indemnity provisions are set out in the liability insurance policy for directors, which will indemnify directors for fees and costs associated with potential legal proceedings arising from negligence in the performance of their duties.

No director or supervisor has entered into a service contract with the Company which is terminated by the Company within one year without payment other than statutory compensation.

### (5) Directors' interests in competing businesses

Some directors of the Company hold positions in China Petrochemical Corporation and its subsidiaries. For details, please refer to this section "Information on directors, supervisors and senior management holding positions" of the report.

### (6) Directors' and supervisors' interests in contracts

No director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to which the Company, its parent company or any of their subsidiaries signed or was a party during and at the end of the year.

### (7) Special treatment to directors, supervisors and senior management

There has been no special treatment granted to the directors, supervisors or senior management during the reporting period.

### (8) The performance evaluation for senior management, and the establishment and implementation of stimulating mechanism during the reporting period

Under the guidance of the annual operation and management target set by the Board, Remuneration Committee of the Company effectively appraised and inspected the performance of senior management, submitted it to the Board for consideration, and has been working hard to establish and optimize evaluation criteria and a stimulating and binding mechanism for senior management. During the reporting period, the Company continued to implement the tenure system and contractual management for the members of the management team. In accordance with relevant business targets in 2023, the Company settled the work plan for fully implementation of the Company's leadership tenure system and contractual management, and approved by the sixteenth meeting of the tenth session of the Board.

## 13. The establishment and implementation of internal control system during the reporting period:

In 2023, the Company kept improving the internal control system and risk management system, and made the operation of the internal control system effective by way of strengthening risk assessment, optimizing the business process, and continuously enhancing supervision. The Board will take responsibility for establishing and maintaining sufficient internal control of financial report, and conducts the annual review of the Company's risk management and internal control system. The supervisory committee conducts supervision on the Board about establishment and implement of internal control. Managers take charge of organizing routine operation of internal control. In 2023, the Board assessed internal control of the Company during the past year, in accordance with "basic norms of enterprise internal control", "application guidelines of enterprises internal control", "evaluation guidelines of enterprises internal control" and concluded that there is no important deficiency or significant deficiencies as of 31 December 2023. The internal control system of the Company's financial report is sound and effective.

The Board approved the Company's 2023 annual self-assessment of internal control on 26 March 2024. Please visit the website of the HKSE or the website of the SSE for details of the report. All members of the Board ensure that this report is true, accurate and complete and there is no false records, misleading statements or major omissions.

Description about major defects of the internal control during the reporting period

☐ Applicable √ Not Applicable

## 14. Statement on managing and controlling subsidiaries

☐ Applicable √ Not Applicable

## 15. Information about the audit report of internal control

Whether disclose the audit report of internal control: yes

BDO China Shu Lun Pan CPAs (LLP) audited the Company's internal control as of 31 December 2023 and issued a standard unqualified audit report on internal control. For detailed information, please refer to the 2023 annual internal control audit report disclosed by the Company on 26 March 2024.

## 16. Compliance with Code of Corporate Governance Practices of HKSE

As at 31 December 2023, the Company has been in strict compliance with the code provisions of Corporate Governance of HKSE, and has applied principles set out in the "Corporate Governance Code" to enterprise governance and general practice. The details are as follows:

### A.1 The Board

(1) The Board meets regularly to fulfill their responsibilities. The Board held five meetings in 2023, including four regular meetings. The directors' attendance of the Board meetings is set forth in item 6 "Performance of the Directors" of this section.

(2) All directors can raise matters in the agenda for the Board meetings and have the right to ask for more related documents.

(3) The notice has been given 14 days before regular Board meetings and the notice of the other Board meetings has usually been given 10 days before the meetings.

(4) The Board Secretary records and keeps the minutes of the Board meetings and meetings of Board Committees. The Articles of Association regulates the contents of the minutes, and the procedure that the minutes should be sent to all Directors for their consideration and signature after the Board meetings.

(5) The Board Secretary continuously provides service for the Directors and reminds all Directors in order to ensure them to understand all applicable rules and regulations of domestic and overseas regulatory authorities.

### A.2 Chairman and Chief Executive Officer

(1) Mr. Chen Xikun was elected as Chairman of the Company by the Board. Mr. Zhang Jiankuo was appointed as General Manager of the Company by the Board. The responsibilities of Chairman and General Manager are set out clearly in the Articles of Association. There are no financial, business, domestic or other important relations among the directors, senior managements and main shareholders in the Company.

(2) Procedures to acquire necessary information and data for decision were regulated in the "the Rules and Procedures for the Board" of the Company. Directors can require General Manger or relevant departments through General Manger to provide information and explanation. If necessary, independent non-executive directors can engage independent professionals to issue an independent opinion as a basis for decision, and the Company should pay the relevant expenses.

(3) The Chairman advocates the culture of open and active discussion, encourages directors to fully and conduct in-depth discussions on major decisions of the Company at the board meetings, and promotes the maintenance of a good relationship among directors. The Chairman pays attention to the communication with the independent non-executive directors, and meets with the independent non-executive directors alone once a year to communicate about the Company's development strategy, corporate governance, operation and management, etc.

### A.3 The Board Composition

(1) The Board of the Company consists of 7 members with extensive professional and management experiences. Among the 7 members, there are 1 executive director, 3 non-executive directors and 3 independent non-executive directors. The independent non-executive directors represent more than one third of the Board. The Company's executive directors and non-executive directors have extensive management experiences in petroleum and petrochemical and large-sized enterprises; Independent non-executive directors have working backgrounds as well-known finance experts, in international capital management and investment and in energy research, respectively. The composition of the Board is reasonable and diversified.

(2) The Company has received from each independent non-executive director a letter of confirmation regarding its compliance with relevant independence requirements set out in Rule 3.13 of the Hong Kong Listing Rules. The Company considers that each of the independent non-executive directors is independent. The composition and operation mechanism of the board of directors of the Company can guarantee the board of directors to obtain independent and objective opinions. For example, the company stipulates that related transactions, profit distribution, selection of directors and other matters shall get prior approval or independent opinions of the independent non-executive directors. The Board evaluates the effectiveness of the relevant mechanism each year.

(3) The independent non-executive directors are identified in all corporate communications in which also listed all the directors' names. The list of the current directors of the Company had been published on its website and the HKSE's website.

### A.4 Appointment, Re-election and Removal

(1) All Directors are elected by shareholders' general meetings for a term of not more than 3 years. A Director may serve consecutive terms if re-elected upon the expiration of the term. The Board has no right to appoint temporary directors.

(2) The consecutive term of office of independent non-executive directors shall not be more than 6 years. The term of the independent non-executive directors is set forth in the section 4 "Information about Directors, Supervisors and Senior Management" of this Annual Report.

(3) For the newly appointed directors, the company arranges professional consultants, prepares detailed information, informs them of the regulatory rules of each listed place, and reminds them of their rights, responsibilities and obligations as directors.

## A.5 Nomination Committee

(1) The Nomination Committee of the Company consists of four directors, of which the chairman is Mr. Dong Xiucheng, an independent non-executive director, and the members are Mr. Chen Xikun, the Chairman of the Board, Mr. Chen Weidong and Mr. Zheng Weijun, the independent non-executive directors. The Nomination Committee mainly provides suggestions to the Board on the Board's size and composition and the selecting standards, procedures, and candidates for directors and senior management; and reviews the structure, size and diversity of the Board on an annual basis, to ensure the composition of the Board is in accordance with the Listing Rules. The Terms of References of Nomination Committee was published on the websites of the Company and HKSE, providing the role and authorization of the nomination committee and setting out the procedure for the nomination of directors of the Company. When nominating candidates for directors, the Nomination Committee mainly considers the skills, knowledge, experience and qualifications of the candidates, and also assesses his or her time and energy available for the position, and the Board diversity policy. During the reporting period, the nomination committee held 1 meeting.

(2) The Company understands and acknowledges the benefit of diversifying the Board members, and considers it as a key factor to achieve strategic goals, maintain competitive advantages and achieve sustainable development of the Company. On the first meeting of the eighth session of the Board held on 9 February 2015, the Company has approved the Board Diversity Policy of Sinopec Oilfield Service Corporation. Such policy provided that the Company shall consider the diversity of Board members from multiple aspects when setting the composition of Board members, including but not limited to gender, age, cultural and educational background, region, professional experience, skills, knowledge, service tenure and other regulatory requirements of the listed venues of the Company. At present, all of directors of the Board have extensive working experience, and their expertise not only includes management in petroleum and petrochemical enterprises, but also includes economics, accounting and finance, which can help the Board to make scientific decision. However, all of the directors are male. On the basis of comprehensive consideration of the talents, skills and experience required for the overall operation of the Board of directors, the Company will add at least one female director when the Board changes in 2024. With respect to candidates of directors, the Board and the nomination committee will, as and when necessary, seek assistance of industry self-regulatory associations, professional recommendations and other channels to identify potential female directors. The Board will continue to increase the proportion of female directors if suitable candidates are available in the future.

The Company is committed to building a gender-diverse workplace with equal opportunity and plans to actively recruit female employees to increase the diversity of its workforce and provide equal employment opportunities and an environment where all employees can have the space to fully develop their careers featuring their individual characteristics and values. Considering the overall low percentage of female employees in our industry, the percentage of female employees in our Company is 13.4% in 2023. The Company will continue to adhere to the principle of gender equality and ensure that female employees enjoy equal labor rights and social security rights as male employees. For details, please refer to the Company's 2023 Environmental, Social and Governance (ESG) Report.

## A.6 Responsibilities of Directors

(1) All the non-executive directors have the same authorities as the executive directors. In addition, the non-executive directors, especially the independent non-executive directors are entitled to certain specific authorities. The Articles of Association and the Rules and Procedures for the Board clearly specify for the authorities of directors including independent non-executive directors, which are published on the website http://ssc.sinopec.com.

(2) Each of the directors was able to devote sufficient time and efforts to handling the matters of the Company. Directors shall abstain from voting at the Board meeting due to conflicts of interests.

(3) Each of the directors confirmed that he or she has complied with the Model Code during the reporting period. In addition, the Company formulated the "Rules Governing Shares Held by Company Directors, Supervisors and Senior Manager and changes in shares" and the "Model Code of Securities Transactions by Company Employees" (requirements no less exacting than the Model Code above) to regulate the activities of China Petrochemical Corporation's personnel in purchase and sale of the securities of the Company.

(4) The Company has arranged trainings for directors and provided relevant training fees. In the reporting period, the Company's directors participated in professional training persistently, developing and upgrading their knowledge and skills to ensure that they can hold comprehensive information and make contribution to the Company as required by the Board. The Company's directors mainly attended the training courses by way of watching videos or reading articles, which organized by China Listed Company Association, Beijing Listed Company Association and SSE, and independent non-executive directors and attending training courses for directors and supervisors relevant follow-up training. The Company organized all independent directors and some supervisors to conduct on-site investigation in the northwest work area of the Company, to understand the progress of key projects such as the "Deep Project", the construction of key wells and the operation of the material center warehouse, to perform their duties conscientiously and diligently, and to play their due role in safeguarding the legitimate rights and interests of the Company and minority shareholders. In addition, the Company also provided information for directors regularly about updated ongoing responsibility of the listed company and its directors, and introduced the Company's business and operation information through monthly reports.

**Statement on participation in training for the current directors of the board of the Company**

| Name | Position | Corporate governance or rules updated | | Accountancy/finance/corporate governance and business operation situation | |
|---|---|---|---|---|---|
| | | Reading | Attend training or meeting | Reading | Visit and research |
| Chen Xikun | Chairman of the Board | √ | √ | √ | √ |
| Fan Zhonghai | Non-executive director | √ | √ | √ | √ |
| Wei Ran | Non-executive director | √ | √ | √ | √ |
| Zhou Meiyun | Non-executive director | √ | √ | √ | √ |
| Chen Weidong | Independent non-executive director | √ | √ | √ | √ |
| Dong Xiucheng | Independent non-executive director | √ | √ | √ | √ |
| Zheng Weijun | Independent non-executive director | √ | √ | √ | √ |

### A.7 Supply of and access to information

(1) The Company provides information relating to business operation of the Company regularly, to help directors to understand the Company's operation. Where any director requires information, the Company will supply the related materials in a timely manner.

(2) All directors usually acquire adequate information and detailed explanations 3 working days before the Board meetings which can help them to make accurate decisions.

(3) The Board Secretary provides sustainable services for all directors. Directors can review all Board documents and relevant information at all times.

## B. Remuneration of Directors and Senior Management

(1) The Company has set up the remuneration committee. The remuneration committee under the tenth session of the Board consists of independent non-executive Director Mr. Chen Weidong as the Head, the non-executive director Mr. Fan Zhonghai and the independent non-executive directors Mr. Dong Xiucheng and Mr. Zheng Weijun as members, and has formulated the working rules. The terms of references of the remuneration committee can be found in the website of the Company or the HKSE. During the reporting period, the remuneration committee held 2 meetings.

(2) Pursuant to the principles approved by the shareholders' general meeting, the service contract which was entered into between the Company and each director or supervisor, the proposal raised by the remuneration committee and with reference to the operating results, the Board considered and approved the remuneration of the directors, supervisors and senior management. The details of the remuneration of the directors during the reporting period are set forth in this section 4 "Information about Directors, Supervisors and Senior Management".

(3) The remuneration committee acquires authorization from the Board to formulate and review the compensation policies and assessment matters of the directors, supervisors and senior managers of the Company. It can make recommendations to the Board, ensuring that the personnel concerned are properly remunerated according to the Company's strategy and long-term and short-term performance. The members of the remuneration committee can consult Chairman or General Manager in accordance with relevant rules, and can seek independent professional advice and the Company shall pay the relevant expenses.

## C. Accountability and Audit

### C.1 Financial reporting

(1) The Company assures that the management has provided adequate financial information to the Board and the audit committee. The management provided the directors with information on finance, production and operation, capital market trends and securities regulatory trends on a monthly basis, so that the directors can keep abreast of the latest situation of the Company and the latest regulatory changes.

(2) The directors are responsible for preparing the accounts for every fiscal year, which can give a true and fair view of the state of affairs of the Company as at 31 December 2023 and of the Company's profit and cash flows for the year. When preparing the accounts for the year ended December 31, 2023, the directors have selected the appropriate accounting policies to carry out, made prudent and reasonable judges and estimates, and prepared accounts on a going concern basis. The Board and all directors warranted that there were no misrepresentations, misleading statements or material omissions contained in the annual report, and jointly and severally accepted full responsibility for the authenticity, accuracy and integrity of the content.

(3) Required under the Listing Rules by HKSE, the Company announces and publishes the annual reports, interim reports, quarterly reports and other share price-sensitive affairs timely and accurately.

(4) The external auditors of the Company made a statement about their reporting responsibilities in the auditor's report contained in the financial statements.

### C.2 Risk management and internal control

(1) The Company has set up and kept improving risk management and internal control system to guard against the operational, financial and compliance risks. The system aims to manage risks and cannot ensure the elimination of risks that fail to achieve business objectives, and there can only be reasonable but not absolute assurance against material misstatement or losses. The Board is the decision-making body of internal control and risk management, and takes responsibility for examining the effect of internal control system and risk management procedures. The Board and the audit committee receive documents about internal control and risk management from the Company's management regularly (at least once a year). Significant issues about internal control and risk management will be reported to the Board and the audit committee. The Company has set up the internal audit department, which is equipped with sufficient professional staff. Internal control & management department and internal audit department report to the audit committee regularly (at least twice a year).

(2) As for internal control, the Company adopts the international internal control frame structure proposed by the Committee of Sponsoring Organizations of The National Commission of Fraudulent Financial Reporting. Based on the Articles of Association and current management system, and combined with domestic and foreign supervisory regulations, the Company made the internal control manual and continuously improved it, and realized total-factor internal control of internal environment, risk evaluation, control activities, information & communication, and internal supervision. Meanwhile, the Company continuously supervised and evaluated its internal control, included the Company and regional companies into the internal control and evaluation scope by comprehensive inspections at all levels such as periodic test, self-examination, audit examination, etc., and made internal control evaluation report. The Board reviews internal control evaluation report of the Company annually. For the information about the internal control during the reporting period, please refer to 2023 Internal Control Evaluation Report prepared by the Company.

The Company developed and implemented Information disclosure system and insider registration system. The Company assessed the implement of system periodically and disclosed it according to related regulations. For detailed information about information disclosure system, please refer to the website of the Company.

(3) As for the risk management, the Company adopts the enterprise risk management frame made by the Committee of Sponsoring Organizations of The National Commission of Fraudulent Financial Reporting. It developed risk management system and established risk management organization system. The Company organizes annual risk evaluation every year, recognizes significant risks, implements responsibilities for risk management, makes corresponding strategies and measures for significant risks based on internal control system, and tracks the implement of corresponding measures for significant risks on a regular basis, in order to make sure that the Company's significant risks can get enough attention, supervision and response.

(4) During the reporting period, the Board of the Company assessed internal control and risk management, and the Board considers that the Company's resources, employee qualification and experience related to accounting, internal audit, financial reporting functions, and environmental, social and governance performance and reporting are sufficient, the training courses accepted by relevant employees and related budgets are sufficient, and the Company's internal control and risk management are effective.

### C.3 The Audit Committee

(1) The tenth session of the Company's audit committee consists of independent non-executive director Mr. Zheng Weijun as the Head, non-executive director Mr. Zhou Meiyun, and independent non-executive directors Mr. Chen Weidong and Mr. Dong Xiucheng as the members. As verified, none of them had served as a partner or former partner in our current auditing firm.

(2) The Company has published the terms of reference of the audit committee. According to the terms of reference, the audit committee assists the Board in financial reports, risk management and internal control. The terms of reference are available for inspection at the website of the Company and the HKSE for reference.

(3) The audit committee may consult independent professionals. Reasonable costs arising from or in connection with such consultation are borne by the Company. The working expenses of the committee are included in the budget of the Company. Meanwhile, according to the Company policies, the senior management and relevant departments of the Company shall actively cooperate with the audit committee.

(4) During the reporting period, the audit committee held 5 meetings and reviewed the Company's 2022 financial report, 2023 semi-annual financial report, 2023 first quarterly report and 2023 third quarterly report. The audit committee review opinions were given at the meetings and submitted to the Board after signed by members. During the reporting period, the Board and the audit committee did not have any different opinion.

As recommended by the fifteenth meeting of the audit committee of the tenth session of the Board, the nineteenth meeting of the tenth session Board of the Company has resolved to appoint BDO China Shu Lun Pan CPAs (LLP) ("BDO China") and BDO Limited as the Company's domestic and international auditors for 2024 again, and to appoint BDO China as the internal control auditor of the Company for the year 2024 again. Such proposed appointment of auditors of the Company is subject to approval by the shareholders of the Company at the 2023 annual general meeting.

An analysis of remuneration in respect of audit services is set forth in item 6 of the "Significant Events" section in this Annual Report.

## D. Delegation by the Board

(1) On 26 April 2022, the ninth meeting of the tenth session of the Board approved the Company's Administrative Measures for the Authorization of the Board of Directors, which clearly stipulates the basic scope, basic procedures, supervision and change, and responsibilities of the power grant of the board of directors. For details, please refer to the "Announcement on the ninth meeting of the tenth session of the Board" (P. 2022-016) disclosed in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 27 April 2022 and on www.hkexnews.hk on 26 April 2022.

(2) The strategy committee, the audit committee, the remuneration committee and the nomination committee under the Board shall exercise their rights within the specific authority and duties delegated by the Board, and should report to the Board. In 2023, the Company convened 9 special meetings of the chairman of the Board to consider 6 matters authorized by the board of directors, including the Company's 2022 performance appraisal results and the first quarter of 2023 work efficiency linked pre-cash, 2023 total employment control plan and decomposition opinions, Saudi market unconventional gas drilling rig purchase project, geophysical company Beidou application demonstration project, Zhongwei joint equity disposal related proposals, the Company's investment adjustment plan for 2023 and the investment proposal plan for 2024, which will be led by relevant departments after the meeting to ensure orderly progress.

(3) The Board, the senior management and each committee under the Board have specific authority and duties, which are set forth in the Articles of Association, the Rules and Procedures for Shareholders' General Meeting, and the Rules and Procedures for the Board. The Board leads management directly or indirectly through its committees, including the ways of setting strategies and supervising management's implementation. The Board supervises the performance of finance and business operation of the Company, reviews the remuneration policy and appointment program, and ensures that the Company formulates effective corporate governance and social responsibility policies and has effective internal controlling and risks management system. Senior management is responsible for the daily management of the Company's business under the leading of the general manager of the Company, and executing strategies which approved by the Board.

(4) The attendance record of the tenth session of the Board's Committee meetings during the reporting period is as follows.

**The Audit Committee**

| Name | Attended in person | Attended by proxies | Times of absence |
|---|---|---|---|
| Zheng Weijun | 5 | – | – |
| Zhou Meiyun | 5 | – | – |
| Chen Weidong | 5 | – | – |
| Dong Xiucheng | 5 | – | – |

**The Remuneration Committee**

| Name | Attended in person | Attended by proxies | Times of absence |
|---|---|---|---|
| Chen Weidong | 2 | – | – |
| Fan Zhonghai | 2 | – | – |
| Dong Xiucheng | 2 | – | – |
| Zheng Weijun | 2 | – | – |

**The Nomination Committee**

| Name | Attended in person | Attended by proxies | Times of absence |
|---|---|---|---|
| Dong Xiucheng | 1 | – | – |
| Chen Xikun | 1 | – | – |
| Chen Weidong | 1 | – | – |
| Zheng Weijun | 1 | – | – |

## E. Communication with Shareholders

(1) Shareholders who individually or jointly hold more than 10% of the total number of shares with voting rights issued by the Company may request the Board to convene a general meeting of shareholders in writing; the detailed contact information is set in section "Company Profile and Principal Financial Indicators – Contact Person and Contact Information" in the Annual Report. If the Board fails to agree to the shareholders' request to convene a meeting in accordance with the Rules of Procedure of the shareholders' meeting, shareholders may convene and hold a meeting by themselves in accordance with the law, and the reasonable expenses incurred by thereof shall be borne by the Company. The foregoing provisions are based on the premise that the contents of the shareholders' meeting proposal shall fall within the scope of the general meeting of shareholders, have clear issues and specific resolutions, and comply with the relevant provisions of laws, administrative regulations and the Articles of Association.

(2) When the Company convened a general meeting of shareholders, shareholders who hold more than 3% of the total number of shares with voting rights of the Company, either individually or in combination, may submit an interim proposal 10 days before the general meeting of shareholders.

(3) During the reporting period, the Chairman should propose a separate resolution in respect of each substantially separate issue at a shareholders' general meeting. All resolutions were voted by ballots, so that the interests of all shareholders could be guaranteed. When the Company is to hold a shareholders' general meeting, it shall issue a written notice 45 days prior to the meeting (the day of meeting not included) informing all the registered shareholders.

(4) The circulars to the shareholders of the Company set forth in detail the shareholders who are entitled to attend the shareholders' general meetings and their rights, the agenda of the meeting and the voting procedures. The shareholders of the Company can raise concerns or require to check records to the Board at any time. The detailed contact information are set in section "Company Profile and Principal Financial Indicators – Contact Person and Contact Information" in the Annual Report. The policy for shareholders' contraction could ensure that they get same and complete information of the Company in time, and the policy would be reviewed regularly to ensure its effectiveness.

(5) Chairman attends the shareholders' general meetings as president and arranges the members of the Board and the senior management who attend the shareholders' general meetings to respond to the inquiries from the shareholders. The external auditor of the Company also attended the 2022 annual general meetings.

## F. Company Secretary

(1) The company secretary of the Company is approved by HKSE and is nominated by the Chairman and appointed by the Board and is responsible to the Company and the Board. The Company secretary makes recommendation to the Board in respect of corporate governance, reports to the Chairman on the governance of the Board, and arranges the induction training and professional development of directors. All directors can receive advice and services from the company secretary.

(2) The company secretary of the Company actively participates in career development trainings. The company secretary, Mr. Shen Zehong has participated in the professional trainings organized by the SSE and the Hong Kong Institute of Chartered Secretaries and has already been trained over 15 hours during the reporting period.

## G. Investor relations

(1) The Company attaches great importance to investor relations work. The management leads the team to introduce roadshows to investors every year, introducing the Company's development strategy, production and operation performance and other issues of concern to investors; the Company set up a person specifically responsible for communication with investors. Under the regulatory requirements, the Company strengthened communication with investors by holding meetings with institutional investors, setting up investor hotlines and communicating via online platforms. In June 2023, the Company and Sinopec jointly held a reverse roadshow in Jiangsu, inviting more than 100 investors, analysts and fund managers to visit the Zhenye 1 platform of the shale oil demonstration area constructed by Sinopec East China Oil Engineering Co., Ltd. On-site management and technological innovation won unanimous praise from the research group, demonstrating the Company's brand image of integrity, stability and responsibility.

# Section VI Environmental and Social Responsibility

## 1. Environmental Information

| | |
|---|---|
| Whether to establish an environmental protection mechanism | Yes (HSE management system) |
| Invest in environmental protection funds during the reporting period (unit: RMB'000) | 1,249,160 |

### (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 energy saving, environmental protection and green and low-carbon, and under the management of relevant systems with regard to energy and environment, such as the Environmental Protection Management Regulations, the Pollution Prevention Management Regulations, the Radiation Management Regulations and the Energy Saving Management Regulations, the Company strictly complies with energy saving and environmental protection laws and regulations and requirements of the emission standards and international conventions in the countries where it operates. For hazardous waste, the Company conducts recycling and treatment by delivering the waste to the entities with treatment qualifications.

Currently, the pollutants discharged by the Company mainly include exhaust gas, domestic sewage, general industrial solid waste, and hazardous waste, etc. Exhaust gas includes diesel engine exhaust and gas fuel exhaust, and the emission indicators have met the standards and requirements of the places of the construction sites; domestic sewage includes the domestic sewage from fixed places and the domestic sewage from mobile construction sites, and the domestic sewage from fixed production sites is transferred to municipal pipeline network for centralized treatment, and the domestic sewage from mobile construction sites is recycled after on-site pre-treatment; general industrial solid waste is mainly waste water-based drilling waste mud and debris, packaging barrels, rubber parts, anti-seepage film, etc; hazardous waste mainly includes waste mineral oil, waste oil barrels, oil-containing sludge, etc., all of which are disposed of by qualified environmental protection service providers. The Company issued the Guidelines for Environmental Protection Standardization Construction of Onshore Drilling and Downhole Operation Sites, organized environmental protection management personnel at all levels and grass-roots operators to actively carry out publicity, implementation and learning through various forms such as publicity and reporting, comprehensive meeting publicity and implementation, team meeting exchange, special training, special courses for comprehensive training and online training, and gradually promoted and implemented them. In whole year of 2023, all pollutants generated by the Company were disposed of in accordance with the law, including 21,000 tons of general solid waste, 3,300 tons of hazardous waste, 480,000 square meters of domestic sewage, and 677,000 square meters of drilling wastewater.

The Company strengthened on-site energy efficiency management, implemented energy conservation and clean production technical measures, and vigorously implemented energy efficiency improvement projects. In whole year of 2023, the comprehensive energy consumption of ten thousand yuan industrial output value was 0.181 tons of standard coal, down 10% from the same period last year. The company actively organized the establishment of green engineering companies and green grass-roots units, and completed the revision of the review methods for 10 categories of green grass-roots teams, including drilling, operation, geophysical exploration, construction site, logging and mud logging. With 911 green grass-roots teams in the whole establishment cycle, 659 teams participated in the annual acceptance, and 648 teams passed, the passing rate of which was 98.8%. 67 sets of environmental protection toilets were newly added, and there were 893 sets of environmental protection toilets at the end of the year, the drilling team equipped environmental protection toilets basically, the on-site use and effect were good, and the working and living environment of employees was continuously improved. A total of 10 subsidiaries were awarded the title of "Sinopec Green Enterprise in 2023", of which 7 subsidiaries were reviewed and assessed as Grade A.

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

## C. Relevant information conducive to ecological protection, pollution prevention and control, and environmental responsibility

√ Applicable ☐ Not applicable

In accordance with the Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste and other relevant laws and regulations, the Company continued to revise the green enterprise review and evaluation indicators, supervised the subsidiaries to update and improve the green enterprise action plan and review and assessment mechanism based on their own reality, consolidated responsibilities, standardized processes, strictly checked and accepted, accelerated the acceptance of green grass-roots units, and implemented the construction of green grass-roots units with quality and quantity guaranteed.

In order to continuously safeguard air quality and implement the relevant work requirements of the State, the Company organized 6 subsidiaries to strictly implement air quality safeguard work plans in key areas. In the corresponding areas, grease and fume purification facilities have been installed in staff canteens, the renewal of network power installations and the upgrading of drilling rigs electrification have been completed, diesel trucks operating under National III emission standards or below have been phased out, generator sets for drilling which cannot meet stable emission standards have been phased out, dust suppression measures have been taken at relevant drilling operation sites, and the warehousing, transportation and construction of radioactive sources are controllable and under control.

The Company carried out environmental protection standardization construction of wells, comprehensively analyzed and identified environmental risks in the whole process of onshore drilling and underground operations, formulated and implemented targeted environmental risk prevention and control measures. We adhered to source control, strictly implemented the process control and pollutant prevention and control management from the aspects of strengthening drilling fluid and underground fracturing and drainage, standardizing the monitoring of the whole process of solid and dangerous waste disposal, eliminating substandard discharge equipment, strictly implementing noise monitoring and rectification to prevent disturbing people, so as to improve the essential environmental protection level of the whole process of the whole business.

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

| | |
|---|---|
| Whether to take carbon reduction measures | Yes |
| Reduce the equivalent of carbon dioxide emissions | 1.217 million tons |
| Types of carbon reduction measures (such as the use of clean energy to generate electricity, the use of carbon reduction technology in the production process, the development and production of new products that help carbon reduction, etc.) | By replacing diesel power with grid power devices and electric fracturing skids, diesel consumption is reduced, and energy efficiency improvement projects such as transformer energy-saving transformation and remote management of diesel metering equipment are implemented to achieve energy saving and emission reduction. Actively promoting the application of carbon dioxide enhanced fracturing technology to reduce carbon dioxide emissions to the external environment. |

**Specific instructions**

√ Applicable ☐ Not applicable

The Company will accurately analyse the key points of high carbon emissions in the oil drilling construction process, pay close attention to the source control, and continue to increase the scale of supporting grid power equipment. With the continuous deepening of the process of "converting oil to electricity", the Company will actively promote the process of electrification. Except for marginal wells and remote wells, the clean energy utilization model adopted by the Company in the domestic market is basically based on grid power and supplemented by diesel generating sets. In 2023, based on actual production status, the subsidiaries of the Company have continued to increase the self-owned ratio of power grid devices and promoted energy-saving projects such as energy-saving technology transformation. With the continuous improvement of energy efficiency, the Company used electric grid drilling rigs to drill 1,176 wells with a total drilling depth of 5.738 million meters to promote 11 energy efficiency improvement projects, such as energy-saving transformation of transformers and remote management of diesel metering equipment, replacing approximately 335,000 tons of diesel in total, saving about 375,000 tons of standard coal and reducing the emission of carbon dioxide equivalent by 1.02 million tons. The Company has actively promoted the application of carbon dioxide-empowering fracturing technology, which uses a high-pressure injection of liquid carbon dioxide to create fractures to improve reservoir permeability, effectively solving the problem of poor gel-breaking performance of traditional fracturing fluids, difficulty in flowback, large formation damage, waste of water resources, environmental pollution and other issues, thereby reducing carbon dioxide emissions in the environment. In 2023, the Company has implemented this technology in a total of 92 wells and 1,403 layers in industrial work place such as Northeast China, Zhongyuan, Shengli, East China and Southwest China, injecting a total of 179,000 cubic meters of liquid carbon dioxide, equivalent to 197,000 tons of gaseous carbon dioxide.

## 2. Information of social responsibility work

### (1) Whether to disclose the social responsibility report, sustainable development report or ESG report separately

√ Applicable ☐ Not applicable

This content please refers to the "Environment, Society and Governance Report in 2023" of the Company.

### (2) Details information

√ Applicable ☐ Not applicable

| External donations and public welfare projects | Amounts/Contents | Statement |
|---|---|---|
| Total investment (RMB'000) | 1163 | 1. The donation of RMB300,000 for the tree planting and greening project in Anding District of Dingxi City beautified the local village environment and improved the local ecological environment.<br>2. Donated 18 intelligent blackboards and 40 teaching computers to the new teaching building of Sanhekou Town Middle School in Mabian County, Leshan City, built 3 new physical, chemical and biological laboratories, and granted scholarships to 40 excellent students. A total of RMB863,000 was donated, which improved the teaching conditions of the school, improved the quality of running the school and created a good educational environment. |
| Funds (RMB'000) | 1163 | – |
| Material discounts (RMB'000) | – | – |
| Beneficial number of people | About 3,000 people | No |

## 3. Poverty alleviation program launched by the Company

√ Applicable ☐ Not applicable

| Poverty alleviation and rural revitalization projects | Amounts/Contents | Statement |
|---|---|---|
| Total investment (RMB'000) | 26,050 | – |
| Funds (RMB'000) | 26,050 | Purchase of rural poverty alleviation products |
| Beneficial number of people | About 3,500 people | – |
| Poverty alleviation and forms of assistance (such as industrial poverty alleviation, employment poverty alleviation, education poverty alleviation) | | education and industrial poverty alleviation |

## 1. Performance of undertaking

### (1) The undertakings for the reporting period or continuing to the reporting period made by the Company, the de facto controller, shareholders, related parties, acquirer and other associated parties:

| 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 | China Petrochemical Corporation | Issued "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 consented 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 | China Petrochemical Corporation | Issued "The Undertaking of Regulating the Connected Transaction": China Petrochemical Corporation and other companies under its control will regulate its/their connected transactions with the Company. For the connected transactions with reasonable grounds, China Petrochemical Corporation and other companies under its control will sign the standard agreement of connected transactions with the Company, and will fulfill the obligations of the program for approval and information disclosure, in accordance with the provisions of relevant laws and regulations, and the Company's Articles of Association. The confirmation of 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 | China Petrochemical Corporation | Issued "The China Petrochemical Corporation Commitment Letter on Regulating of Connected Transaction and Maintaining the Independence of the Company": 1. China Petrochemical Corporation and other companies under its control 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 the right of control to 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 other companies under its control guarantee not to illegally occupy the funds of the Company and its holding Company. 3. If China Petrochemical Corporation violates the above commitment, it would compensate the losses caused to the Company in accordance with the law. | 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) The existence of earnings forecast about the Company's assets and projects, and the reporting period is still in the earnings forecast period, the information about whether the Company's assets or projects achieved the original earning forecast and its reasons.

☐ Achieved ☐ Not Achieved √ Not Applicable

### (3) The completion of performance pledges and impact on goodwill impairment tests

☐ Applicable √ Not applicable

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

☐ Applicable √ Not applicable

## 3. Illegal guarantee

☐ Applicable √ Not applicable

## 4. Explanation of the Company on non-standard opinion given by the auditors

☐ Applicable √ Not applicable

## 5. Analysis and explanation of the Company on the reasons and impact of the changes in accounting policy, accounting estimation and corrections to material accounting errors.

### (1) Analysis and explanation of the reasons and effects of changes in accounting policies and accounting estimates

√ Applicable ☐ Not applicable

**A. Changes in significant accounting policies**

On 30 November 2022, the Ministry of Finance promulgated the Accounting Standards for Business Enterprises Interpretation No. 16 (Cai Kuai [2022] No. 31, hereinafter referred to as "Interpretation No. 16"), which stipulates the regulation on "Accounting treatment in which initial recognition exemption is not applicable to deferred income taxes related to assets and liabilities arising from a single transaction" has been implemented since 1 January 2023.

Interpretation No. 16 stipulates that if a transaction which is not a business combination, and which affects neither the accounting profit nor the taxable income (or deductible loss) when the transaction occurs, and if the initial recognition of assets and liabilities results in equal taxable temporary differences and deductible temporary differences (including lease transactions in which the lessee initially recognizes the lease liability at the commencement date of the lease term and included in the right-of-use asset, and the transaction in which the estimated liability is recognized and included in the cost of the relevant asset due to the existence of the obligation to abandon the fixed asset), it does not apply to the exemption from the requirements on the initial recognition of deferred income tax liabilities and deferred income tax assets, and that the enterprise shall recognize the corresponding deferred income tax liabilities and deferred income tax assets respectively in accordance with the Accounting Standards for Business Enterprises No. 18-Income Tax and other relevant regulations at the time of the transaction.

For individual transactions to which this provision applies that occur between the beginning of the earliest period for presentation of financial statements when this provision is first implemented and the date of implementation, lease liabilities and right-of-use assets recognized at the beginning of the earliest period presented in the financial statements as a result of a single transaction to which this provision applies, as well as the estimated related liabilities and corresponding related assets arising from the recognized disposal obligation and resulting in taxable temporary differences and deductible temporary differences, the enterprise shall make adjustments in accordance with this regulation.

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

(a) Impact on consolidated balance sheet and consolidated income statement

| Items | As at 1 January 2022 (RMB'000) | | |
|---|---|---|---|
| | Before Adjustment | Number of adjustment | After Adjustment |
| Deferred income tax assets | 310,764 | 5,711 | 316,475 |
| Deferred income tax liabilities | 9,438 | 15,380 | 24,818 |
| Undistributed profits | -24,256,338 | -9,669 | -24,266,007 |

| Items | As at 31 December 2022 (RMB'000) | | |
|---|---|---|---|
| | Before Adjustment | Number of adjustment | After Adjustment |
| Deferred income tax assets | 362,470 | 7,544 | 370,014 |
| Deferred income tax liabilities | 63,367 | 5,129 | 68,496 |
| Undistributed profits | -23,807,392 | 2,415 | -23,804,977 |

| Items | January-December 2022 (RMB'000) | | |
|---|---|---|---|
| | Before Adjustment | Number of adjustment | After Adjustment |
| Income tax expense | 265,547 | -12,084 | 253,463 |

| Items | As at 1 January 2022 (RMB'000) | | |
|---|---|---|---|
| | Before Adjustment | Number of adjustment | After Adjustment |
| Undistributed profits | -1,529,605 | | -1,529,605 |

(b) Impact on the balance sheet and profit statement of the parent company

| Items | As at 31 December 2022 (RMB'000) | | |
|---|---|---|---|
| | Before Adjustment | Number of adjustment | After Adjustment |
| Deferred income tax assets | | 154 | 154 |
| Undistributed profits | -1,946,364 | 154 | -1,946,210 |

| Items | January-December 2022 (RMB'000) | | |
|---|---|---|---|
| | Before Adjustment | Number of adjustment | After Adjustment |
| Income tax expense | | -154 | -154 |

### B. Changes in significant accounting estimates

There were no changes in the significant accounting estimates of the Company during the reporting period.

## (2) Analysis and explanation of the Company on the reasons and impact of corrections to material accounting errors

☐ Applicable √ Not applicable

## (3) Communication with former accounting firm

☐ Applicable √ Not applicable

## 6. The appointment and dismissal of the accounting firm

| | Currently hired |
|---|---|
| The name of the domestic accounting firm | BDO China Shu Lun Pan CPAs (LLP) |
| The remuneration of the domestic accounting firm | RMB 6,050,000 |
| The audit period for the domestic accounting firm | 3 years |
| Name of certified public accountant of domestic accounting firm | Jin Chunhua, Miao Song |
| The accumulative number of years of audit services provided by the certified public accountants of the domestic accounting firm | 3 years |
| The name of the overseas accounting firm | BDO Limited |
| The remuneration of the overseas accounting firm | RMB 1,150,000 |
| The audit period for the overseas accounting firm | 3 years |

| | Name | Remuneration |
|---|---|---|
| The internal control accounting firm | BDO China Shu Lun Pan CPAs (LLP) | RMB 1,300,000 |

**The description for the appointment and dismissal of the auditor:**

In 2021, the Company changed its domestic auditor and the international auditor from Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited to BDO China Shu Lun Pan CPAs (LLP) and BDO Limited.

After recommended by the fourteenth meeting of the tenth session of the Board and approved by the annual general meeting for the year 2022, the Company re-appointed BDO China Shu Lun Pan CPAs (LLP) and BDO Limited as the domestic auditor and the international auditor of the Company for 2023. BDO China Shu Lun Pan CPAs (LLP) was appointed as the internal control accounting firm of the Company for 2023 again at the same time.

## 7. Situation about confronting the risk of the suspension of listing

### (1) Reasons which resulted in the suspension of listing

☐ Applicable √ Not applicable

### (2) Corresponding measures to be taken by the Company

☐ Applicable √ Not applicable

### (3) Situation about confronting the termination of listing and corresponding reasons

☐ Applicable √ Not applicable

## 8. Insolvency and restructuring

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

## 9. Material litigation and arbitration

□ In the reporting period, the Company had material litigation and arbitration

√ In the reporting period, the Company had no material litigation and arbitration

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 "China National Chemical Engineering" or the "Applicant") submitted to the China International Economic and Trade Arbitration Commission ("CIETAC") the "Application for Arbitration" in respect of the contract dispute with 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").

On 21 April 2023, the CIETAC issued an arbitral award ([2023] China International Trade Center J.C.Z. No.0824, the "Arbitral Award"). 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. 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.

As of 31 December 2023, the International Services Corporation has received a payment of RMB284 million from China National Chemical Engineering, as stipulated in the Arbitral Award. The Arbitration has been enforced completely.

For details, please refer to the "Announcement on a Wholly-owned Subsidiary involving Arbitration" (P.2018-049), the "Progress Announcement on an Arbitration in relation to a Wholly-owned Subsidiary" (P.2023-012) and the "Progress Announcement on an Arbitration in relation to a Wholly-owned Subsidiary" (P.2024-001) disclosed in "China Securities Journal", "Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 26 June 2018, 26 April 2023, 4 January 2024 and on www.hkexnews.hk on 25 June 2018, 24 April 2023, 3 January 2024 respectively.

On 8 October 2014, the Ecuador Banya Duri Company (厄瓜多爾斑尼亞杜麗公司) (the "Banya Duri Company"), an indirectly wholly-owned subsidiary of the 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, a wholly-owned subsidiary of the Company, and Sinopec International Petroleum Service Corporation Ecuador Subsidiary respectively. During the implementation of the projects, the Banya Duri Company and the PAM 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 arbitration 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 international arbitration award in relation to the disputes on the payments for some increased oil production in the I-L-Y oilfield comprehensive service project. The main results are as follows: 1. The arbitration tribunal required PAM to compensate or pay to the Banya Duri Company accounts payable, tax, and fees for arbitration, attorneys, experts and consultants, totaling approximately US$64 million. 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 operation in the Y oilfield of US$7 million. 3. The arbitration tribunal 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 Ruling"). 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 and its relevant parties had submitted an application to the court to revoke the Ruling. This application has been accepted, and Banya Duri Company carried out the relevant litigation work in accordance with the requirements of the Chilean law (the "Litigation").

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. Confirming that the Ruling made by the arbitration tribunal dated 21 February 2022 and the clarifications made by the arbitration tribunal for the Ruling 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.

In December 2023, Banya Duri Company and PAM entered into a settlement agreement in Quito, Ecuador in relation to the payment of part of the award in the Ruling. Pursuant to the foregoing agreement, the parties agreed that PAM shall pay part of the award in the Ruling in 11 monthly installments from December 2023, totaling approximately US$34.98 million and to set up coordinated work meetings to determine corresponding payment plans in relation to the remaining award in the Ruling.

On 30 December 2023, Banya Duri Company had received the first payment of $2.26 million. As the Ruling results had not been fully executed, 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. If PAM and its relevant parties fulfill the settlement agreement and actually pay the award in the future, the Company shall record the resulting reversal amount of loss provision as a gain in profit and loss in the current period when the said amount is received.

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 Indirect 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 Indirect 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, the "Progress Announcement on an Arbitration in relation to an Indirect 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, and the "Progress Announcement on an Arbitration in relation to an Indirect Wholly-owned Subsidiary" (P.2023-032) disclosed in "China Securities Journal","Shanghai Securities News", "Securities Times", and on www.sse.com.cn on 8 December 2023, and on www.hkexnews.hk on 7 December 2023.

## 10. 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 shareholders or de facto controllers were subject to any investigation by relevant authorities or enforcement by judicial or disciplinary departments, or transferred to judicial authorities or subject to criminal liability, or subject to investigation or administrative penalty by the CSRC, or any denial of participation in the securities market or deemed unsuitability to act as directors, or penalized by other administrative authorities, or subject to any public criticisms made by a stock exchange.

## 11. The information on the integrity status of the Company and its controlling shareholders, de facto controllers during the reporting period

During the reporting period, the Company, its controlling shareholders and de facto controllers kept honest and faithful, and there was no occurrence of dishonesty.

## 12. Information on connected transactions

### (1) The significant connected transactions relating to ordinary operation during the reporting period are as follows.

| The nature of the transaction | Related parties | Amount of transaction | Proportion of the same type of transaction |
|---|---|---|---|
| | | RMB'000 | (%) |
| Purchase of raw materials and equipments | China Petrochemical Corporation and its associates | 10,383,643 | 34.2 |
| Providing engineering services | China Petrochemical Corporation and its associates | 49,123,887 | 62.4 |
| Providing engineering services | PipeChina | 4,472,718 | 5.7 |
| Comprehensive service expenditure | China Petrochemical Corporation and its subsidiaries | 34,198 | 95.1 |
| Other comprehensive service expenditure | China Petrochemical Corporation and its subsidiaries | 943,691 | 58.5 |
| Technology and development income | China Petrochemical Corporation and its subsidiaries | 237,410 | 94.6 |
| Land and property lease expenses | China Petrochemical Corporation and its subsidiaries | 283,338 | 38.3 |
| Equipment rental expenses | China Petrochemical Corporation and its subsidiaries | 175,292 | 22.2 |
| Interest expenses | China Petrochemical Corporation and its associates | 682,830 | 96.2 |
| Loan obtained | China Petrochemical Corporation and its subsidiaries | 27,351,504 | 100 |
| Loan repaid | China Petrochemical Corporation and its subsidiaries | 26,398,951 | 99.4 |
| Safety production insurance fund expenses | China Petrochemical Corporation | 84,290 | 100 |
| Safety production insurance fund return | China Petrochemical Corporation | 114,933 | 100 |

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

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

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

Please refer to Note 12 of this year's financial statements prepared in accordance with the PRC ASBE Standards and the circular dated 30 September 2021 disclosed on the website of HKSE for details of the related transactions conducted by the Company during the Reporting Period. Among them, the significant related party transactions with China Petrochemical Corporation and its associates also fall under the definition of connected transactions under Chapter 14A of the Hong Kong Listing Rules. During the reporting period, the connected transactions between the Company and China Petrochemical Corporation and its associates have complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

### (2) Connected transactions arising from the acquisition or sale of assets or equity

During the reporting period, the Company had no significant connected transactions in the acquisition or sale of assets or equity.

### (3) Material connected transactions of joint external investment

During the reporting period, the Company had no material connected transactions of joint external investment.

### (4) Funds provided and debts with connected parties during the reporting period:

Unit: RMB '000

| Connected parties | Funds provided to connected party | | | Funds provided to the Company by connected party | | |
|---|---|---|---|---|---|---|
| | Opening balance | Occurrence amount | Closing balance | Opening balance | Occurrence amount | Closing balance |
| China Petrochemical Corporation and its subsidiaries | 11,514,494 | -381,190 | 11,133,304 | 7,097,429 | -856,488 | 6,240,941 |
| Sinopec Finance Company Limited | 47,531 | 996,283 | 1,043,814 | 16,095,000 | 3,090,000 | 19,185,000 |
| Sinopec Century Bright Capital Investment Limited | 802,100 | -5,685 | 796,415 | 1,828,208 | -1,105,773 | 722,435 |
| Total | 12,364,125 | 609,408 | 12,973,533 | 25,020,637 | 1,127,739 | 26,148,376 |
| Causes of connected claims and debts | | | | | | Normal production and operation |
| Influence of connected claims and debts on the Company | | | | | | No material adverse effect |

### (5) The finance business between the Company and the financial company with connected relationship and between the Company's controlling financial company and the related parties

#### A. Deposit business

Unit: RMB '000

| Connected parties | Connected relation | Daily maximum deposit limit | Deposit rate | Beginning balance | For the twelve months ended 31 December 2023 | | Ending balance |
|---|---|---|---|---|---|---|---|
| | | | | | Total deposit in this period | Total withdrawal amount for this period | |
| Sinopec Finance Company Limited | Subsidiary of controlling shareholder | 3,500,000 | 0.35% | 47,531 | 323,746,685 | 322,750,402 | 1,043,814 |
| Sinopec Century Bright Capital Investment Limited | Subsidiary of controlling shareholder | | 0.01% | 802,100 | 13,787,866 | 13,793,551 | 796,415 |
| Total | / | / | / | 849,631 | 337,534,551 | 336,543,953 | 1,840,229 |

#### B. Loan business

Unit: RMB '000

| Connected parties | Connected relation | Daily maximum deposit limit | Deposit rate scope | Beginning balance | For the twelve months ended 31 December 2023 | | Ending balance |
|---|---|---|---|---|---|---|---|
| | | | | | Total deposit in this period | Total withdrawal amount for the period | |
| Sinopec Finance Company Limited | Subsidiary of controlling shareholder | 22,500,000 | 2.90% | 16,095,000 | **25,534,000** | **22,444,000** | 19,185,000 |
| Sinopec Century Bright Capital Investment Limited | Subsidiary of controlling shareholder | 400,000,000 US dollars | TERM SOFR +1.21% | 1,828,208 | **1,830,846** | **2,936,619** | 722,435 |
| Total | / | / | / | 17,923,208 | **27,364,846** | **25,380,619** | 19,907,435 |

#### C. Credit extension and other finance business

Unit: RMB '000

| Connected parties | Connected relation | Business Type | Total Amount | Actual Amount |
|---|---|---|---|---|
| Sinopec Finance Company Limited | Subsidiary of controlling shareholder | Guarantees and bill credit | 13,300,000 | 9,293,862 |

## 13. Significant contracts and performance

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

**A. Trusteeship**

☐ Applicable √ Not applicable

**B. Sub-contracting**

☐ Applicable √ Not applicable

**C. Leasing**

☐ Applicable √ Not applicable

### (2) Guarantee of the Company 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 | Pledged thing | Whether the guarantee has been fulfilled | Whether the guarantee is overdue | Overdue amount | Counter-guarantee | Whether to guarantee the related party | Related relationship |
| The Company | itself | Mexico DS Company | 1,947,388 | 17 June 2022 | 17 June 2022 | The end time of annual meeting of shareholders for the year 2023 | Joint and several liability guarantee | No | No | No | Not Applicable | Yes | Yes | Joint venture |

| | |
|---|---|
| Total Amount of Guarantees during the Reporting Period (excluding Guarantees for Subsidiaries) | 1,947,388 |
| Total Balance of Guarantees at the end of the Reporting Period (A) (excluding Guarantees for Subsidiaries) | 1,947,388 |
| **The Guarantee provided by the Company and its Subsidiaries to the Subsidiaries** | |
| Total Amount of Guarantees paid to Subsidiaries during the Reporting Period | 2,521,532 |
| Total Balance of Guarantees to Subsidiaries at the end of the Reporting Period (B) | 27,499,720 |
| **Total Company Guarantee (including Guarantee for Subsidiaries)** | |
| Total Guarantees(A+B) | 29,447,108 |
| Total Amount of Guarantees as a Percentage of the Company's Net Asset (%) | 367.0 |
| Among them: | |
| Amount of Guarantees provided to Shareholders, De Facto Controllers and their related Parties (C) | |
| Debt Guarantees Amount directly or indirectly for the guaranteed Object whose asset-liability Ratio exceeds 70% (D) | 10,541,373 |
| The Amount of the total Guarantee exceeding 50% of the Net Assets (E) | 25,435,507 |
| Sum of the three Guarantees above (C+D+E) | 35,976,880 |
| Statement of Unexpired Guarantees as potential subject to Joint Liability | None |
| Guarantee Statement | The guarantees provided by the Company are all for the performance of the performance guarantee letters issued by the subsidiaries in the domestic and foreign contracts. The guarantee amount is within the amount approved by the annual general meeting of the Company for 2022. |

On 17 June 2022, the Company, as guarantor, entered into the guarantee agreement with Mexican National Hydrocarbons Commission, as beneficiary, pursuant to which the Company has agreed to provide guarantee under the Production Sharing Contract for Mexico DS Company, to ensure that when Mexico DS Company loses contract performance capabilities, the Company will perform the contracts on its behalf to Mexican National Hydrocarbons Commission. The maximum amount of the joint and several guarantee liabilities undertaken by the Company during the guarantee period shall not exceed US$274,950,000, and the guarantee period commences from the date of approval by the shareholders at the 2021 annual general meeting until the conclusion of the 2022 annual general meeting of the Company. For details, please refer to the "Announcement on 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.

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 Mexico DS Company, a joint venture of the Company. On 28 March 2023, the fourteenth meeting of the tenth session of the Board of the Company considered and approved the resolution on provision of guarantee for wholly-owned subsidiaries and joint venture, and approved the Company to provide guarantee for wholly-owned subsidiaries and Mexico DS Company, a joint venture of the Company. For details, please refer to the "Announcement on provision of Guarantee for Wholly-owned Subsidiaries and Joint Venture" 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. On 6 June 2023, the Company convened the 2022 annual general meeting to approve the aforesaid matters, and the guarantee period shall be from the time of approval at the 2022 annual general meeting until the conclusion of the 2023 annual general meeting. For details, please refer to the "Announcement on the Actual Occurrence of External Guaranty in the Semi-annual Period of 2023" (P.2023-020) disclosed in China Securities Journal, Shanghai Securities News, Securities Times and on www.sse.com.cn on 13 July 2023, and on www.hkexnews.hk on 12 July 2023.

The Company expects that it will continue to use the credit line granted by China Construction Bank Corporation to China Petrochemical Corporation after 5 November 2021 and China Petrochemical Corporation will continue to undertake the joint guarantee liability for the RMB300 million under the financing credit line jointly and severally. On 16 September 2021, the sixth meeting of the tenth session of the Board considered and approved Resolution on Provision of Counter-guarantee to China Petrochemical Corporation by the Company, which approved the Company to provide corresponding counter-guarantee in respect of the joint guarantee liability under the financing credit line of no more than RMB300 million provided by China Petrochemical Corporation to the Company. Such resolution has been reviewed and approved by the the second extraordinary general meeting for 2021 of the Company. For details, please refer to the "Related Party Transaction Announcement on Provision of Counter-Guarantee to Controlling Shareholders by the Company" (P. 2021-037) disclosed in China Securities Journal, Shanghai Securities News, Securities Times and on www.sse.com.cn on 17 September 2021, and on www.hkexnews.hk on 16 September 2021.

On 31 December 2023, the balance of the counter-guarantee provided by the Company to China Petrochemical Corporation was RMB13 million.

### (3) Entrusting others to manage cash assets

During the reporting period, no entrusted financing, entrusted loans, other investments and financing and derivatives investment items of the Company occurred.

### (4) Other significant contract

During the reporting period, the Company did not enter into any other material contract which requires disclosure.

## 14. Other important matters that have a significant impact on investors' value judgments and investment decisions

☐ Applicable √ Not applicable

# Section VIII Report of the Supervisory Committee

## Dear shareholders,

In 2023, the Company's Supervisory Committee and all supervisors strictly performed their supervisory duties in accordance with the relevant provisions of the Company Law of the People's Republic of China and the Articles of Association, carefully reviewed and effectively supervised the Company's major decision-making matters, and strived to safeguard the rights and interests of the Shareholders and the interests of the Company.

## 1. Meetings of the Supervisory Committee

In 2023, the Supervisory Committee held 4 meetings, with 2 meetings held on-site meetings and 2 meetings held by written resolutions, reviewed and approved a total of 16 resolutions, and successfully completed the review of the Company's 2022 Annual Report, the 2023 First Quarterly Results, the 2023 Interim report and the 2023 Third Quarterly Results, and review of proposals such as related-party transactions.

On March 28, 2023, the Supervisory Committee convened the 13th meeting of the 10th session of the Supervisory Committee on site, at which 11 resolutions were considered and approved, including the 2022 Work Report of the Supervisory Committee, the 2022 Financial Report, and the 2022 Annual Report and its Summary, the Proposal on Continuing Related Transactions for 2022 and the 2022 Profit Distribution Plan.

On April 26, 2023, the Supervisory Committee convened the 14th meeting of the 10th session of the Supervisory Committee by way of written resolutions, at which the 2023 First Quarterly Report was considered and approved.

On August 28, 2023, the Supervisory Committee convened the 15th meeting of the 10th session of the Supervisory Committee on site, at which 3 resolutions were considered and approved, including the 2023 Interim Report and its Summary, the 2023 Interim Financial Report and the Resolution to Undistributed 2023 Interim Dividend.

On October 27, 2023, the Supervisory Committee convened the 16th meeting of the 10th session of the Supervisory Committee by way of written resolutions, at which the 2023 Third Quarterly Report was considered and approved.

## 2. The Supervisory Committee's participation in other meetings and other work progress

In 2023, the Supervisory Committee attended 3 general meetings (including 2 class meetings), attended 2 Board meetings, performed supervisory duties in accordance with the law, and supervised the legality and compliance of the topics and decision-making procedures of the general meetings and the Board meetings. At the same time, supervisors attended relevant internal meetings of the Company, strengthened communication and exchanges with the management and relevant functional departments, and paid close attention to the Company's operating status and internal reforms and other major decisions.

In October 2023, Wang Jun, chairman of the Supervisory Committee, and five independent directors and supervisors, went to the Northwest Work Area of the Company to conduct an on-site investigation. They successively investigated Xinjiang Luntai Central Depot (新疆輪台中心庫), Sinopec Kuche Green Hydrogen Project, Shunbei Natural Gas Processing Plant No.6 Joint Station (順北天然氣處理廠六號聯合站), and the 90116 drilling team of Zhongyuan Engineering Company (中原工程公司), etc. to learn more about the centralized storage of materials, ground engineering construction and drilling project construction status. The supervisors and independent directors spoke highly of the Company's production and operation and also put forward relevant opinions and suggestions.

In 2023, the supervisors of the Company actively participated in professional training organized by regulatory authorities to understand newly established laws and regulations, regulatory rules and capital market operation rules, and focused on the latest changes in the macroeconomic situation and the Company's operational risk prevention and control in order to improve the ability to perform their duties.

## 3. Key matters concerned by the Supervisory Committee

### (1) Information on the standardized operations in accordance with the law

In 2023, the Company has conscientiously complied with the relevant laws, regulations and regulatory requirements of the PRC and the place of listing, and carried out various work in accordance with the law. The procedures, voting methods and resolutions of the Shareholders' general meetings and the Board meetings were legal and valid, the information disclosure was timely, accurate and complete, and no directors and senior management of the Company were found to have violated laws, regulations, the Articles of Association or have acted in a manner that harmed the interests of the Company and Shareholders.

### (2) Review of the Company's financial situation

In 2023, the Company's main production and operation indicators increased steadily, successfully fulfilling various targets and tasks for the year. By strengthening strategic financial measurement and solidly carrying out special actions to improve the quality of listed companies, the Company simultaneously deployed and promoted quality and efficiency improvements and comprehensive budget management, focused simultaneously on key tasks such as market layout optimization, project management innovation, overall allocation of resources, technology research and development and efficiency improvement, resulting in continuous improvement of the Company's operating results. The Company's "one profit and five profit margins" have achieved one stability, one increase and four improvements. The Company's financial report for this year was prepared in accordance with the PRC Accounting Standards for Business Enterprises and the International Financial Reporting Standards. The financial statements audited by BDO China Shu Lun Pan CPAs LLP and BDO Hong Kong Limited fairly reflect the Company's financial status, operating results and cash flow. No violation of confidentiality provisions was found among the personnel preparing and reviewing the statements.

### (3) Information on connected transactions

In 2023, the Company has strictly abided by national laws and regulations, conscientiously fulfilled the relevant transaction regulatory requirements of the Hong Kong Stock Exchange and the Shanghai Stock Exchange, and fully implemented various agreements and contracts signed with related parties. Related transactions were conducted in a standardized manner and in line with the needs of the Company's production and operations, and the terms of the transactions were fair and reasonable. The amount of various related transactions of the Company was controlled within the approved limit, and no behavior was found to be harmful to the interests of the Company and the rights and interests of the Shareholders.

### (4) Establishment of internal control system

In 2023, the Company systematically promoted the establishment of system, internal control and compliance management system. The Company's risk prevention and control was strict and pragmatic, the internal control system continued to be optimized and improved, the internal control evaluation was significantly strengthened, the level of internal control informatization continued to improve, the internal control system was sound and effective, and no major defects or omissions in internal control were found.

## 4. Opinions of the Supervisory Committee on the Company's work

The Supervisory Committee believes that: in 2023, the Directors and senior managers of the Company conscientiously implemented the resolutions and arrangements of the general meeting and the Board meetings, leading all employees to seize opportunities, work hard, and forge ahead under pressure. The Company focused on the core responsibilities of service assurance and the primary task of high-quality development. The "four improvements" work achieved remarkable results, key projects were high-quality and efficient, and equipment upgrades were accelerated. The Company's overseas market volume and efficiency reached a new high, and it increased investment in technological efficiency and took technology as the guide, so that it made new progress in digital and intelligent development. The organizational reform has achieved greater dividends and the workforce has maintained harmonious and stable. The Company signed new contracts of RMB82.4 billion and gained a total profit of RMB930 million, representing a year-on-year increase of 1.7% and 27.3% respectively. The Supervisory Committee had no objection to the supervision matters for the year 2023.

In 2024, the Supervisory Committee and all supervisors will continue to uphold the principle of being responsible to all Shareholders, perform their supervisory duties with due diligence and integrity, and strive to safeguard the interests of the Company and the rights and interests of the Shareholders.

*Chairman of the supervisory committee*

**Wang Jun**

Beijing, China

26 March 2024

# Section IX Changes in Share Capital of Ordinary Shares and Information on Shareholders

## 1. Changes in Share Capital

### (1) The chart of changes in Share Capital

**A. The chart of changes in Share Capital**

In the reporting period, the total number of shares and share capital structure of the Company have not change.

**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, in the previous year and the latest period (if any)**

☐ Applicable √ Not applicable

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

☐ Applicable √ Not applicable

### (2) Changes in Shares with Selling Restrictions

☐ Applicable √ Not applicable

## 2. Share issue and listings

### (1) Share issue at the end of the reporting period

During the reporting period, the Company did not issue shares, convertible corporate bonds, convertible bonds, bonds (including enterprise bonds, corporate bonds and debt financing instruments of non-financial enterprises), depositary receipts or other derivative securities, nor did it enter into any equity-linked agreements.

### (2) Changes in total ordinary shares and share structure and changes in the structure of assets and liabilities

☐ Applicable √ Not applicable

### (3) Internal employee shares

The Company has not issued any internal employee shares till the end of the reporting period.

## 3. Information on Shareholders and the De Facto Controller

### (1) Number of shareholders

| | |
|---|---|
| Number of ordinary shareholders at the end of reporting period | 115,374 |
| Number of ordinary shareholders at the end of last month before the annual report's disclosure date | 114,466 |
| Number of preferred shareholders whose voting rights had been restored at the end of reporting period | 0 |
| Number of preferred shareholders whose voting rights had been restored at the end of last month before the annual report's disclosure date | 0 |

As at 31 December 2023, the number of shareholders of the Company was 115,374, including 115,048 holders of A shares and 326 registered holders of H shares. The public float of the Company satisfied the requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

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

| Shareholdings of the top ten shareholders | | | | | | |
|---|---|---|---|---|---|---|
| Names of shareholders | Nature of shareholders | Changes of shareholdings[1] (shares) | Number of shares held at the end of the reporting period (shares) | Percentage to total share capital (%) | Number of shares with selling restrictions (shares) | Number of shares pledged or frozen |
| China Petrochemical Corporation[2] | State-owned legal person | 0 | 10,727,896,364 | 56.51 | 0 | 0 |
| Hong Kong Securities Clearing Company (Nominees) Limited ("HKSCC (Nominees) Limited")[3] | Overseas legal person | 264,000 | 5,402,348,694 | 28.46 | 0 | 0 |
| CITIC Corporation Limited | State-owned legal person | -259,343,400 | 325,469,800 | 1.71 | 0 | 0 |
| Hong Kong Securities Clearing Company Limited[4] | Others | -43,563,558 | 112,083,338 | 0.59 | 0 | 0 |
| Anhui Yangguang Xintong Electronic Technology Corp., Ltd. | Domestic non-state-owned legal person | 29,225,000 | 51,725,000 | 0.27 | 0 | 0 |
| Shanghai Tongneng Investment Holdings Co., Ltd. | Domestic non-state-owned legal person | 24,272,000 | 44,522,000 | 0.23 | 0 | 0 |
| Li Feng | Domestic natural person | 5,123,000 | 25,123,000 | 0.13 | 0 | 0 |
| Agricultural Bank of China – China Securities 500 Trading Open Index Securities Investment Fund | Others | -11,850,400 | 22,782,700 | 0.12 | 0 | 0 |
| He Long | Domestic natural person | 20,000,000 | 20,000,000 | 0.11 | 0 | 0 |
| China Life Insurance Company Limited-Dividends-Individual Dividends-005L-FH002 Shanghai | Others | 9,576,600 | 13,622,000 | 0.07 | 0 | 0 |

| Shareholdings of top ten tradable 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 |
| HKSCC (Nominees) Limited | 5,402,348,694 | H Share |
| CITIC Corporation Limited | 325,469,800 | A Share |
| Hong Kong Securities Clearing Company Limited | 112,083,338 | A Share |
| Anhui Yangguang Xintong Electronic Technology Corp., Ltd. | 51,725,000 | A Share |
| Shanghai Tongneng Investment Holdings Co., Ltd. | 44,522,000 | A Share |
| Li Feng | 25,123,000 | A Share |
| Agricultural Bank of China – China Securities 500 Trading Open Index Securities Investment Fund | 22,782,700 | A Share |
| He Long | 20,000,000 | A Share |
| China Life Insurance Company Limited-Dividends-Individual Dividends-005L-FH002 Shanghai | 13,622,000 | A Share |
| Statement on the related relationship or activities in concert among the above-mentioned shareholders | The Company is not aware of any related relationship or acting in concert among the above-mentioned shareholders. | |
| Statement on repurchasing of special accounts among top ten shareholders | No | |
| Statement on the entrustment and waiver of voting rights by the above mentioned shareholders | Not applicable | |

Note:

1. As compared with the number of shares held as of 31 December 2022.
2. Apart from directly holding 10,727,896,364 A shares of the Company, China Petrochemical Corporation also held 2,595,786,987 H shares of the Company 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.
3. HKSCC (Nominees) Limited is a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited, acting as an agent to hold H shares of the Company on behalf of other companies or individual shareholders.
4. Hong Kong Securities Clearing Company Limited is a wholly-owned subsidiary of the Hong Kong Exchanges and Clearing Limited, acting as a nominee holder to hold A shares of the Company in the SSE on behalf of the investors of the HKSE.

Lending of shares by top ten shareholders participating in refinancing business

√ Applicable ☐ Not applicable

Unit: shares

| Participation of the top ten shareholders in refinancing and lending of shares | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Shares held in general account and credit account at the beginning of the period | | Shares lent by refinancing at the beginning of the period and not yet returned | | Shares held in general account and credit account at the end of the period | | Shares lent by refinancing at the end of the period and not yet returned | |
| Name of shareholder (Full name) | Total quantity | Percentage (%) | Total quantity | Percentage (%) | Total quantity | Percentage (%) | Total quantity | Percentage (%) |
| Agricultural Bank of China – China Securities 500 Trading Open Index Securities Investment Fund | 34,633,100 | 0.18 | 4,437,700 | 0.02 | 22,782,700 | 0.12 | 6,604,300 | 0.03 |

The top ten shareholders changed compared with the previous period

√ Applicable ☐ Not applicable

Unit: shares

| The top ten shareholders changed compared with the previous period | | | | | |
|---|---|---|---|---|---|
| | | Number of shares lent by refinancing at the end of the period and not yet returned | | Number of outstanding shares held by shareholders' general accounts, credit accounts and refinancing loans at the end of the period | |
| Name of shareholder (Full name) | Additions/withdrawals during the reporting period | Total quantity | Percentage (%) | Total quantity | Percentage (%) |
| Agricultural Bank of China – China Securities 500 Trading Open Index Securities Investment Fund | -11,850,400 | 6,604,300 | 0.03 | 29,387,000 | 0.15 |

Number of top ten shareholders of shares with selling restrictions and restrictions conditions:

☐ Applicable √ Not applicable

## (3) Strategic investors or general legal person became top ten shareholders of the Company due to distribution and sales of new shares

☐ Applicable √ Not applicable

# 4. Information on Controlling Shareholders and De Facto Controller of the Company

## (1) Information on controlling shareholder

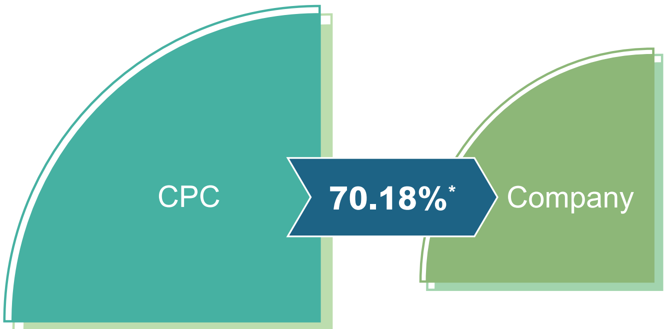
### A. Legal Representative

| | |
|---|---|
| Name of the holding shareholder | China Petrochemical Corporation |
| Legal representative | Ma Yongsheng |
| Date of establishment | 14 September 1983 |
| Organization number | 9111000010169286X1 |
| Registered capital | RMB 326.547 billion |
| Principal activities | Through reorganization in 2000, CPC injected its principal petroleum and petrochemical operations into Sinopec, and retained operations in certain smaller scale petrochemical facilities and refineries, provision of well drilling services, logging services, downhole operation services, manufacture and maintenance of production equipment, engineering construction, water, electricity and other utility services and social services, etc. |

| CPC's subsidiaries and associates listed in domestic and overseas during the reporting period | Name of company | Number of share held (shares)(Note) | Shareholding (%) |
|---|---|---|---|
| | Sinopec | 80,633,828,289 | 67.56% |
| | SINOPEC Engineering (Group) Co., Ltd | 2,907,856,000 | 65.81% |
| | Sinopec Oilfield Equipment Corporation | 456,756,300 | 47.79% |
| | China Merchants Energy Shipping Co., LTD | 1,095,463,711 | 13.45% |
| | China National Petroleum Corporation | 1,830,210,000 | 1.00% |

Note: The number of shares directly held by CPC, not including the number of shares held through its wholly-owned or holding subsidiaries.

### B. The block diagram of the property and control relationship between the Company and the controlling shareholder



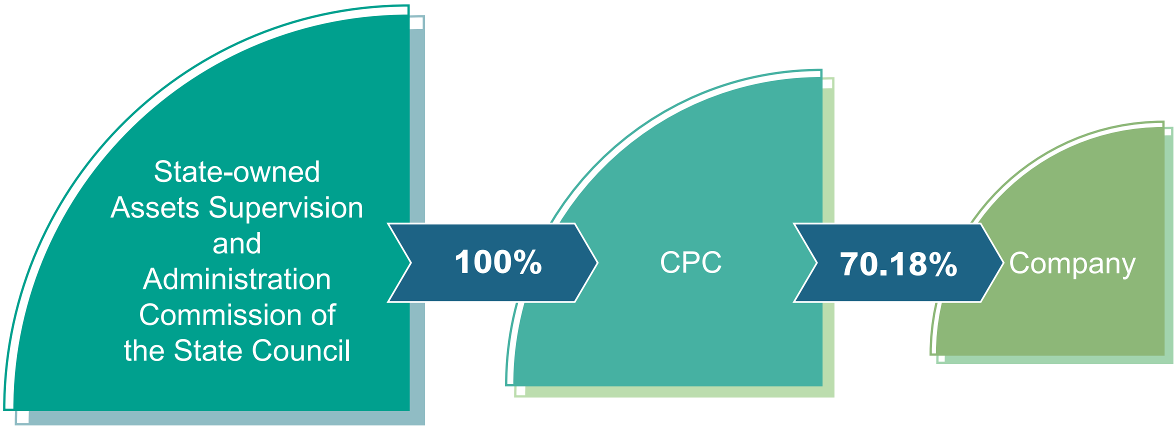

Note: Apart from directly holding 10,727,896,364 A shares of the Company, China Petrochemical Corporation also held 2,595,786,987 H shares of the Company through Century Bright Company. Therefore, China Petrochemical Corporation directly and indirectly held 13,323,683,351 shares of the Company, which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

## (2) The de facto controller of the Company

### A. Legal Representative

The de facto controller of the Company remains to be China Petrochemical Corporation. See more information in this section relating to controlling shareholder.

B. The diagram of the property and control relationship between the Company and the de facto controller




C. Other information about controlling shareholders and de facto controller of the Company

☐ Applicable √ Not applicable

## 5. The cumulative number of pledged shares accounted for more than 80% of the number of shares of the Company held by controlling shareholders or the largest shareholder with its partner acting in concert

☐ Applicable √ Not applicable

## 6. Other Legal person shareholders that holding over 10% of the total shares of the Company

At the end of the reporting period, the Company has no other legal person shareholders that holding over 10% of the total shares of the Company.

## 7. Statement on shares reduced in restriction

☐ Applicable √ Not applicable

## 8. Execution of shares repurchase during the reporting period

☐ Applicable √ Not applicable

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

As at 31 December 2023, so far as the Directors, Supervisors and senior management of the Company are aware of, each of the following persons, not director, supervisor or senior management of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of SFO.

| Name of shareholder | Number of shares held | Percent of shareholding in the Company's total issued share capital | Percent of shareholding in the Company's total issued domestic shares | Percent 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 Structural Reform Fund Co., Ltd. | 719,174,495 (H Share)[2] | 3.79 | Not Applicable | 13.28 | – |

Note:

1. China Petrochemical Corporation held 2,595,786,987 H shares of the Company through its wholly owned overseas subsidiary Century Bright Company. China Petrochemical Corporation is deemed to be interested in the H shares held by Century Bright Company.

2. China Structural Reform Fund Co., Ltd. held 402,265,632 H shares of the Company through Yifangda Fund Management Co., Ltd., accounting for 7.43% 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 and so far as the Directors, Supervisors and senior management of the Company are aware of, as at 31 December 2023, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Hong Kong Listing Rules) of the Company.

## 10. Management contract

During the reporting period, the Company has not signed or has any contracts for the management and administration of the whole or any important business.

## 11. Priority purchase rights

There are no provisions for preemptive rights in the Company's Articles of Association or PRC laws.

## 12. Share sale and redemption

The Company has not sold or redeemed any of the Company's listed shares during the twelve months ended 31 December 2023.

# PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

### Auditors' Report

PCPAR [2024] No. ZK10081

To all shareholders of Sinopec Oilfield Service Corporation,

## I. OPINION

We have audited the accompanying financial statements of Sinopec Oilfield Service Corporation, (hereafter referred to as "SSC" or "the Group"), including the consolidated and company balance sheet as at December 31, 2023, the consolidated and company income statement, the consolidated and company cash flow statement, the consolidated and company statement of changes in shareholders' equity for the year then ended and the relevant notes to the financial statements.

In our opinion, the accompanying financial statements are prepared in accordance with Accounting Standards for Business Enterprises. The financial position of SSC for the year ended 31 December 2023, and the results of its operations and cashflows for the year ended 31 December 2023 are fairly presented in all material respects.

## II. BASIS FOR OPINION

We conducted our audit in accordance with Chinese Certified Public Accountants Auditing Standards. Our responsibilities under those standards are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Professional Conduct and Ethics for Chinese Certified Public Accountants, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## III. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current period. The response to these matters is based on the overall audit of the financial statements and the formation of audit opinions. We do not express our opinions on these matters separately.

The key audit matters identified in our audit are summarized below:

| Description of the matter | How our audit addressed the Key Audit Matter |
|---|---|
| I. Recognition of revenue and cost<br><br>The Group's revenue related to rendering of services and construction contracts is derived from provision of petroleum engineering and technical services to PRC and overseas petroleum exploration and development companies, including geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction services.<br><br>The Group's petroleum engineering and technical services income would be recognized over a period of time. The recognition of related labor income and profits depends on management's estimation of the estimated total revenue of the contract and performance of the contract. The management of the Group adopts the expected value method according to the contract or the most likely amount to estimate the estimated total revenue of the contract, and evaluates the estimated total cost of the contract according to historical information and construction plan. The significant accounting estimates of management will be continuously evaluated and revised during the execution of the contract.<br><br>With the progress towards satisfaction of a performance obligation becomes certain, the Group should recognize revenue and costs in accordance with the progress of performance obligation being satisfied on the balance sheet date. The recognition of revenue and costs mainly depends on the management's critical estimation and judgments, including the estimated total revenue of the contract, estimated total cost, variable consideration, remaining contract costs, estimated progress and contract execution risk. Any alteration for the final progress billing or actual progress for performance obligation being satisfied, which would lead to the variance exists between the management's budgeted revenue and actual amount incurred. Therefore, we identified this matter as a key audit matter.<br><br>Refer to Note 3.24 (Revenue), Note 3.33.7 revenue recognition for related disclosures of accounting policy, significant accounting judgment and estimate about revenue recognition, other detailed information are set out in Note 5.36 and Note 16.4. | Our audit procedures for the recognition of revenue and cost include:<br><br>– We checked whether the accounting policies of recognizing revenue and costs are appropriately designed with relevant provisions of accounting standards in accordance with specific circumstances of the Group's business and contract terms.<br><br>– We have understood, evaluated and tested the design and implementation of key internal controls used by management to determine estimated contract revenue, estimated contract costs, actual costs incurred and contract remaining costs, and the progress of contract performance to confirm the effectiveness of internal controls.<br><br>– Through reviewing business contracts and interviews with management, we have understood and assessed the reasonableness of the basis and assumptions of estimated total revenue and estimated total cost. We have checked the consistency of the preparation and assumptions of various types of projects. We compared the cumulative cost as of December 31, 2023 to the estimated total cost, and checked the large cost recorded after the balance sheet date to analyze and evaluate the management's reasonableness of future workload and estimated residual cost of the contract.<br><br>– We have carried out sampling tests for the determination of contract performance progress, checked the main clauses in relevant business contracts and supporting documents such as settlement statements, acceptance sheets, or completion progress statistics issued by customers, and estimated the estimated revenue, estimated cost and gross profit of sub-projects. We have analyzed and calculated to confirm its rationality. In addition, sampling tests has been carried out for the correctness of amount and period of revenue recognition, analyzed whether it has been accurately confirmed on the balance sheet date according to the contract performance progress, and compared the budgeted cost with the actual total cost as of the balance sheet date on the basis of sampling to check whether there are cost overruns. |

| Description of the matter | How our audit addressed the Key Audit Matter |
|---|---|
| II. Measurement of expected credit losses of accounts receivable and contract assets | |
| The accounts receivable and contract assets of the Group (hereinafter referred to as "receivables") mainly come from related parties and other PRC and overseas petroleum exploration and development companies. On December 31,2023, the book value of accounts receivable of the Group was RMB12.84 billion, and the book value of contract assets was RMB16.40 billion, the accumulated expected credit losses for account receivables and impairment on contract assets amounted to RMB2.43 billion.<br><br>The measurement of expected credit losses involves management's subjective judgment and is inherently uncertain. In determining the expected credit losses of receivables, the management needs to comprehensively assess the current credit rating of the counter-party, the experience of historical credit losses, and the current operating conditions, macroeconomic environment, external market environment, technical environment and changes in customer conditions, etc.<br><br>Due to the inherent uncertainty of the expected credit loss measurement of the receivables, involving the subjective judgment of the management, and the amount of the receivables has a significant impact on the consolidated financial statements of the Group, we identified the measurement of expected credit losses of receivables as a key audit matter.<br><br>Refer to Note 3.10 Financial instruments (Measurement of expected credit losses), Note 3.33.2 Measurement of expected credit loss of receivables for related disclosures of accounting policy, significant accounting judgment and estimate about Measurement of expected credit losses. Other detailed information is set out in Note 5.2 and Note 5.7. | Our audit procedures for the measurement of expected credit losses of accounts receivable and contract assets include:<br>– We have understood and assessed the internal controls of the Group relating to the expected credit loss measurement. In addition, we tested the effectiveness of such internal controls.<br>– We have reviewed the relevant considerations and objective evidence of the management's expected credit loss measurement, and evaluated the management's method and calculation which divide the receivables into several combinations by considering the actual amount of bad debts and the situation of similar receivables in the history, combined with factors such as customer credit and market environment.<br>– For major customers whose balance of receivables is large or exceeds the credit period, we have gathered information about the debtor or its industry development status to identify whether there is any situation that affects the expected credit loss assessment results of receivables.<br>– We have obtained ageing analysis of receivables as at 31 December 2023. We checked the supporting documents such as accounting vouchers and invoices. We also reviewed the key information such as aging analysis, overdue days, and relationship on sampling basis in order to ascertain the accuracy and classification on receivables.<br>– We have arranged audit confirmation to those customers who have significant balance of accounts receivable, and compared the results for the returned confirmation with the Group's record.<br>– We have recalculated the expected credit losses of the receivables and compared our calculations with the amount recorded by the Group.<br>– We have evaluated the reasonableness of management's expected credit losses assessment by considering the customer's settlement subsequent to the reporting period. |

## IV. OTHER INFORMATION

The management of the Group (hereinafter referred to as the "Management") is responsible for other information. The other information comprises the information covered in the 2023 annual report of the Group but excludes the financial statements and our auditor's report.

Our opinion on the financial statements does not cover the other information, we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## V. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The management of the Group (hereinafter referred to as "the Management") is responsible for preparing the financial statements in accordance with the requirements of Accounting Standards for Business Enterprises to achieve a fair presentation, and for designing, implementing, and maintaining internal control that is necessary to ensure that the financial statements are free from material misstatements, whether due to frauds or errors.

In preparing the financial statements, the Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## VI. AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the audit standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements.

As part of an audit in accordance with Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

(1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(2) Understand the internal control relevant to the audit to design audit procedures that are appropriate in the circumstances.

(3) Evaluate the appropriateness of accounting policies used by and the reasonableness of accounting estimates and related disclosures made by the Management.

(4) Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

(5) Evaluate the overall presentation (including the disclosures), structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) We have acquired sufficient and proper audit evidence regarding financial information relating to entity or business activities of the Group to give the audit opinion on the financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless these matters are forbidden by laws and regulations to be disclosed or in extremely rare circumstances, when the negative impact arising from the reasonable and expected communication about a certain matter in an auditor's report exceeds the public interest benefits arising therefrom, we determine that such matter should not be communicated in the auditor's report.

BDO CHINA Shu Lun Pan
Certified Public Accountants LLP

*Certified Public Accountant of China: JIN Chunhua*
*(Engagement Partner)*

*Certified Public Accountant of China: MIAO Song*

Shanghai, China

Date: March 26, 2024

*This auditors' report and the accompanying notes to the financial statements are English translation of the Chinese auditors' report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. In case of doubt as to the presentation of these documents, the Chinese version shall prevail.*

## CONSOLIDATED BALANCE SHEET

Sinopec Oilfield Service Corporation

As at December 31, 2023

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

| Assets: | Note | **Balance as at December 31, 2023** | Balance as at December 31, 2022 |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | 5.1 | **2,816,116** | 1,838,229 |
| Accounts receivable | 5.2 | **10,602,242** | 10,537,217 |
| Receivables at FVTOCI | 5.3 | **2,735,081** | 1,468,340 |
| Advances to suppliers | 5.4 | **511,443** | 406,578 |
| Other receivables | 5.5 | **2,760,141** | 3,196,602 |
| Inventories | 5.6 | **1,204,295** | 1,116,341 |
| Contract assets | 5.7 | **16,203,248** | 15,613,899 |
| Other current assets | 5.8 | **2,492,849** | 2,362,863 |
| **Total current assets** | | **39,325,415** | 36,540,069 |
| Non-current assets: | | | |
| Long-term equity investments | 5.9 | **553,496** | 50,215 |
| Investment in other equity instruments | 5.10 | **135,763** | 134,492 |
| Fixed assets | 5.11 | **24,870,821** | 24,896,607 |
| Construction in progress | 5.12 | **695,614** | 467,385 |
| Right-of-use assets | 5.13 | **799,633** | 1,012,350 |
| Intangible assets | 5.14 | **442,778** | 481,490 |
| Long-term deferred expenses | 5.15 | **7,938,767** | 7,255,439 |
| Deferred income tax assets | 5.16 | **400,687** | 370,014 |
| **Total non-current assets** | | **35,837,559** | 34,667,992 |
| **Total assets** | | **75,162,974** | 71,208,061 |

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

| *Chairman:* | *General Manager:* | *Accounting Principal:* | *Head of the Accounting Department:* |
|---|---|---|---|
| *Chen Xikun* | *Zhang Jiankuo* | *Cheng Zhongyi* | *Yang Yulong* |

## CONSOLIDATED BALANCE SHEET (Continued)

Sinopec Oilfield Service Corporation

As at December 31, 2023 (Amounts are expressed in RMB' thousand unless otherwise stated)

| Liabilities and owners' equity | Note | As at December 31, 2023 | As at December 31, 2022 |
|---|---|---|---|
| Current liabilities: | | | |
| Short-term borrowings | 5.17 | **19,907,435** | 17,923,208 |
| Notes payable | 5.18 | **8,821,760** | 7,990,225 |
| Accounts payable | 5.19 | **26,373,928** | 25,601,228 |
| Contract liabilities | 5.20 | **5,361,274** | 5,115,819 |
| Employee compensation payable | 5.21 | **863,071** | 570,290 |
| Taxes and surcharges payable | 5.22 | **1,000,904** | 998,894 |
| Other payables | 5.23 | **3,362,683** | 2,728,144 |
| Non-current liabilities maturing within one year | 5.24 | **436,121** | 1,517,190 |
| **Total current liabilities** | | **66,127,176** | 62,444,998 |
| Non-current liabilities: | | | |
| Long-term borrowings | 5.25 | **318,722** | 480,557 |
| Lease liabilities | 5.26 | **317,120** | 497,045 |
| Long-term payables | 5.27 | **58,829** | 74,657 |
| Estimated liabilities | 5.28 | **212,709** | 200,998 |
| Deferred income | 5.29 | **18,189** | 11,576 |
| Deferred income tax liabilities | 5.16 | **87,027** | 68,496 |
| **Total non-current liabilities** | | **1,012,596** | 1,333,329 |
| **Total liabilities** | | **67,139,772** | 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 | **22,618** | 5,232 |
| Special reserves | 5.33 | **313,849** | 326,983 |
| Surplus reserves | 5.34 | **200,383** | 200,383 |
| Retained earnings | 5.35 | **-23,215,761** | -23,804,977 |
| **Total equity attributable to owners of the parent company** | | **8,023,202** | 7,429,734 |
| Minority interest | | | |
| **Total owners' equity** | | **8,023,202** | 7,429,734 |
| **Total liabilities and owners' equity** | | **75,162,974** | 71,208,061 |

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

| | | | |
|---|---|---|---|
| *Chairman:* | *General Manager:* | *Accounting Principal:* | *Head of the Accounting Department:* |
| *Chen Xikun* | *Zhang Jiankuo* | *Cheng Zhongyi* | *Yang Yulong* |

## PARENT COMPANY'S BALANCE SHEET

Sinopec Oilfield Service Corporation

As at December 31, 2023 (Amounts are expressed in RMB' thousand unless otherwise stated)

| Assets: | Note | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|---|
| Current assets: | | | |
| Cash at bank and on hand | | **1,044,457** | 35,787 |
| Other receivables | 17.1 | **20,942,180** | 20,982,530 |
| Other current assets | | **11,089** | 3,528 |
| **Total current assets** | | **21,997,726** | 21,021,845 |
| Non-current assets: | | | |
| Long-term equity investments | 17.2 | **35,793,475** | 35,792,373 |
| Fixed assets | | **3,498** | 3,549 |
| Construction in progress | | **31,974** | 66,276 |
| Right-of-use assets | | **13,127** | 26,254 |
| Intangible assets | | **61,766** | 35,045 |
| Deferred income tax assets | | **156** | 154 |
| **Total non-current assets** | | **35,903,996** | 35,923,651 |
| **Total assets** | | **57,901,722** | 56,945,496 |
| Liabilities and owners' equity | | | |
| Current liabilities: | | | |
| Short-term borrowings | | **18,207,435** | 16,223,208 |
| Accounts payable | | **7,288** | 17,090 |
| Employee compensation payable | | **2,602** | 1,803 |
| Taxes and surcharges payable | | **30,269** | 26,034 |
| Other payables | | **11,025,154** | 11,080,558 |
| Non-current liabilities maturing within one year | | **13,752** | 1,013,572 |
| **Total current liabilities** | | **29,286,500** | 28,362,265 |
| Non-current liabilities: | | | |
| Lease liabilities | | | 13,297 |
| **Total non-current liabilities** | | | 13,297 |
| **Total liabilities** | | **29,286,500** | 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 | | **-1,900,922** | -1,946,210 |
| **Total owners' equity** | | **28,615,222** | 28,569,934 |
| **Total liabilities and owners' equity** | | **57,901,722** | 56,945,496 |

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

| *Chairman:* | *General Manager:* | *Accounting Principal:* | *Head of the Accounting Department:* |
|---|---|---|---|
| *Chen Xikun* | *Zhang Jiankuo* | *Cheng Zhongyi* | *Yang Yulong* |

# Section X Financial Statements

## CONSOLIDATED INCOME STATEMENT

Sinopec Oilfield Service Corporation

For the Year Ended December 31, 2023 (Amounts are expressed in RMB' thousand unless otherwise stated)

| Item | Note | Current period | Prior period |
|---|---|---|---|
| **I. Total operating revenue** | | **79,980,939** | 73,772,688 |
| Including: operating revenue | 5.36 | **79,980,939** | 73,772,688 |
| **II. Total operating costs** | | **79,972,426** | 73,139,472 |
| Including: operating costs | 5.36 | **74,187,497** | 68,003,487 |
| Taxes and surcharges | 5.37 | **329,885** | 291,091 |
| Selling and distribution expenses | 5.38 | **82,689** | 75,044 |
| General and administrative expenses | 5.39 | **2,394,486** | 2,303,286 |
| Research and development expenses | 5.40 | **2,083,796** | 1,838,968 |
| Financial expenses | 5.41 | **894,073** | 627,596 |
| Including: interest expenses | 5.41 | **805,017** | 704,304 |
| Interest income | 5.41 | **23,649** | 15,408 |
| Plus: other income | 5.42 | **350,293** | 70,682 |
| Investment income ("-" for losses) | 5.43 | **55,033** | 26,959 |
| Including: income from investment in associates and joint ventures | 5.43 | **20,842** | 7,504 |
| Losses from credit impairment ("-" for losses) | 5.44 | **398,994** | 75,530 |
| Losses from assets impairment ("-" for losses) | 5.45 | **-707** | -99,883 |
| Gains from disposal of assets ("-" for losses) | 5.46 | **87,843** | 25,888 |
| **III. Operating profits ("-" for losses)** | | **899,969** | 732,392 |
| Plus: non-operating revenue | 5.47 | **138,187** | 151,067 |
| Less: non-operating expenses | 5.48 | **109,816** | 154,098 |
| **IV. Total profits ("-" for total losses)** | | **928,340** | 729,361 |
| Less: income tax expenses | 5.49 | **339,124** | 253,463 |
| **V. Net profit ("-" for net loss)** | | **589,216** | 475,898 |
| (I) Classified by operating sustainability | | | |
| 1. Net profit from continued operation ("-" for net loss) | | **589,216** | 475,898 |
| 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) | | **589,216** | 475,898 |
| 2. Minority interest income ("-" for net loss) | | | |
| **VI. Other comprehensive income, net of tax** | | **17,386** | -5,813 |
| Other comprehensive income, net of tax, attributable to owners of the parent company | | **17,386** | -5,813 |
| (I) Other comprehensive income that cannot be reclassified into profit or loss | | **939** | -5,813 |
| 1. Changes in fair value of other equity instrument investment | | **939** | -5,813 |
| (II) Other comprehensive income that will be reclassified into profit or loss | | **16,447** | |
| 1. Other comprehensive income from transferable gains or losses under the equity method | | **16,447** | |
| Other comprehensive income, net of tax, attributable to minority shareholders | | | |
| **VII. Total comprehensive income** | | **606,602** | 470,085 |
| Total comprehensive income attributable to owners of the parent company | | **606,602** | 470,085 |
| Total comprehensive income attributable to minority shareholders | | | |
| **VIII. Earnings per share:** | | | |
| (I) Basic earnings per share (RMB/Share) | 18.2 | **0.031** | 0.025 |
| (II) Diluted earnings per share (RMB/Share) | | | |

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

| *Chairman:* | *General Manager:* | *Accounting Principal:* | *Head of the Accounting Department:* |
|---|---|---|---|
| *Chen Xikun* | *Zhang Jiankuo* | *Cheng Zhongyi* | *Yang Yulong* |

## PARENT COMPANY'S INCOME STATEMENT

Sinopec Oilfield Service Corporation

For the Year Ended December 31, 2023 (Amounts are expressed in RMB' thousand unless otherwise stated)

| Item | Note | Current period | Prior period |
|---|---|---|---|
| **I. Operating revenue** | | | |
| Less: operating costs | | | |
| Taxes and surcharges | | 191 | |
| General and administrative expenses | | 236,487 | 31,327 |
| Financial expenses | | -97,948 | 40,813 |
| Including: interest expenses | | -115,855 | 27,230 |
| Interest income | | -18,824 | -5,000 |
| Plus: Investment income ("-" for losses) | | 184,007 | -344,684 |
| Including: income from investment in associates and joint ventures | | 1,101 | 794 |
| Losses from credit impairment ("-" for losses) | | | -4 |
| **II. Operating profits ("-" for losses)** | | 45,277 | -416,828 |
| Plus: non-operating revenue | | 19 | 70 |
| Less: non-operating expenses | | 10 | 1 |
| **III. Total profits ("-" for total losses)** | | 45,286 | -416,759 |
| Less: income tax expenses | | -2 | -154 |
| **IV. Net profit ("-" for net loss)** | | 45,288 | -416,605 |
| (I) Net profit from continued operation ("-" for net loss) | | 45,288 | -416,605 |
| (II) Net profit from discontinued operation ("-" for net loss) | | | |
| **V. Other comprehensive income, net of tax** | | | |
| **VI. Total comprehensive income** | | 45,288 | -416,605 |
| **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:* *Zhang Jiankuo*

*Accounting Principal:* *Cheng Zhongyi*

*Head of the Accounting Department:* *Yang Yulong*

# Section X Financial Statements

## CONSOLIDATED STATEMENT OF CASH FLOWS

Sinopec Oilfield Service Corporation

For the Year Ended December 31, 2023 (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 | | **78,293,372** | 72,986,961 |
| Refund of taxes and surcharges | | **323,284** | 310,072 |
| Cash received from other operating activities | 5.50 | **4,506,142** | 4,884,147 |
| Sub-total of cash inflows from operating activities | | **83,122,798** | 78,181,180 |
| Cash paid for purchase of goods and receipt of services | | **52,585,073** | 51,600,991 |
| Cash paid to and on behalf of employees | | **19,028,159** | 17,956,468 |
| Various taxes and surcharges paid | | **2,189,389** | 512,866 |
| Cash paid for other operating activities | 5.50 | **3,743,264** | 3,912,986 |
| Sub-total of cash outflows from operating activities | | **77,545,885** | 73,983,311 |
| **Net cash flows from operating activities** | 5.51 | **5,576,913** | 4,197,869 |
| **II. Cash flows from investing activities** | | | |
| Cash received from returns on investments | | **6,275** | 4,845 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | | **75,961** | 61,990 |
| Net cash received from disposal subsidiaries and other business units | | **11,983** | |
| Sub-total of cash inflows from investing activities | | **94,219** | 66,835 |
| Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets | | **4,153,602** | 3,892,997 |
| Cash paid for investments | | | 125,000 |
| Sub-total of cash outflows from investing activities | | **4,153,602** | 4,017,997 |
| **Net cash flows from investing activities** | | **-4,059,383** | -3,951,162 |
| **III. Cash flows from financing activities** | | | |
| Cash received from borrowings | | **27,351,504** | 44,571,010 |
| Sub-total of cash inflows from financing activities | | **27,351,504** | 44,571,010 |
| Cash paid for debt repayments | | **26,568,095** | 44,491,653 |
| Cash paid for distribution of dividends and profits or payment of interest | | **712,646** | 604,287 |
| Cash paid for other financing activities | 5.50 | **628,989** | 526,319 |
| Sub-total of cash outflows from financing activities | | **27,909,730** | 45,622,259 |
| **Net cash flows from financing activities** | | **-558,226** | -1,051,249 |
| **IV. Effect of fluctuation in exchange rate on cash and cash equivalents** | | **28,344** | 130,386 |
| **V. Net increase in cash and cash equivalents** | 5.51 | **987,648** | -674,156 |
| Plus: beginning balance of cash and cash equivalents | | **1,801,150** | 2,475,306 |
| **VI. Ending balance of cash and cash equivalents** | 5.51 | **2,788,798** | 1,801,150 |

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

| *Chairman:* | *General Manager:* | *Accounting Principal:* | *Head of the Accounting Department:* |
|---|---|---|---|
| *Chen Xikun* | *Zhang Jiankuo* | *Cheng Zhongyi* | *Yang Yulong* |

## PARENT COMPANY'S STATEMENT OF CASH FLOWS

Sinopec Oilfield Service Corporation

For the Year Ended December 31, 2023 (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 | | 1,193,707 | 926,860 |
| Cash received from other operating activities | | 1,193,707 | 926,860 |
| Sub-total of cash inflows from operating activities | | 62,439 | 14,118 |
| Cash paid for purchase of goods and receipt of services | | 132,902 | 2,231 |
| Taxes and fees paid | | 191 | |
| Cash paid for other operating activities | | 291,653 | 15,402 |
| Sub-total of cash outflows from operating activities | | 487,185 | 31,751 |
| **Net cash flows from operating activities** | | 706,522 | 895,109 |
| **II. Cash flows from investing activities** | | | |
| Receipt of other cash related to investment activities | | 19 | |
| Sub-total of cash inflows from investing activities | | 19 | |
| Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets | | 3,079 | 118 |
| Sub-total of cash outflows from investing activities | | 3,079 | 118 |
| **Net cash flows from investing activities** | | -3,060 | -118 |
| **III. Cash flows from financing activities** | | | |
| Cash received from borrowings | | 24,951,504 | 4,681,510 |
| Sub-total of cash inflows from financing activities | | 24,951,504 | 4,681,510 |
| Cash paid for debt repayments | | 23,998,951 | 5,477,603 |
| Cash paid for distribution of dividends and profits or payment of interest | | 636,338 | 59,305 |
| Cash paid for other financing activities | | 11,578 | 3,859 |
| Sub-total of cash outflows from financing activities | | 24,646,867 | 5,540,767 |
| **Net cash flows from financing activities** | | 304,637 | -859,257 |
| **IV. Effect of fluctuation in exchange rate on cash and cash equivalents** | | 571 | -94 |
| **V. Net increase in cash and cash equivalents** | | 1,008,670 | 35,640 |
| Plus: beginning balance of cash and cash equivalents | | 35,787 | 147 |
| **VI. Ending balance of cash and cash equivalents** | | 1,044,457 | 35,787 |

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

| Chairman: | General Manager: | Accounting Principal: | Head of the Accounting Department: |
|---|---|---|---|
| *Chen Xikun* | *Zhang Jiankuo* | *Cheng Zhongyi* | *Yang Yulong* |

# CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Sinopec Oilfield Service Corporation

For the Year Ended December 31, 2023

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

| Item | Current period | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Equity attributable to owners of the parent company | | | | | | | Minority equity | Total owners' equity |
| | Share capital | Capital reserves | Other comprehensive income | Special reserves | Surplus reserves | Undistributed profits | Sub-total | | |
| **I. Balance at the end of the last year** | 18,984,340 | 11,717,773 | 5,232 | 326,983 | 200,383 | -23,804,977 | 7,429,734 | | 7,429,734 |
| Plus: changes in accounting policies | | | | | | | | | |
| **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)** | | | 17,386 | -13,134 | | 589,216 | 593,468 | | 593,468 |
| (I) Total comprehensive income | | | 17,386 | | | 589,216 | 606,602 | | 606,602 |
| (II) Capital contributed or reduced by owners | | | | | | | | | |
| (III) Profit distribution | | | | | | | | | |
| (IV) Internal carry-forward of owners' equity | | | | | | | | | |
| (V) Special reserves | | | | -13,134 | | | -13,134 | | -13,134 |
| 1. Amount withdrawn in the current period | | | | 1,230,578 | | | 1,230,578 | | 1,230,578 |
| 2. Amount used in the current period | | | | 1,243,712 | | | 1,243,712 | | 1,243,712 |
| (VI) Others | | | | | | | | | |
| **IV. Balance at the end of the current period** | 18,984,340 | 11,717,773 | 22,618 | 313,849 | 200,383 | -23,215,761 | 8,023,202 | | 8,023,202 |

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

| | | | |
|---|---|---|---|
| *Chairman:* | *General Manager:* | *Accounting Principal:* | *Head of the Accounting Department:* |
| *Chen Xikun* | *Zhang Jiankuo* | *Cheng Zhongyi* | *Yang Yulong* |

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

Sinopec Oilfield Service Corporation

For the Year Ended December 31, 2023

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

| Item | Prior period | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Equity attributable to owners of the parent company | | | | | | | | |
| | Share capital | Capital reserves | Other comprehensive income | Special reserves | Surplus reserves | Undistributed profits | Sub-total | Minority equity | Total owners' equity |
| **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 | | | | | | -9,669 | -9,669 | | -9,669 |
| **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)** | | | 9,055 | 107,801 | | 461,030 | 577,886 | | 577,886 |
| (I) Total comprehensive income | | | -5,813 | | | 475,898 | 470,085 | | 470,085 |
| (II) Capital contributed or reduced by owners | | | | | | | | | |
| (III) Profit distribution | | | | | | | | | |
| (IV) Internal carry-forward of owners' equity | | | 14,868 | | | 14,868 | | | |
| 1. Transfer of other comprehensive income to retained earnings | | | 14,868 | | | 14,868 | | | |
| (V) Special reserves | | | | 107,801 | | | 107,801 | | 107,801 |
| 1. Amount withdrawn in the current period | | | | 1,321,549 | | | 1,321,549 | | 1,321,549 |
| 2. Amount used in the current period | | | | 1,213,748 | | | 1,213,748 | | 1,213,748 |
| (VI) Others | | | | | | | | | |
| **IV. Balance at the end of the current period** | 18,984,340 | 11,717,773 | 5,232 | 326,983 | 200,383 | -23,804,977 | 7,429,734 | | 7,429,734 |

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

| Chairman: | General Manager: | Accounting Principal: | Head of the Accounting Department: |
|---|---|---|---|
| *Chen Xikun* | *Zhang Jiankuo* | *Cheng Zhongyi* | *Yang Yulong* |

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

Sinopec Oilfield Service Corporation

For the Year Ended December 31, 2023 (Amounts are expressed in RMB' thousand unless otherwise stated)

| Item | Current period | | | | |
|---|---|---|---|---|---|
| | Share capital | Capital reserves | Surplus reserves | Undistributed profits | Total owners' equity |
| **I. Balance at the end of the last year** | 18,984,340 | 11,331,421 | 200,383 | -1,946,210 | 28,569,934 |
| Plus: changes in accounting policies | | | | | |
| **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)** | | | | 45,288 | 45,288 |
| (I) Total comprehensive income | | | | 45,288 | 45,288 |
| (II) Capital contributed or reduced by owners | | | | | |
| (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 | -1,900,922 | 28,615,222 |

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

| *Chairman:* | *General Manager:* | *Accounting Principal:* | *Head of the Accounting Department:* |
|---|---|---|---|
| *Chen Xikun* | *Zhang Jiankuo* | *Cheng Zhongyi* | *Yang Yulong* |

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

Sinopec Oilfield Service Corporation

For the Year Ended December 31, 2023 (Amounts are expressed in RMB' thousand unless otherwise stated)

| Item | Prior period | | | | |
|---|---|---|---|---|---|
| | Share capital | Capital reserves | Surplus reserves | Undistributed profits | Total owners' equity |
| **I. Balance at the end of the last year** | 18,984,340 | 14,568,016 | 200,383 | -1,529,605 | 32,223,134 |
| Plus: changes in accounting policies | | | | | |
| **II. Balance at the beginning of the current year** | 18,984,340 | 14,568,016 | 200,383 | -1,529,605 | 32,223,134 |
| **III. Increases/decreases in current year ("-" for decreases)** | | -3,236,595 | | -416,605 | -3,653,200 |
| (I) Total comprehensive income | | | | -416,605 | -416,605 |
| (II) Capital contributed or reduced by owners | | -3,236,595 | | | -3,236,595 |
| 1. Other | | -3,236,595 | | | -3,236,595 |
| (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 | -1,946,210 | 28,569,934 |

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

*Chairman:* *Chen Xikun*

*General Manager:* *Zhang Jiankuo*

*Accounting Principal:* *Cheng Zhongyi*

*Head of the Accounting Department:* *Yang Yulong*

## NOTES TO THE FINANCIAL STATEMENTS

Sinopec Oilfield Service Corporation

For the Year Ended December 31, 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.

# 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 19th meeting of the 10th Board of Directors of the Company on March 26, 2024.

## 1.2 Scope of the consolidated financial statement

The consolidated financial statements of the Group cover the Company and its subsidiaries, refer to "Note 7 Changes in the scope of consolidation" and "Note 8 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 December 31, 2023, the Group's accumulated loss amounted to RMB23,215,761,000, the current liabilities exceeded the current assets by about RMB26,801,761,000 (In 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 December 2023, the Company has obtained a credit line of RMB19 billion and an equivalence 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 December 31, 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.

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

## 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.

***(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.

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

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

#### 3.6.2 Consolidation procedures (Continued)

***(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.

***(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 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

## 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.

## 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 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

## 3.10 Financial instruments (Continued)

### 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) 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.

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

### 3.10 Financial instruments (Continued)

#### 3.10.3 Derecognition and transfer of financial assets (Continued)

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

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

(1) The book value of the transferred financial asset;

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

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

(1) The book value of the derecognized part;

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

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

#### 3.10.4 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 is 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 goals priority in use of observable input values. And the unobservable input values may be used only when the observable input values are unable or unpractical to be obtained.

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

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

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

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

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

# 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)

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.

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 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

## 3.11 Inventories

### 3.11.1 Classification and cost of inventories

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

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

### 3.11.2 Measurement method of dispatched inventories

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

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

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

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

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

### 3.11.4 Inventory system

The perpetual inventory system is adopted.

### 3.11.5 Amortization method for low-cost consumables

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

## 3.12 Contract assets

### 3.12.1 Recognition method and criteria for contract assets

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

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

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

## 3.13 Long-term equity investments

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

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

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

# 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

## 3.13 Long-term equity investments (Continued)

### 3.13.2 Determination of initial investment costs

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# 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.

## 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 Scope of R&D expenditure Specific

The expenses incurred by the Company in the process of R&D include related employee salaries, materials consumed, relevant depreciation and amortization expenses of personnel engaged in R&D activities, etc., and are collected in the following manner: The remuneration of relevant employees of personnel engaged in R&D activities mainly refers to the personnel directly engaged in R&D activities and the relevant employees and new deputies of management personnel and direct service personnel closely related to R&D activities, the consumables section mainly refers to the relevant materials section directly invested in R&D activities, and the relevant depreciation and amortization expenses mainly refer to the depreciation or amortization of fixed assets or intangible assets used in R&D activities.

#### 3.17.4 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.

#### 3.17.5 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.

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

## 3.21 Employee compensation (Continued)

### 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.

## 3.23 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 data, 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 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

## 3.23 Share-based payment (Continued)

### 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.

## 3.24 Revenue

### 3.24.1 Accounting policies for revenue recognition and measurement

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

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

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

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 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.24 Revenue (Continued)

#### 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.

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 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

## 3.26 Government grants (Continued)

### 3.26.2 Timing of recognition

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

### 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.

#### 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.

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 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.28 Leases (Continued)

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

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

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

*(4) Lease changes*

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

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

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

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

#### 3.28.2 The Company as the 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.

*(2) Accounting treatment of finance lease*

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

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

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

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

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

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

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

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

### 3.28 Leases (Continued)

#### 3.28.3 Sale-and-leaseback transactions

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

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

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

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

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

### 3.29 Work safety expenses

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

### 3.30 Share repurchases

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

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

### 3.31 Debt restructuring

#### 3.31.1 The Company acts as a creditor

The Company terminates the recognition of claims when the contractual right to collect cash flows from the claims terminates. If debt reorganization is carried out by repaying debts with assets or converting debts into equity instruments, the company will recognize the relevant assets when they meet their definition and recognition conditions.

If debt restructuring is carried out by repaying debts with assets, the transferred non-financial assets shall be measured at cost when the company initially recognizes them. The cost of inventory includes the fair value of the relinquished claims and other costs directly attributable to the asset such as taxes, transportation fees, loading and unloading fees, insurance premiums and other costs incurred to bring the asset to its current location and condition. The cost of an investment in an associate or joint venture includes the fair value of the relinquished claims and other costs such as taxes directly attributable to the asset. The cost of investment real estate includes the fair value of the relinquished claims and other costs such as taxes that are directly attributable to the asset. The cost of a fixed asset includes the fair value of the relinquished claim and other costs directly attributable to the asset such as taxes, transportation fees, loading and unloading fees, installation fees, professional service fees and other costs incurred before the asset reaches its intended usable condition. The cost of biological assets includes the fair value of the relinquished claims and other costs such as taxes, transportation fees, and insurance premiums that are directly attributable to the assets. The cost of intangible assets includes the fair value of the relinquished claims and other costs that are directly attributable to taxes and other costs incurred in bringing the asset to its intended use. If the debt restructuring by converting debt into equity instruments results in the creditor converting its claim into an equity investment in an associate or joint venture, the company shall measure it based on the fair value of the relinquished claim and taxes and other costs directly attributable to the asset as the equity initial investment cost. The difference between the fair value and the book value of the relinquished claims is included in the current profit and loss.

If debt restructuring is carried out by modifying other terms, the company shall recognize and measure the restructured claims in accordance with Note "3.10 Financial Instruments."

# 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

## 3.31 Debt restructuring (Continued)

### 3.31.1 The Company acts as a creditor (Continued)

If multiple assets are used to repay debts or debt restructuring is carried out in a combination, the company will first confirm and measure the transferred financial assets and restructured claims in accordance with Note "3.10 Financial Instruments", and then use the fair value ratio of each assets other than the transferred financial assets, to divide into the net amount after deducting the confirmed amount of transferred financial assets and restructured claims from the fair value of the relinquished claims, and based on this basis, determine the cost of each asset. The difference between the fair value of the relinquished claim and its book value shall be included in the current profit and loss.

### 3.31.2 The Company acts as the debtor

The Company derecognises a debt when its current obligations are discharged.

If debt reorganization is carried out by repaying debts with assets, the company will terminate the recognition when the relevant assets and the debts paid off meet the conditions for derecognition, and the difference between the book value of the debts paid off and the book value of the transferred assets shall be included in the current profit and loss.

If the debt is converted into equity instruments for debt restructuring, the company will derecognize the debt when the repaid debt meets the conditions for derecognition. When the company initially recognizes an equity instrument, it is measured based on the fair value of the equity instrument. If the fair value of the equity instrument cannot be measured reliably, it is measured based on the fair value of the debt repaid. The difference between the book value of the debt repaid and the recognized amount of the equity instrument shall be included in the current profit and loss.

If the debt is restructured by modifying other terms, the company shall recognize and measure the restructured debt in accordance with Note "3.10 Financial Instruments" of this note.

If multiple assets are used to repay debts or debt restructuring is carried out through combination, the company shall confirm and measure equity instruments and restructured debts in accordance with the aforementioned methods. The difference between the book value of the debts repaid and the book value of the assets transferred and the recognized amounts of equity instruments and restructured debts shall be included in the current profit and loss.

## 3.32 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.

## 3.33 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.

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

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

#### 3.33.2 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.

#### 3.33.3 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.

#### 3.33.4 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.

#### 3.33.5 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.

#### 3.33.6 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.

#### 3.33.7 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.

#### 3.33.8 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.

#### 3.33.9 Taxation

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

# 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

## 3.34 Determination method and selection basis of materiality standards

| Items | Materiality standards |
|---|---|
| Significant recovery or reversal of bad debt provision for accounts receivable | The amount of a single recovery, reversal or write-off accounts for more than 10% of the total bad debt provision for various accounts receivable, or the amount is greater than RMB50 million. |
| Significant recovery or reversal of bad debt provision for other receivable | The amount of a single recovery, reversal or write-off accounts for more than 10% of the total bad debt provision for various accounts receivable, or the amount is greater than RMB50 million. |
| Significant contract assets for which impairment provisions are made on a case-by-case basis | The amount of impairment provision for contract assets accounted for more than 10% of the total contract assets, or the amount is greater than RMB50 million. |
| Changes in significant projects under construction in the current period | Significant projects under construction, or the invested amount in current year is more than RMB100 million. |
| Significant accounts payable that are aged more than one year or are overdue | The aging of the account exceeds one year, and the amount of the portion exceeding one year exceeds RMB50 million. |
| Significant joint ventures or associates | The amount of long-term equity investment accounted for more than 20% of the consolidated long-term equity investment at the end of the period. |
| Significant activities that do not involve cash receipts and expenditures for the current period | Activities that do not involve current cash receipts and payments, have an impact on the current period's statements greater than 10% of net assets, or are expected to have an impact on future cash flow greater than 10% of the corresponding total cash inflows and outflows |

## 3.35 Changes in significant accounting policies and accounting estimates

### 3.35.1 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:

*(1) Impact on Consolidated Balance Sheet and Consolidated Income Statement*

| | January 1, 2022 | | |
|---|---|---|---|
| **Item** | **Before adjustment** | **Adjust** | **After adjustment** |
| Deferred tax assets | 310,764 | 5,711 | 316,475 |
| Deferred tax liabilities | 9,438 | 15,380 | 24,818 |
| Undistributed profits | -24,256,338 | -9,669 | -24,266,007 |

| | December 31, 2022 | | |
|---|---|---|---|
| **Item** | **Before adjustment** | **Adjust** | **After adjustment** |
| Deferred tax assets | 362,470 | 7,544 | 370,014 |
| Deferred tax liabilities | 63,367 | 5,129 | 68,496 |
| Undistributed profits | -23,807,392 | 2,415 | -23,804,977 |

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

### 3.35 Changes in significant accounting policies and accounting estimates (Continued)

#### 3.35.1 Changes in significant accounting policies (Continued)

***(1) Implementation of the Interpretation No. 16 to the Accounting Standards for Business Enterprises (Continued)***

*(1) Impact on Consolidated Balance Sheet and Consolidated Income Statement (Continued)*

| Item | 2022 year | | |
|---|---|---|---|
| | Before adjustment | Adjust | After adjustment |
| Income tax expense | 265,547 | -12,084 | 253,463 |

*(2) Impact on the parent company's balance sheet and the parent company's income statement*

| Item | January 1, 2022 | | |
|---|---|---|---|
| | Before adjustment | Adjust | After adjustment |
| Undistributed profits | -1,529,605 | | -1,529,605 |

| Item | December 31, 2022 | | |
|---|---|---|---|
| | Before adjustment | Adjust | After adjustment |
| Deferred tax assets | | 154 | 154 |
| Undistributed profits | -1,946,364 | 154 | -1,946,210 |

| Item | 2022 year | | |
|---|---|---|---|
| | Before adjustment | Adjust | After adjustment |
| Income tax expense | | -154 | -154 |

#### 3.35.2 Changes in significant accounting estimates

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

#### 3.35.3 Correction of significant accounting errors of prior periods

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

### 3.36 Others

The Company had no other adjustments this year.

# 4 TAXATION

## 4.1 Major tax types and tax rates

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

Disclosure of information about taxpayers applying different enterprise income tax rates

| Taxpayer name | Income tax rate |
|---|---|
| Sinopec Shengli Petroleum Engineering Corporation | 15 |
| Shandong Shenggong Testing Technology Co., Ltd | 15 |
| Sinopec Zhongyuan Petroleum Engineering Corporation | 15 |
| Sinopec Jianghan Petroleum Engineering Corporation | 15 |
| Sinopec Zhongyuan Oil Engineering Design Company Limited | 15 |
| Sinopec Oil Engineering Design Company Limited | 15 |
| Sinopec Geophysical Corporation | 15 |
| Sinopec Jianghan 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 Jianghan Oil Construction Engineering Co., Ltd. | 15 |

## 4.2 Tax preference

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

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

### 4.2.2 Enterprise income tax

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

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

### 5.1 Monetary funds

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Cash on hand | 1,551 | 2,992 |
| Cash at banks | 973,984 | 985,082 |
| Cash in finance companies | 1,840,229 | 849,631 |
| Other monetary funds | 352 | 524 |
| **Total** | 2,816,116 | 1,838,229 |
| Including: Amount deposited abroad: | 1,215,989 | 1,376,948 |

As at December 31, 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 December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Guarantee deposit | 20,622 | 6,555 |
| Letter of credit deposit | 97 | 95 |
| Frozen and pledged deposits | 3,182 | 27,036 |
| Time deposit | 3,000 | 3,000 |
| Other | 417 | 393 |
| **Total** | 27,318 | 37,079 |

As at December 31, 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 December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Within 1 year | 10,052,406 | 9,943,144 |
| Including: Not overdue | 8,167,905 | 8,369,711 |
| Overdue – Within 1 year | 1,884,501 | 1,573,433 |
| 1 – 2 years | 505,308 | 440,120 |
| 2 – 3 years | 130,018 | 237,662 |
| 3 – 4 years | 147,097 | 283,750 |
| 4 – 5 years | 170,805 | 332,445 |
| Over 5 years | 1,829,969 | 1,697,891 |
| Sub-total | 12,835,603 | 12,935,012 |
| Less: provision for bad debts | 2,233,361 | 2,397,795 |
| **Total** | 10,602,242 | 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 December 31, 2023 | | | | | Balance as at December 31, 2022 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Book balance | | Provision for bad debts | | | Book balance | | Provision for bad debts | | |
| | Amount | Proportion (%) | Amount | Expected credit loss ratio (%) | Book value | Amount | Proportion (%) | Amount | Expected credit loss ratio (%) | Book value |
| Provision made on an individual basis | 976,229 | 7.61 | 976,229 | 100.00 | | 1,017,877 | 7.87 | 1,017,877 | 100.00 | |
| Provision for bad debts made by portfolio | 11,859,374 | 92.39 | 1,257,132 | 10.60 | 10,602,242 | 11,917,135 | 92.13 | 1,379,918 | 11.58 | 10,537,217 |
| Including: | | | | | | | | | | |
| Related-party portfolio | 4,785,203 | 37.28 | 51,097 | 1.07 | 4,734,106 | 5,523,774 | 42.70 | 64,570 | 1.17 | 5,459,204 |
| Non-related-party portfolio | 7,074,171 | 55.11 | 1,206,035 | 17.05 | 5,868,136 | 6,393,361 | 49.43 | 1,315,348 | 20.57 | 5,078,013 |
| **Total** | 12,835,603 | 100.00 | 2,233,361 | | 10,602,242 | 12,935,012 | 100.00 | 2,397,795 | | 10,537,217 |

Provision made on an individual basis:

| Item | Balance as at December 31, 2023 | | | |
|---|---|---|---|---|
| | Book balance | Provision for bad debts | Proportion of provision (%) | Reason for provision |
| Entity A | 892,635 | 892,635 | 100.00 | The debtor is short of funds and the funds have not been recovered for a long time. |
| Entity B | 47,178 | 47,178 | 100.00 | The debtor is short of funds and the funds have not been recovered for a long time. |
| Entity C | 26,702 | 26,702 | 100.00 | The debtor is short of funds and the funds have not been recovered for a long time. |
| Total of other sporadic units | 9,714 | 9,714 | 100.00 | The debtor is short of funds and the funds have not been recovered for a long time. |
| **Total** | 976,229 | 976,229 | | |

Provision for bad debts made by portfolio:

Provision by portfolio:

| Item | Balance as at December 31, 2023 | | |
|---|---|---|---|
| | Accounts receivable | Provision for bad debts | Proportion of provision (%) |
| Accounts receivable from related-party clients | 4,785,203 | 51,097 | 1.07 |
| Accounts receivables from non-related-party clients | 7,074,171 | 1,206,035 | 17.05 |
| **Total** | 11,859,374 | 1,257,132 | |

# 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 December 31, 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 | 4,483,889 | 15,291 | 0.34 | 5,242,663 | 18,605 | 0.35 |
| Including: | | | | | | |
| Not overdue | 3,956,527 | 11,869 | 0.30 | 4,459,024 | 13,377 | 0.30 |
| Overdue – Within 1 year | 527,362 | 3,422 | 0.65 | 783,639 | 5,228 | 0.67 |
| 1 – 2 years | 213,331 | 9,256 | 4.34 | 143,289 | 6,333 | 4.42 |
| 2 – 3 years | 35,842 | 2,779 | 7.75 | 46,949 | 3,814 | 8.12 |
| 3 – 4 years | 20,199 | 3,581 | 17.73 | 53,878 | 9,696 | 18.00 |
| 4 – 5 years | 10,501 | 4,459 | 42.46 | 12,384 | 6,278 | 50.69 |
| Over 5 years | 21,441 | 15,731 | 73.37 | 24,611 | 19,844 | 80.63 |
| **Total** | 4,785,203 | 51,097 | 1.07 | 5,523,774 | 64,570 | 1.17 |

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

| Category | Balance as at December 31, 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 | 5,568,517 | 50,693 | 0.91 | 4,700,481 | 38,266 | 0.81 |
| Including: | | | | | | |
| Not overdue | 4,211,378 | 12,634 | 0.30 | 3,910,687 | 11,732 | 0.30 |
| Overdue – Within 1 year | 1,357,139 | 38,059 | 2.80 | 789,794 | 26,534 | 3.36 |
| 1 – 2 years | 291,977 | 65,868 | 22.56 | 296,831 | 72,712 | 24.50 |
| 2 – 3 years | 94,176 | 44,739 | 47.51 | 190,713 | 95,150 | 49.89 |
| 3 – 4 years | 126,898 | 78,574 | 61.92 | 229,872 | 173,108 | 75.31 |
| 4 – 5 years | 160,304 | 133,862 | 83.51 | 238,837 | 199,485 | 83.52 |
| Over 5 years | 832,299 | 832,299 | 100.00 | 736,627 | 736,627 | 100.00 |
| **Total** | 7,074,171 | 1,206,035 | 17.05 | 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 December 31, 2023 |
|---|---|---|---|---|---|---|
| | | Provision | Recovery or reversal | Write-off or charge-off | Other decreases | |
| Provision for bad debts | 2,397,795 | 20,878 | 155,286 | 31,558 | -1,532 | 2,233,361 |
| **Total** | 2,397,795 | 20,878 | 155,286 | 31,558 | -1,532 | 2,233,361 |

Among them, the amount of bad debt provision recovery or reversal in the current period is significant:

| Company name | Recovery or reversal amount | Basis for determining the initial bad debt provision and its rationality | Reason for transfer or withdrawal | Recovery method |
|---|---|---|---|---|
| Company A | 58,199 | Provision for bad debts for non-related party combinations | Partial recoverary | Cash recoverary |
| Company B | 49,867 | Individually determined bad debt provisions | Partial recoverary | Cash recoverary |
| **Total** | 108,066 | | | |

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

## 5.2 Accounts receivable (Continued)

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

Accounts receivable of RMB31,558,000 has been charged off in the year.

### 5.2.5 Top 5 of accounts receivable as at December 31, 2023, presented by debtor

| Item | Accounts receivable | Contract asset closing balance | Accounts receivable and contract assets closing balances | Proportion of the total closing balance of accounts receivable and contract assets (%) | Accounts receivable bad debt provision and contract asset impairment provision closing balance |
|---|---|---|---|---|---|
| Entity 1 | 3,927,454 | 6,829,354 | 10,756,808.00 | 36.82 | 59,496 |
| Entity 2 | 810,954 | 1,660,429 | 2,471,383.00 | 8.46 | 47,947 |
| Entity 3 | 799,043 | 863,737 | 1,662,780.00 | 5.69 | 32,788 |
| Entity 4 | 674,448 | 292,819 | 967,267.00 | 3.31 | 7,417 |
| Entity 5 | 892,635 | | 892,635.00 | 3.06 | 892,635 |
| **Total** | 7,104,534 | 9,646,339 | 16,750,873 | 57.34 | 1,040,283 |

## 5.3 Receivables financing

### 5.3.1 Breakdowns of receivables financing

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Notes receivable | **2,693,269** | 1,468,340 |
| Digitize accounts receivable vouchers | **41,812** | |
| **Total** | **2,735,081** | 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 December 31, 2023, the notes receivable endorsed or discounted but not matured amounted to RMB7,472,930,000 (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.

As at December 31, 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 has no pledged receivable financing at the end of the period.

## 5.4 Advances to suppliers

### 5.4.1 Presentation of advances to suppliers by aging

| Aging | Balance as at December 31, 2023 | | Balance as at December 31, 2022 | |
|---|---|---|---|---|
| | Amount | Proportion (%) | Amount | Proportion (%) |
| Within 1 year | **509,374** | **98.85** | 331,945 | 80.88 |
| 1 – 2 years | **739** | **0.14** | 10,921 | 2.66 |
| 2 – 3 years | **485** | **0.09** | 61,219 | 14.92 |
| Over 3 years | **4,709** | **0.91** | 6,357 | 1.55 |
| Sub-total | **515,307** | **100.00** | 410,442 | 100.00 |
| Less: Provision for bad debts | **3,864** | | 3,864 | |
| **Total** | **511,443** | | 406,578 | |

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

### 5.4 Advances to suppliers (Continued)

#### 5.4.2 Top 5 of advances to suppliers as at December 31, 2023, collected by supplier

The sum amount of top 5 of accounts receivable as at December 31, 2023, presented by debtor was RMB222,065,000, accounting for 43.42% of the total ending balance of advances to suppliers.

### 5.5 Other receivables

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Dividends receivable | 433 | 540 |
| Other receivables | 2,759,708 | 3,196,062 |
| **Total** | 2,760,141 | 3,196,602 |

#### 5.5.1 Dividends receivable

*(1) Details of dividends receivable*

| Project (or investee) | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Qianjiang Hengyun Motor Vehicle Comprehensive Performance Inspection & Testing Co., Ltd. | 433 | 540 |
| Sub-total | 433 | 540 |
| Less: provision for bad debts | | |
| **Total** | 433 | 540 |

#### 5.5.2 Other receivables

*(1) Disclosure of other receivables by aging*

| Aging | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Within 1 year | 2,193,288 | 2,421,288 |
| 1 – 2 years | 359,365 | 284,474 |
| 2 – 3 years | 120,444 | 87,480 |
| 3 – 4 years | 49,571 | 573,531 |
| 4 – 5 years | 57,874 | 54,738 |
| Over 5 years | 570,308 | 632,241 |
| Sub-total | 3,350,850 | 4,053,752 |
| Less: provision for bad debts | 591,142 | 857,690 |
| **Total** | 2,759,708 | 3,196,062 |

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

| | Balance at December 31, 2023 | | | Balance as at December 31, 2022 | | |
|---|---|---|---|---|---|---|
| | Book balance | Provision for bad debts | Book value | Book balance | Provision for bad debts | Book value |
| Category | Amount | Amount | Amount | Amount | Amount | Amount |
| Imprest | 4,728 | 126 | 4,602 | 5,188 | 205 | 4,983 |
| Security deposit | 1,153,100 | 107,117 | 1,045,983 | 1,349,502 | 133,650 | 1,215,852 |
| Advance money for the Company | 934,741 | 207,872 | 726,869 | 1,254,411 | 182,084 | 1,072,327 |
| Suspense payment | 899,349 | 237,994 | 661,355 | 1,003,269 | 497,676 | 505,593 |
| Escrow payment | 5,271 | 49 | 5,222 | 5,920 | 1,153 | 4,767 |
| Deposit | 42,785 | 2,776 | 40,009 | 94,537 | 11,162 | 83,375 |
| Export rebates receivable | 5,386 | 76 | 5,310 | 21,161 | 515 | 20,646 |
| Others | 305,490 | 35,132 | 270,358 | 319,764 | 31,245 | 288,519 |
| **Total** | 3,350,850 | 591,142 | 2,759,708 | 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 December 31, 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 | 2,665,560 | 3.88 | 103,419 | 2,562,141 |
| – Imprest | 4,728 | 2.66 | 126 | 4,602 |
| – Margin and deposit | 1,098,975 | 3.70 | 40,663 | 1,058,312 |
| – Other receivables | 1,561,857 | 4.01 | 62,630 | 1,499,227 |
| **Total** | 2,665,560 | | 103,419 | 2,562,141 |

As at December 31, 2023, the Company had no interest receivable, dividends receivable and other receivables at stage II.

Provision for bad debts at stage III as at December 31, 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 | 685,290 | 71.17 | 487,723 | 197,567 |
| – Imprest | | | | |
| – Margin and deposit | 96,910 | 71.44 | 69,230 | 27,680 |
| – Other receivables | 588,380 | 71.13 | 418,493 | 169,887 |
| **Total** | 685,290 | | 487,723 | 197,567 |

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

| Provision for bad debts | Stage I Expected credit loss in future 12 months | Stage II Expected credit loss in the whole duration (without credit impairment) | Stage III Expected credit loss in the whole duration (with credit impairment) | Total |
|---|---|---|---|---|
| Balance as at December 31, 2022 | 142,574 | | 715,116 | 857,690 |
| Balance as at December 31, 2022 in the current period | | | | |
| – Transferred to Stage II | | | | |
| – Transferred to Stage III | | | | |
| – Reversal to Stage II | | | | |
| – Reversal to Stage I | | | | |
| Provision in the current period | 3,654 | | 72,863 | 76,517 |
| Reversal in the current period | 42,498 | | 298,605 | 341,103 |
| Write-off in the current period | | | 91 | 91 |
| Other changes | | | -1,560 | -1,871 |
| Balance as at December 31, 2023 | 103,419 | | 487,723 | 591,142 |

Among them, the amount of bad debt provision recovery or reversal in the current period is significant:

| Company name | Recovery or reversal amount | Basis for determining the initial bad debt provision and its rationality | Reason for transfer or withdrawal | Recovery method |
|---|---|---|---|---|
| Company 1 | 325,031 | Provision for bad debts based on its stage of provision | Arbitration | Cash recoverary |
| **total** | 325,031 | | | |

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

## 5.5 Other receivables (Continued)

### 5.5.2 Other receivables (Continued)

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

Other receivables of RMB91,000 has been charged off in the year.

***(6) Top 5 of other receivables as at December 31, 2023, presented by debtor***

| Company name | Nature | Balance as at December 31, 2023 | Aging | Proportion in the total balance of other receivables as at December 31, 2023 (%) | Balance of provision for bad debts as at December 31, 2023 |
|---|---|---|---|---|---|
| Entity 1 | Security deposits Advance payment | 343,261 | Within 1 year and 3 – 4 years | 10.24 | 7,155 |
| Entity 2 | Security deposits Advance payment | 248,401 | 1 – 5 years and over 5 years | 7.41 | 9,191 |
| Entity 3 | Suspense payment | 166,339 | 2 – 5 years and over 5 years | 4.96 | 166,339 |
| Entity 4 | Disbursements | 136,774 | Over 5 years | 4.08 | 6,346 |
| Entity 5 | Security deposits Disbursements | 125,858 | 4 – 5 years and over 5 years | 3.76 | 125,858 |
| **Total** | | 1,020,633 | | 30.45 | 314,889 |

## 5.6 Inventories

### 5.6.1 Classification of inventories

| Item | Balance as at December 31, 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 | **949,128** | **14,824** | **934,304** | 923,489 | 24,494 | 898,995 |
| Revolving materials | **12,078** | | **12,078** | 14,258 | | 14,258 |
| Goods in process | **5,731** | **1,671** | **4,060** | 6,257 | 1,671 | 4,586 |
| Stock commodities | **92,117** | | **92,117** | 97,835 | 2,429 | 95,406 |
| Contract performance cost | **161,736** | | **161,736** | 103,096 | | 103,096 |
| **Total** | **1,220,790** | **16,495** | **1,204,295** | 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 December 31, 2023 |
|---|---|---|---|---|---|---|
| | | Provision | Others | Reversal or write-off | Others | |
| Raw materials | 24,494 | | | 9,670 | | 14,824 |
| Goods in process | 1,671 | | | | | 1,671 |
| Stock commodities | 2,429 | | | 2,429 | | |
| **Total** | 28,594 | | | 12,099 | | 16,495 |

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

As at December 31, 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 December 31, 2023 | | | Balance as at December 31, 2022 | | |
|---|---|---|---|---|---|---|
| | Book balance | Provision for impairment | Book value | Book balance | Provision for impairment | Book value |
| Contract assets | 16,402,808 | 199,560 | 16,203,248 | 15,815,303 | 201,404 | 15,613,899 |
| **Total** | 16,402,808 | 199,560 | 16,203,248 | 15,815,303 | 201,404 | 15,613,899 |

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

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

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

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

| Category | Balance as at December 31, 2023 | | | | | Balance as at December 31, 2022 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Book balance | | Provision for impairment | | | Book balance | | Provision for impairment | | |
| | Amount | Proportion (%) | Amount | Proportion of provision (%) | Book value | Amount | Proportion (%) | Amount | Proportion of provision (%) | Book value |
| Provision made on an individual basis | 144,307 | 0.88 | 144,307 | 100.00 | | 141,901 | 0.90 | 141,901 | 100.00 | |
| Provision for impairment made by portfolios | 16,258,501 | 99.12 | 55,253 | 0.34 | 16,203,248 | 15,673,402 | 99.10 | 59,503 | 0.38 | 15,613,899 |
| Including: | | | | | | | | | | |
| Petroleum Engineering | 8,632,396 | 52.63 | 32,304 | 0.37 | 8,600,092 | 9,134,876 | 57.76 | 39,691 | 0.43 | 9,095,185 |
| Construction and Engineering | 7,626,105 | 46.49 | 22,949 | 0.30 | 7,603,156 | 6,538,526 | 41.34 | 19,812 | 0.30 | 6,518,714 |
| **Total** | 16,402,808 | 100.00 | 199,560 | | 16,203,248 | 15,815,303 | 100.00 | 201,404 | | 15,613,899 |

Significant contract assets for which impairment provisions are made individually:

| Name | Balance as at December 31, 2023 | | | | Balance as at December 31, 2022 | |
|---|---|---|---|---|---|---|
| | Book balance | Impairment provision | Provision ratio (%) | Basis for accrual | Book balance | Impairment provision |
| Company 1 | 144,307 | 144,307 | 100 | Expected to be unable to settle | 141,901 | 141,901 |
| **Total** | 144,307 | 144,307 | | | 141,901 | 141,901 |

## 5.8 Other current assets

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Value-added tax retained | 1,030,914 | 1,123,184 |
| Input VAT to be certified | 53,422 | 61,174 |
| Value-added tax prepaid | 1,403,186 | 1,153,395 |
| Enterprise income tax prepaid | 5,327 | 25,110 |
| **Total** | 2,492,849 | 2,362,863 |

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

### 5.9 Long-term equity investments

| Investee | Balance as at December 31, 2022 | Increase/decrease in the current period | | | | | | | Balance as at December 31, 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 | 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 | | | 1,101 | | | | | 9,892 | |
| Sinopec Gulf Petroleum Engineering Services, LLC | 13,003 | | -13,383 | | | | | 380 | | |
| EBAPAN,S.A.DEC.V | 1,546 | | | 244 | | -766 | | | 1,024 | |
| Sinopec International Petroleum Engineering Mexico DS Joint Venture | | 1,596 | | 12,647 | 16,447 | | | 476,355 | 507,045 | |
| Sub-total | 23,340 | 1,596 | -13,383 | 13,992 | 16,447 | -766 | | 476,735 | 517,961 | |
| 2. Associates | | | | | | | | | | |
| Hua Bei Ruida Oil Service Company Limited ("Ordos North") | 9,556 | | | 2,782 | | -1,750 | | | 10,588 | |
| Xinjiang North China Tianxiang Oil Service Company Limited ("Xinjiang North") | 3,536 | | | 1,079 | | -900 | | | 3,715 | |
| Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited | 1,732 | | | 481 | | -433 | | | 1,780 | |
| Zhenjiang Huajiang Oil and Gas Engineering Technology Service Co., Ltd | 2,603 | | | 265 | | -430 | | | 2,438 | |
| Henan Zhongyuan Oil & Gas Technology Service Co., Ltd | 2,586 | | | 119 | | -32 | | | 2,673 | |
| Henan Zhongyou Oil & Gas Technology Service Co., Ltd | 6,862 | | | 2,077 | | -658 | | | 8,281 | |
| Beijing Masonry Intelligent Control Technology Co., Ltd | | 6,013 | | 47 | | | | | 6,060 | |
| Sub-total | 26,875 | 6,013 | | 6,850 | | -4,203 | | | 35,535 | |
| **Total** | 50,215 | 7,609 | -13,383 | 20,842 | 16,447 | -4,969 | | 476,735 | 553,496 | |

### 5.10 Investment in other equity instruments

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

| Item | **Balance as at December 31, 2023** | Balance as at December 31, 2022 |
|---|---|---|
| Sinopec Carbon Industry Technology Co., Ltd. | **126,421** | 125,011 |
| Dongying Kewei Intelligent Technology Co., Ltd. | **58** | 116 |
| Shengli Oilfield Niuzhuang Petroleum Development Co., Ltd. | **9,284** | 9,365 |
| **Total** | **135,763** | 134,492 |

#### 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. | | | 358 | | |
| Shengli Oilfield Niuzhuang Petroleum Development Co., Ltd. | 1,200 | 7,284 | | | |
| Sinopec Carbon Industry Technology Co., Ltd. | | | 1,421 | | |

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

## 5.11 Fixed assets

### 5.11.1 Fixed assets and disposal of fixed assets

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Fixed assets | **24,793,685** | 24,849,097 |
| Disposal of fixed assets | **77,136** | 47,510 |
| **Total** | **24,870,821** | 24,896,607 |

### 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 | 13,472 | 3,168,558 | 3,182,030 |
| – Purchase | | 139,445 | 139,445 |
| – Transferred from construction in progress | 13,472 | 3,029,113 | 3,042,585 |
| (3) Decrease in the current period | 8,362 | 2,415,013 | 2,423,375 |
| – Disposal or retirement | 8,362 | 2,415,013 | 2,423,375 |
| (4) Balance as at December 31, 2023 | 1,647,918 | 66,456,682 | 68,104,600 |
| **2. Accumulated depreciation** | | | |
| (1) Balance as at December 31, 2022 | 688,692 | 40,608,232 | 41,296,924 |
| (2) Increase in the current period | 54,806 | 2,985,411 | 3,040,217 |
| – Provision | 54,806 | 2,985,411 | 3,040,217 |
| (3) Decrease in the current period | 6,703 | 2,091,954 | 2,098,657 |
| – Disposal or retirement | 6,703 | 2,091,954 | 2,098,657 |
| (4) Balance as at December 31, 2023 | 736,795 | 41,501,689 | 42,238,484 |
| **3. Provision for impairment** | | | |
| (1) Balance as at December 31, 2022 | 654 | 1,199,270 | 1,199,924 |
| (2) Increase in the current period | | 4,957 | 4,957 |
| – Provision | | 4,957 | 4,957 |
| (3) Decrease in the current period | | 132,450 | 132,450 |
| – Disposal or retirement | | 132,450 | 132,450 |
| (4) Balance as at December 31, 2023 | 654 | 1,071,777 | 1,072,431 |
| **4. Book value** | | | |
| (1) Book value as at December 31, 2023 | 910,469 | 23,883,216 | 24,793,685 |
| (2) Book value as at December 31, 2022 | 953,462 | 23,895,635 | 24,849,097 |

### 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 December 31, 2023, totaling amount in cost of RMB167,225,000, in accumulated depreciation of RMB86,738,000 and net book value of RMB80,487,000.

### 5.11.4 Disposal of fixed assets

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Equipment | **77,136** | 47,510 |
| **Total** | **77,136** | 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 December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Construction in progress | 695,563 | 467,204 |
| Engineer material | 51 | 181 |
| Total | 695,614 | 467,385 |

#### 5.12.2 Details of construction in progress

| Item | Balance as at December 31, 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 | 695,175 | | 695,175 | 459,402 | | 459,402 |
| Other construction projects | | | | 7,414 | | 7,414 |
| **Total** | 699,065 | 3,502 | 695,563 | 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 December 31, 2023 | Proportion of accumulated project investments in budget amount (%) | Project progress | Accumulated capitalized amount of interest | Source of funds |
|---|---|---|---|---|---|---|---|---|---|---|
| 7 drilling rigs in Saudi Arabia | 587,915 | | 587,752 | 439,037 | | 148,715 | 99.28 | 99.28 | | Self-financing in full |
| 2023 Underwater Node Instrument Purchase Project | 189,200 | | 188,984 | 188,984 | | | 100.00 | 100.00 | | Self-financing in full |
| In 2023, fully automatic welding and supporting equipment will be purchased | 141,080 | | 139,695 | 139,695 | | | 100.00 | 100.00 | | Self-financing in full |
| 2023 Kuwait Type 90 drilling rig | 134,600 | | 134,600 | 134,600 | | | 100.00 | 100.00 | | Self-financing in full |
| 2023 fracturing equipment purchase project | 132,930 | | 131,922 | 131,922 | | | 100.00 | 100.00 | | Self-financing in full |
| Power catwalk purchase project Y | 131,620 | | 130,856 | 110,121 | | 20,735 | 99.56 | 99.56 | | Self-financing in full |
| In 2023, the 50 drilling rig in the Shengli work area will be updated and upgraded | 100,760 | | 100,758 | 100,758 | | | 100.00 | 100.00 | | Self-financing in full |
| 2023 diesel-driven fracturing pump truck purchase project (Note 1) | 83,410 | | 83,410 | 70,817 | | 12,593 | 100.00 | 100.00 | | Self-financing in full |
| In 2023, the logging winch will be renewed and purchased | 60,000 | | 59,900 | 17,239 | | 42,661 | 99.83 | 99.83 | | Self-financing in full |
| Purchase of rotary guidance instruments in 2023 (Note 2) | 40,000 | | 40,000 | | | 40,000 | 100.00 | 100.00 | | Self-financing in full |
| **Total** | | | 1,597,877 | 1,333,173 | | 264,704 | | | | |

Note 1: The project is at the testing stage and does not meet the conditions for use.
Note 2: The instrument is in the testing stage and has not yet been accepted

## 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 | 17,267 | 261,832 | 193,426 | 472,525 |
| – Newly-added leases | 11,834 | 231,906 | 156,899 | 400,639 |
| – Adjustment of lease liabilities | 5,433 | 29,926 | 36,527 | 71,886 |
| (3) Decrease in the current period | 28,279 | 176,051 | 475,245 | 679,575 |
| – Adjustment of lease liabilities | 161 | 27,391 | 486 | 28,038 |
| – Write-off or early termination | 28,118 | 148,660 | 474,759 | 651,537 |
| (4) Balance as at December 31, 2023 | 141,103 | 1,152,791 | 656,604 | 1,950,498 |
| **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 | 51,445 | 359,899 | 190,181 | 601,525 |
| – Depreciation | 51,445 | 359,899 | 190,181 | 601,525 |
| (3) Decrease in the current period | 28,085 | 126,018 | 441,755 | 595,858 |
| – Write-off or early termination | 28,085 | 126,018 | 441,755 | 595,858 |
| (4) Balance as at December 31, 2023 | 109,844 | 671,159 | 369,862 | 1,150,865 |
| **3. Provision for impairment** | | | | |
| **4. Book value** | | | | |
| (1) Book value as at December 31, 2023 | 31,259 | 481,632 | 286,742 | 799,633 |
| (2) Book value as at December 31, 2022 | 65,631 | 629,732 | 316,987 | 1,012,350 |

Other description: As at December 31, 2023, the lease expenses recognized by the Group and relevant to the short-term lease and low-value assets lease amounted to RMB1,451,349,000.

# 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 | 137,876 | 251,083 | 786,837 | 77,383 | 1,253,179 |
| (2) Increase in the current period | 12,511 | 50,319 | 82,452 | 35 | 145,317 |
| – Purchase | 12,511 | 50,319 | | 35 | 62,865 |
| – Complete of construction | | | 82,452 | | 82,452 |
| (3) Decrease in the current period | | 660 | | | 660 |
| – Dispose | | 660 | | | 660 |
| (4) Balance as at December 31, 2023 | 150,387 | 300,742 | 869,289 | 77,418 | 1,397,836 |
| **2. Accumulated amortization** | | | | | |
| (1) Balance as at December 31, 2022 | 34,626 | 162,689 | 525,583 | 48,791 | 771,689 |
| (2) Increase in the current period | 3,564 | 25,567 | 146,680 | 8,127 | 183,938 |
| – Provision | 3,564 | 25,567 | 146,680 | 8,127 | 183,938 |
| (3) Decrease in the current period | | 569 | | | 569 |
| – Dispose | | 569 | | | 569 |
| (4) Balance as at December 31, 2023 | 38,190 | 187,687 | 672,263 | 56,918 | 955,058 |
| **3. Provision for impairment** | | | | | |
| **4. Book value** | | | | | |
| (1) Book value as at December 31, 2023 | 112,197 | 113,055 | 197,026 | 20,500 | 442,778 |
| (2) Book value as at December 31, 2022 | 103,250 | 88,394 | 261,254 | 28,592 | 481,490 |

① As at December 31, 2023, there were no intangible assets generating from the internal research and development.

② As at December 31, 2023, there were no intangible assets under pledge or guarantee.

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

As at December 31, 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 RMB2,710,000, and the net book value was RMB5,057,000.

## 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 December 31, 2023 |
|---|---|---|---|---|---|
| Special tools for petroleum engineering | 5,683,912 | 2,160,341 | 1,943,777 | 8,960 | 5,891,516 |
| Other tools for petroleum engineering | 753,577 | 855,981 | 428,586 | 7,208 | 1,173,764 |
| Camping house | 777,878 | 332,830 | 268,637 | 6,577 | 835,494 |
| Other long-term deferred expenses | 40,072 | 6,217 | 8,296 | | 37,993 |
| **Total** | 7,255,439 | 3,355,369 | 2,649,296 | 22,745 | 7,938,767 |

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

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

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

### 5.16.1 Deferred income tax assets without offset

| Item | Balance as at December 31, 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 | 1,084,637 | 175,082 | 953,538 | 155,815 |
| Provision for bad debts | 826,068 | 146,341 | 731,120 | 133,660 |
| Deferred income | 8,179 | 1,227 | 4,877 | 731 |
| Deductible loss | 458,612 | 68,792 | 481,761 | 72,264 |
| Lease liabilities | 57,168 | 9,245 | 48,090 | 7,544 |
| **Total** | 2,434,664 | 400,687 | 2,219,386 | 370,014 |

### 5.16.2 Deferred income tax liabilities before offset

| Item | Balance as at December 31, 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 |
| Depreciation of fixed assets | 565,286 | 84,793 | 378,327 | 59,745 |
| Changes in fair value through other comprehensive income | 8,705 | 2,176 | 7,376 | 1,845 |
| Right-of-use assets | 384 | 58 | 30,103 | 5,129 |
| **Total** | 574,375 | 87,027 | 422,916 | 68,496 |

### 5.16.3 Details of unrecognized deferred income tax assets

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Deductible temporary differences | 2,196,367 | 2,941,933 |
| Deductible losses | 14,421,209 | 12,609,694 |
| **Total** | 16,617,576 | 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 December 31, 2023 | Balance as at December 31, 2022 | Remark |
|---|---|---|---|
| Year 2023 | | 246,170 | |
| Year 2024 | 132,055 | 136,050 | |
| Year 2025 | 450,104 | 453,670 | |
| Year 2026 | 9,010,277 | 9,176,676 | |
| Year 2027 | 2,277,758 | 2,277,758 | |
| Year 2028 and later | 2,551,015 | 319,370 | |
| **Total** | 14,421,209 | 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 December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|---|
| Credit loans from related parties | RMB | **19,185,000** | 16,095,000 |
| | USD | **722,435** | 1,828,208 |
| Total | | **19,907,435** | 17,923,208 |

Description: As at December 31, 2023, the Group has no overdue short-term borrowings.

As at December 31, 2023, The interest rate on RMB borrowing ranges from 2.90% to 3.75% (As at December 31, 2022: 1.42%-3.70%). The interest rate on US dollar borrowing ranges from 5.90% to 6.60% (As at December 31, 2022:2.22%-4.80%).

### 5.18 Notes payable

| Category | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Bank acceptance bill | **8,821,760** | 7,987,375 |
| Commercial acceptance bill | | 2,850 |
| **Total** | **8,821,760** | 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 December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Payables for materials | **6,133,102** | 5,953,406 |
| Payables for construction | **6,882,583** | 6,680,943 |
| Payable for labour cost | **8,396,477** | 8,150,479 |
| Payables for equipment | **4,108,661** | 3,988,288 |
| Others | **853,105** | 828,112 |
| **Total** | **26,373,928** | 25,601,228 |

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

| Item | Balance as at December 31, 2023 | Reason for no payment or carry-forward |
|---|---|---|
| Entity 1 | **106,117** | Unsettled payment |
| **Total** | **106,117** | |

### 5.20 Contract liabilities

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Petroleum Engineering | **2,335,587** | 1,858,141 |
| Construction Engineering | **3,025,687** | 3,257,678 |
| **Total** | **5,361,274** | 5,115,819 |

In the current period, revenue recognized based on the contract liabilities at the beginning of the current period amounted to RMB3,637,714,000.

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

### 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 December 31, 2023 |
|---|---|---|---|---|
| Short term employee benefits | 569,494 | 16,866,950 | 16,575,275 | 861,169 |
| Post-employment benefits | 796 | 2,232,653 | 2,231,547 | 1,902 |
| Termination benefits | | 33,182 | 33,182 | |
| **Total** | 570,290 | 19,132,785 | 18,840,004 | 863,071 |

#### 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 December 31, 2023 |
|---|---|---|---|---|
| (1) Wages or salaries, bonuses, allowances and subsidies | 374,436 | 11,532,142 | 11,227,595 | 678,983 |
| (2) Staff welfare | | 1,168,661 | 1,168,661 | |
| (3) Social security contributions | 1,910 | 1,164,537 | 1,165,458 | 989 |
| Including: 1. Basic medical insurance | 1,494 | 992,942 | 993,563 | 873 |
| 2. Work-related injury insurance | 7 | 80,985 | 80,928 | 64 |
| 3. Birth insurance | 30 | 31,838 | 31,832 | 36 |
| 4. Other insurance | 379 | 58,772 | 59,135 | 16 |
| (4) Housing funds | 1,774 | 1,105,404 | 1,105,758 | 1,420 |
| (5) Labor union and employee education funds | 185,336 | 360,462 | 372,462 | 173,336 |
| (6) Others | 6,038 | 1,535,744 | 1,535,341 | 6,441 |
| **Total** | 569,494 | 16,866,950 | 16,575,275 | 861,169 |

#### 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 December 31, 2023 |
|---|---|---|---|---|
| Basic pension insurance | 460 | 1,449,372 | 1,448,548 | 1,284 |
| Unemployment insurance | 15 | 60,436 | 60,411 | 40 |
| Annuity | 321 | 722,845 | 722,588 | 578 |
| **Total** | 796 | 2,232,653 | 2,231,547 | 1,902 |

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 RMB33,182,000 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 December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| VAT | 414,317 | 396,565 |
| Corporate income tax | 206,715 | 252,726 |
| Urban maintenance and construction tax | 29,172 | 34,974 |
| House property tax | 1,331 | 1,223 |
| Land use tax | 11,341 | 12,733 |
| Individual income tax | 204,310 | 174,702 |
| Education surtax | 18,487 | 21,422 |
| Other taxes | 115,231 | 104,549 |
| **Total** | 1,000,904 | 998,894 |

### 5.23 Other payables

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Interest payable | 20,006 | 21,885 |
| Other payables | 3,342,677 | 2,706,259 |
| **Total** | 3,362,683 | 2,728,144 |

#### 5.23.1 Interest payable

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Interest payable of long-term loan which interest paid by installment and principal paid at maturity date | 2,420 | 5,069 |
| Interest payable of short-term loan | 17,586 | 16,816 |
| **Total** | 20,006 | 21,885 |

#### 5.23.2 Other payables

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

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Guarantee | 1,056,429 | 819,893 |
| Deposit | 157,375 | 145,438 |
| Amount paid on behalf | 725,937 | 645,731 |
| Temporary receipts | 474,728 | 238,069 |
| Escrow payments | 45,194 | 44,611 |
| Withheld payments | 57,811 | 56,067 |
| Others | 825,203 | 756,450 |
| **Total** | 3,342,677 | 2,706,259 |

As at December 31, 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.

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

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

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Long-term borrowings within one year | | 1,000,000 |
| Lease liabilities within one year | 436,121 | 517,190 |
| **Total** | 436,121 | 1,517,190 |

### 5.25 Long-term borrowings

Classification of long-term borrowings:

| Item | Balance as at December 31, 2023 | Interest rate period | Balance as at December 31, 2022 | Interest rate period |
|---|---|---|---|---|
| Loans on credit | 318,722 | 7.19% | 1,480,557 | 2.37%-2.92% |
| Sub-total | 318,722 | | 1,480,557 | |
| Less: Long-term loans within one year | | | 1,000,000 | |
| **Total** | 318,722 | | 480,557 | |

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

### 5.26 Lease liabilities

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Land and housing | 467,639 | 687,361 |
| Equipment and others | 285,602 | 326,874 |
| Sub-total | 753,241 | 1,014,235 |
| Less: Lease liabilities within one year | 436,121 | 517,190 |
| **Total** | 317,120 | 497,045 |

The interest expenses of lease liabilities accrued for year ended December 31, 2023 were RMB42,456,000, which were included in the “financial expenses – interest expenses.”

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

### 5.27 Long-term payables

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Long-term payables | 58,829 | 74,657 |
| Total | 58,829 | 74,657 |

#### 5.27.1 Long-term payables

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Other long-term payables | 58,829 | 74,657 |
| Sub-total | 58,829 | 74,657 |
| Less: Long-term payables within one year | | |
| Total | 58,829 | 74,657 |

### 5.28 Estimated liabilities

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 | Forming reason |
|---|---|---|---|
| Outstanding litigation | | 4,000 | |
| Expected loss of judicial restructuring | 150,743 | 159,323 | Estimated payment costs of judicial restructuring |
| Executory onerous contracts | 3,948 | 17,429 | Expected loss of construction contract |
| Estimated foreign tax expenses | 58,018 | 20,246 | Estimated tax expense |
| Total | 212,709 | 200,998 | |

For details of expected loss of judicial restructuring, please see Note 13 (2).1 Significant contingencies existing on balance sheet date.

### 5.29 Deferred income

| Item | Balance as at December 31, 2022 | Increase in current period | Decrease in current period | Balance as at December 31, 2023 | Forming reason |
|---|---|---|---|---|---|
| Government grants | 11,576 | 352,614 | 346,001 | 18,189 | Government grants received |
| Total | 11,576 | 352,614 | 346,001 | 18,189 | |

### 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 December 31, 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 |

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

### 5.30 Share capital (Continued)

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 (A-share) | 11,786,046 | | | | | | 11,786,046 |
| RMB social public shares (A-share) | 1,783,333 | | | | | | 1,783,333 |
| Foreign shares listed overseas (H-share) | 5,414,961 | | | | | | 5,414,961 |
| **Total** | 18,984,340 | | | | | | 18,984,340 |

### 5.31 Capital reserves

Current Period

| Item | Balance as at December 31, 2022 | Increase in current period | Decrease in current period | Balance as at December 31, 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 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 December 31, 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 | Amount after tax attributable to minority shareholders | |
| 1. Other comprehensive income that cannot be reclassified into profit or loss | 5,232 | 1,271 | | | 332 | 939 | | 6,171 |
| Including: changes in the fair value of other equity instruments investment | 5,232 | 1,271 | | | 332 | 939 | | 6,171 |
| 2. Other comprehensive income that will be reclassified into profit or loss | | 16,447 | | | | 16,447 | | 16,447 |
| Including: other comprehensive income from transferable gains or losses under the equity method | | 16,447 | | | | 16,447 | | 16,447 |
| **Total of other comprehensive income** | 5,232 | 17,718 | | | 332 | 17,386 | | 22,618 |

Net other comprehensive income after tax for the period was RMB17,386,000. Among them, the net after-tax amount of other comprehensive income attributable to shareholders of the parent company was RMB17,386,000 for the period.

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

### 5.33 Special reserves

| Item | Balance as at December 31, 2022 | Increase in current period | Decrease in current period | Balance as at December 31, 2023 |
|---|---|---|---|---|
| Production safety fund | 326,983 | 1,230,578 | 1,243,712 | 313,849 |
| **Total** | 326,983 | 1,230,578 | 1,243,712 | 313,849 |

In accordance with PRC regulations, the Group appropriated production safety fund of RMB1,230,578,000 to specific reserve for year ended December 31, 2023, which was recognised in the cost of related products and the Specific reserve. for year ended December 31, 2023, the Group utilised production safety fund amounting to RMB1,243,712,000 which was of expenditure nature.

### 5.34 Surplus reserves

| Item | Balance as at December 31, 2022 | Increase in current period | Decrease in current period | Balance as at December 31, 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 prior year before adjustment | -23,804,977 | -24,256,338 | |
| Adjustment of the total undistributed profit at the beginning of the year (increase +, decrease -) | | -9,669 | |
| Undistributed profit at the beginning of the year | -23,804,977 | -24,266,007 | |
| Plus: net profit attributable to owners of the parent company in the period | 589,216 | 475,898 | |
| Other comprehensive income carried forward to retained earnings | | -14,868 | |
| Retained earnings as at the end of the period | -23,215,761 | -23,804,977 | |
| Including: the amount of the surplus reserve withdrawn by subsidiaries in the year attributable to the parent company | 70,123 | 25,961 | |

Details of the adjustment of undistributed profits at the beginning of the year:

1. Due to the retrospective adjustment of the "Accounting Standards for Business Enterprises" and its related new regulations, please see Note 3 (35) for details.

### 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 | **78,925,046** | **73,537,336** | 72,483,444 | 67,208,238 |
| Other business | **1,055,893** | **650,161** | 1,289,244 | 795,249 |
| **Total** | **79,980,939** | **74,187,497** | 73,772,688 | 68,003,487 |

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

## 5.36 Revenue and cost of sales (Continued)

### 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 | 3,874,000 | 28,646,641 | 3,475,624 | 9,541,962 | 15,972,405 | 1,323,403 | 62,834,035 |
| Other countries or regions | 1,798,348 | 11,157,083 | 80,058 | 1,156,033 | 1,845,295 | 54,194 | 16,091,011 |
| **Total** | 5,672,348 | 39,803,724 | 3,555,682 | 10,697,995 | 17,817,700 | 1,377,597 | 78,925,046 |
| **Client type** | | | | | | | |
| Related parties | 3,392,642 | 25,436,549 | 3,006,764 | 8,183,780 | 12,991,426 | 533,877 | 53,545,038 |
| Third party | 2,279,706 | 14,367,175 | 548,918 | 2,514,215 | 4,826,274 | 843,720 | 25,380,008 |
| **Total** | 5,672,348 | 39,803,724 | 3,555,682 | 10,697,995 | 17,817,700 | 1,377,597 | 78,925,046 |
| **Recognition time of revenue** | | | | | | | |
| Goods (recognised at a certain time) | | 7,359 | | 6,120 | 20,432 | 375,305 | 409,216 |
| Service (recognised over time) | 5,672,348 | 39,796,365 | 3,555,682 | 10,691,875 | 17,797,268 | 1,002,292 | 78,515,830 |
| **Total** | 5,672,348 | 39,803,724 | 3,555,682 | 10,697,995 | 17,817,700 | 1,377,597 | 78,925,046 |

### 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 December 31, 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 RMB24,284,000,000. 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 NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5.37 Taxes and surcharges

| Item | Current period | Prior period |
|---|---|---|
| Urban maintenance and construction tax | 47,810 | 44,060 |
| Educational surcharges | 38,355 | 34,861 |
| Overseas taxes and surcharges | 120,057 | 84,439 |
| Property taxes | 10,177 | 9,945 |
| Land use taxes | 51,078 | 55,708 |
| Vehicle and vessel usage tax | 7,785 | 7,853 |
| Stamp duty | 51,722 | 51,217 |
| Others | 2,901 | 3,008 |
| **Total** | 329,885 | 291,091 |

### 5.38 Selling and distribution expenses

| Item | Current period | Prior period |
|---|---|---|
| Staff costs | 60,076 | 59,053 |
| Depreciation cost | 670 | 611 |
| Expenses for business trips | 4,629 | 3,133 |
| Publicity expenses | 5,347 | 39 |
| Rental expenses | 1,980 | 1,718 |
| Office expenses | 2,773 | 2,541 |
| Others | 7,214 | 7,949 |
| **Total** | 82,689 | 75,044 |

### 5.39 General and administrative expenses

| Item | Current period | Prior period |
|---|---|---|
| Repair and maintenance | 14,963 | 33,468 |
| Staff costs | 1,621,224 | 1,531,355 |
| The information system runs maintenance fees | 76,498 | 56,032 |
| Business entertainment | 24,125 | 22,894 |
| Travel expenses | 59,575 | 32,134 |
| Rental expenses | 20,167 | 22,944 |
| Depreciation and amortization | 125,449 | 131,226 |
| Consultation | 23,450 | 25,700 |
| Property insurance | 2,239 | 2,654 |
| Others | 426,796 | 444,879 |
| **Total** | 2,394,486 | 2,303,286 |

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

### 5.40 Research and development expenses

| Item | Current period | Prior period |
|---|---|---|
| Staff costs | 757,642 | 726,794 |
| Materials costs | 958,002 | 713,551 |
| Technical collaboration fee | 59,179 | 189,175 |
| Experimental expenses | 31,182 | 57,536 |
| Depreciation | 63,534 | 48,979 |
| Others | 214,257 | 102,933 |
| **Total** | 2,083,796 | 1,838,968 |

### 5.41 Financial expenses

| Item | Current period | Prior period |
|---|---|---|
| Interest expenses on borrowings | 762,561 | 644,461 |
| Interest expenses on lease liabilities | 42,456 | 59,843 |
| Interest income | -23,649 | -15,408 |
| Exchange losses/(gains) | 34,952 | -98,667 |
| Bank charges and others | 77,753 | 37,367 |
| **Total** | 894,073 | 627,596 |

### 5.42 Other income

| Grant items | Current period | Prior period |
|---|---|---|
| National research grants | 20,075 | 8,835 |
| Subsidies of enterprise development | 12,495 | 7,078 |
| Subsidies of stable post | 13,662 | 14,191 |
| Government incentives | 1,173 | 500 |
| Self-use refined oil consumption tax refund | 262,534 | |
| National research grants | 814 | 1,164 |
| Additional input VAT credit | 35,249 | 35,918 |
| Return of individual income tax fee | 4,291 | 2,996 |
| **Total** | 350,293 | 70,682 |

### 5.43 Investment income

| Item | Current period | Prior period |
|---|---|---|
| investment income from Long-term equity calculated by equity method | 20,842 | 7,504 |
| Investment income from the disposal of long-term equity investments | -1,020 | |
| Dividend income obtained during the holding period of other equity instrument investments | 1,200 | 500 |
| Investment income from debt restructuring | 34,011 | 18,157 |
| Investment income from disposal of trading financial assets | | 798 |
| **Total** | 55,033 | 26,959 |

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

### 5.44 Impairment of credit losses

| Item | Current period | Prior period |
|---|---|---|
| Losses form impairment of accounts receivable | -134,408 | -82,515 |
| Losses form impairment of other receivables | -264,586 | 6,985 |
| **Total** | -398,994 | -75,530 |

### 5.45 Impairment of assets

| Item | Current period | Prior period |
|---|---|---|
| Losses from impairment of contract assets | -4,250 | 97,454 |
| Losses from impairment of inventories | | 2,429 |
| Impairment loss on fixed assets | 4,957 | |
| **Total** | 707 | 99,883 |

### 5.46 Gains from disposal of assets

| Item | Current period | Prior period |
|---|---|---|
| Gain on disposal of fixed assets ("-" for losses) | 85,168 | 13,525 |
| Others | 2,675 | 12,363 |
| **Total** | 87,843 | 25,888 |

### 5.47 Non-operating income

| Item | Current period | Prior period | Amount included in the current non-recurring profit or loss |
|---|---|---|---|
| Income from waived payables | 20,509 | 14,711 | 20,509 |
| Compensation received | 3,489 | 8,201 | 3,489 |
| Penalty income | 2,508 | 4,290 | 2,508 |
| Gains from assets counts | | 2,202 | |
| Insurance compensation | 1,159 | 1,455 | 1,159 |
| Gain from asset scrap | 90,682 | 39,445 | 90,682 |
| Government subsidy income | | 36,704 | |
| Relocation compensation | | 26,877 | |
| Other | 19,840 | 17,182 | 19,840 |
| **Total** | 138,187 | 151,067 | 138,187 |

### 5.48 Non-operating expenses

| Item | Current period | Prior period | Amount included in the current non-recurring profit or loss |
|---|---|---|---|
| Donation | 966 | 1,764 | 966 |
| Compensation | 17,339 | 9,016 | 17,339 |
| Penalty | 2,067 | 2,265 | 2,067 |
| Non-current assets written off | 22,011 | 71,538 | 22,011 |
| Others | 67,433 | 69,515 | 67,433 |
| **Total** | 109,816 | 154,098 | 109,816 |

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

### 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 | **351,598** | 265,049 |
| Deferred income tax | **-12,474** | -11,586 |
| **Total** | **339,124** | 253,463 |

#### 5.49.2 Adjustment process of accounting profits and income tax expenses

| Item | Current period |
|---|---|
| Total profits | **928,340** |
| Income tax expenses calculated at statutory tax rate | **232,085** |
| Effect of different tax rates used by subsidiaries | **-11,339** |
| Adjustments of current tax in previous years | **-38,439** |
| Profit and loss of joint ventures and associates accounted for using the equity method | **-4,552** |
| Effect of non-deductible costs, expenses, and losses | **88,277** |
| Effect of unrecognized deferred income tax assets in prior periods | **-28,915** |
| Effect of deductible temporary differences or losses from deferred income tax assets unrecognized in current period | **248,619** |
| Tax effect of additional deduction of research and development expenses | **-146,612** |
| Income tax expenses | **339,124** |

### 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 | **1,420,025** | 1,408,619 |
| Government grants | **358,519** | 109,674 |
| Temporary receipt and payment | **1,244,829** | 1,416,960 |
| Guarantee | **944,204** | 1,321,081 |
| Compensation | **15,793** | 63,640 |
| Deposits | **23,944** | 34,082 |
| Others | **498,828** | 530,091 |
| **Total** | **4,506,142** | 4,884,147 |

#### 5.50.2 Cash paid for other operating activities

| Item | Current period | Prior period |
|---|---|---|
| Temporary receipt and payment | **118,304** | 206,390 |
| Guarantee | **901,768** | 1,349,502 |
| Integrated service | **107,167** | 92,402 |
| Repair and maintenance expenses | **758,356** | 612,605 |
| Other operating expenses | **1,762,852** | 1,505,492 |
| Others | **94,817** | 146,595 |
| **Total** | **3,743,264** | 3,912,986 |

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

### 5.50 Items of statement of cash flows (Continued)

#### 5.50.3 Cash paid for other financing activities

| Item | Current period | Prior period |
|---|---|---|
| Lease payments | 588,713 | 503,490 |
| Notes acceptance fee | 793 | 1,293 |
| Payment of guarantee and commitment fees | 39,483 | 21,536 |
| **Total** | 628,989 | 526,319 |

### 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 | 589,216 | 475,898 |
| Plus: Impairment of credit losses | -398,994 | -75,530 |
| Impairment losses on assets | 707 | 99,883 |
| Depreciation of fixed assets | 3,040,217 | 2,998,078 |
| Depreciation of right-of-use assets | 601,525 | 632,496 |
| Amortization of intangible assets | 183,938 | 161,220 |
| Amortization of long-term deferred expenses | 2,649,296 | 2,292,581 |
| Losses on disposal of fixed assets, intangible assets, and other long-term assets ("-" for gains) | -87,843 | -25,888 |
| Losses from scrapping of fixed assets ("-" for gains) | -68,671 | 32,093 |
| Financial expenses ("-" for gains) | 846,439 | 568,686 |
| Investment loss ("-" for gains) | -55,033 | -26,959 |
| Decreases in deferred income tax assets ("-" for increases) | -30,673 | -66,150 |
| Increases in deferred income tax liabilities ("-" for decreases) | 18,199 | 54,563 |
| Decreases in inventories ("-" for increases) | -87,954 | -30,350 |
| Decreases in operating receivables ("-" for increases) | -4,409,545 | -5,522,350 |
| Increases in operating payables ("-" for decreases) | 2,799,223 | 2,521,797 |
| Production safety fund | -13,134 | 107,801 |
| Net cash flows from operating activities | 5,576,913 | 4,197,869 |
| **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 | 2,788,798 | 1,801,150 |
| Less: beginning balance of cash and cash equivalents | 1,801,150 | 2,475,306 |
| Net increase in cash and cash equivalents | 987,648 | -674,156 |

#### 5.51.2 Breakdowns of cash and cash equivalents

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| I. Cash | 2,788,798 | 1,801,150 |
| Including: cash on hand | 1,551 | 2,992 |
| Unrestricted bank deposits | 2,786,895 | 1,797,634 |
| Other unrestricted monetary funds | 352 | 524 |
| II. Cash equivalents | | |
| III. Ending balance of cash and cash equivalents | 2,788,798 | 1,801,150 |
| Including: Restricted cash and cash equivalents by the parent company or its subsidiary subsidiaries | | |

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

## 5.52 Assets with restrictions on the ownership or use right

| Item | Book value as at December 31, 2023 | Reason for restriction |
|---|---|---|
| Cash at bank and on hand | 27,318 | Guarantee and funds that are blocked frozen |
| **Total** | **27,318** | |

## 5.53 Foreign currency monetary items

### 5.53.1 Foreign currency monetary items

| Item | Balance in foreign currency as at December 31, 2023 | Exchange rate for conversion | RMB amount translated as at December 31, 2023 |
|---|---|---|---|
| **Monetary funds** | | | 974,826 |
| Including: USD | 87,785 | 7.0827 | 621,753 |
| KWD | 7,528 | 23.0459 | 173,485 |
| SAR | 11,595 | 1.8926 | 21,946 |
| DZD | 196,705 | 0.0528 | 10,391 |
| Others | | | 147,251 |
| **Accounts receivable** | | | 5,158,779 |
| Including: USD | 544,481 | 7.0827 | 3,856,395 |
| KWD | 16,806 | 23.0459 | 387,319 |
| SAR | 247,917 | 1.8926 | 469,219 |
| DZD | 829,085 | 0.0528 | 43,795 |
| Others | | | 402,051 |
| **Other receivables** | | | 1,186,305 |
| Including: USD | 77,565 | 7.0827 | 549,369 |
| KWD | 10,934 | 23.0459 | 251,975 |
| SAR | 110,632 | 1.8926 | 209,388 |
| DZD | 258,306 | 0.0528 | 13,644 |
| Others | | | 161,929 |
| **Accounts payable** | | | 1,378,866 |
| Including: USD | 88,646 | 7.0827 | 627,850 |
| KWD | 3,428 | 23.0459 | 79,000 |
| SAR | 259,001 | 1.8926 | 490,197 |
| DZD | 944,633 | 0.0528 | 49,898 |
| Others | | | 131,921 |
| **Other payables** | | | 566,507 |
| Including: USD | 51,258 | 7.0827 | 363,042 |
| KWD | 6,580 | 23.0459 | 151,640 |
| SAR | 4,732 | 1.8926 | 8,956 |
| DZD | 596,518 | 0.0528 | 31,510 |
| Others | | | 11,359 |
| **Interest payable** | | | 2,422 |
| Including: USD | 342 | 7.0827 | 2,422 |
| **Short-term borrowings** | | | 722,435 |
| Including: USD | 102,000 | 7.0827 | 722,435 |
| **Long-term borrowings** | | | 318,722 |
| Including: USD | 45,000 | 7.0827 | 318,722 |

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

### 5.54 Lease

#### 5.54.1 As the lessee

| Item | Current period |
|---|---|
| Interest expenses on lease liabilities | **42,456** |
| Expense on short-term lease under simplified treatment and included in relevant asset costs or the current profit or loss | **1,451,349** |
| Total cash outflows relevant to lease | **2,148,964** |

The Company's future potential cash outflows not included in the lease liabilities for measurement mainly come from leases where the leasee 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 | 447,248 |
| 1 – 2 years | 16,400 |
| 2 – 3 years | 17,400 |
| Over 3 years | 18,000 |
| **Total** | 499,048 |

#### 5.54.2 As the lessor

*(1) Operating lease*

| | Current period |
|---|---|
| Revenue from operating lease | **58,916** |
| Including: Revenue relevant to variable lease payment not included in lease receipts | |

Undiscounted lease receipts that will be collected after December 31, 2023:

| Remaining lease term | Current period |
|---|---|
| Within 1 year | **128,288** |
| 1 – 2 years | **11,170** |
| 2 – 3 years | **5,575** |
| 3 – 4 years | **5,498** |
| 4 – 5 years | **5,498** |
| Over 5 years | **3,039** |
| **Total** | **159,068** |

## 6 R&D EXPENDITURES

### (1) R&D expenditures

| Item | Current period | Prior period |
|---|---|---|
| Labor costs | **757,642** | 726,794 |
| Material costs | **958,002** | 713,551 |
| Technical collaboration fee | **59,179** | 189,175 |
| Expenses for scientific research experiments | **31,182** | 57,536 |
| Depreciation | **63,534** | 48,979 |
| Other | **214,257** | 102,933 |
| **Total** | **2,083,796** | 1,838,968 |
| Including: Expense R&D expenditure | **2,083,796** | 1,838,968 |
| Capitalize R&D expenditures | | |

### (2) Development expenditures

During the reporting period, the company did not incur capitalized R&D expenditures.

# 7 CHANGE OF CONSOLIDATION SCOPE

During the reporting period, SGG Petroleum Engineering Services Co., Ltd., a fourth-tier subsidiary, was deregistered.

# 8 EQUITY IN OTHER ENTITIES

## 8.1 Equity in the subsidiaries

### 8.1.1 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 Jianghan 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 |

## 8.2 Equity in joint venture arrangements or associates

### 8.2.1 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 | |
| Sinopec International Petroleum Engineering Mexico DS Joint Venture | Mexico | Mexico | Oilfield technical services | 50.00 | | Equity method |

# 8 EQUITY IN OTHER ENTITIES (Continued)

## 8.2 Equity in joint venture arrangements or associates (Continued)

### 8.2.2 Principal financial information of major joint ventures

| | Sinopec International Petroleum Engineering Mexico DS Joint Venture. | |
|---|---|---|
| | **Balance as at December 31, 2023/ Current period** | Balance as at December 31, 2022/ Prior period |
| Current assets | 904,431 | |
| Including: cash and cash equivalents | 233,975 | |
| Non-current assets | 2,250,768 | |
| **Total assets** | 3,155,199 | |
| Current liabilities | 1,144,987 | |
| Non-current liabilities | 996,123 | |
| **Total liabilities** | 2,141,110 | |
| Net assets | 1,014,089 | |
| Equity attributable to shareholders of the Company | 507,045 | |
| Adjusted matters | | |
| Carrying amount of equity investment in joint ventures | 507,045 | |
| Revenue | 378,141 | |
| Financial expenses | 21,602 | |
| Income tax expenses | | |
| Net profit | 25,294 | |
| Other comprehensive income | | |
| **Total comprehensive income** | 25,294 | |
| Dividends received from joint ventures | | |

### 8.2.3 Summary of financial information on insignificant joint ventures or associates

| | **Balance as at December 31, 2023/ Current period** | Balance as at December 31, 2022/ Prior period |
|---|---|---|
| **Joint ventures:** | | |
| Total book value of investments | 10,916 | 23,340 |
| Total amount calculated based on the following shareholding proportions | | |
| – Net profit | 1,345 | 890 |
| – Other comprehensive income | | |
| – Total comprehensive income | 1,345 | 890 |
| **Associates:** | | |
| Total book value of investments | 35,535 | 26,875 |
| Total amount calculated based on the following shareholding proportions | | |
| – Net profit | 6,850 | 6,614 |
| – Other comprehensive income | | |
| – Total comprehensive income | 6,850 | 6,614 |

# 9. GOVERNMENT GRANTS

## 9.1 The type, amount and presentation of government subsidies

### 1. Government subsidies included in the profit or loss for the current period

Asset-related government grants

| Balance sheet presentation items | The amount of government subsidy | The amount included in profit or loss for the current period or offset related costs and expenses | | Items included in profit or loss for the current period or offset related costs and expenses |
|---|---|---|---|---|
| | | Amount for the current period | The amount of the previous period | |
| Deferred earnings | 967 | 814 | 1,164 | Other income |
| Total | 967 | 814 | 1,164 | |

Revenue-related government grants

| Items included in profit or loss for the current period or offset related costs and expenses | The amount of government subsid | The amount included in profit or loss for the current period or offset related costs and expenses | |
|---|---|---|---|
| | | Amount for the current period | The amount of the previous period |
| Other income | 367,514 | 349,479 | 106,222 |
| Total | 367,514 | 349,479 | 106,222 |

| 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 December 31, 2023 | Presented items carried forward and included in profit or loss in current period | Assets-related/ Income-related |
|---|---|---|---|---|---|---|---|
| Relocation compensation | Financial appropriation | | 1,592 | 1,592 | | Other gains | Income-related |
| Return of individual income tax fee | Financial appropriation | | 4,292 | 4,292 | | Other gains | Income-related |
| Special funds for national scientific research | Financial appropriation | 7,586 | 22,275 | 20,075 | 9,786 | Other gains | Income-related |
| Excise tax refund for self-use refined oil products | Financial appropriation | | 262,534 | 262,534 | | Other gains | Income-related |
| Grants for enterprise development | Financial appropriation | 2,500 | 18,148 | 12,495 | 8,153 | Other gains | Income-related |
| Subsidy for job stabilization | Financial appropriation | | 12,166 | 12,069 | 97 | Other gains | Income-related |
| Government incentive fund | Financial appropriation | | 1,173 | 1,173 | | Other gains | Income-related |
| Additional VAT deduction | Financial appropriation | 523 | 34,726 | 35,249 | | Other gains | Income-related |
| Grants for enterprise development – Asset-related | Financial appropriation | 967 | | 814 | 153 | Other gains | Asset-related |
| Total | | 11,576 | 356,906 | 350,293 | 18,189 | | |

## 10. 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.

#### 10.1 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 sate-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 fi-nancial 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 55.35% (in 2022: 58.11%); among the other receivable of the Group, the other receivable of the top five customers accounted for 30.46% (2022: 45.93%).

#### 10.2 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 December 31, 2023, the amount of bank loans not yet used by the Group is RMB13,147,147,000. (as at December 31, 2022: RMB13,189,601,000).

# 10. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

## Risk management objectives and policies (Continued)

### 10.2 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 December 31, 2023 | | | | |
|---|---|---|---|---|---|
| | Within 1 year | 1 – 2 years | 2 – 5 years | Over 5 years | Total |
| **Financial assets:** | | | | | |
| Cash and cash equivalents | 2,816,116 | | | | 2,816,116 |
| Accounts receivable | 10,602,242 | | | | 10,602,242 |
| Accounts receivable financing | 2,735,081 | | | | 2,735,081 |
| Other receivables | 2,760,141 | | | | 2,760,141 |
| Other current assets | 2,492,849 | | | | 2,492,849 |
| **Total financial assets** | 21,406,429 | | | | 21,406,429 |
| **Financial liabilities:** | | | | | |
| Short-term loans | 20,492,465 | | | | 20,492,465 |
| Bills payable | 8,821,760 | | | | 8,821,760 |
| Accounts payable | 26,373,928 | | | | 26,373,928 |
| Other payables | 3,362,683 | | | | 3,362,683 |
| Non-current liabilities due within 1 year | 489,392 | | | | 489,392 |
| Long-term borrowings | | 341,646 | | | 341,646 |
| Lease liabilities | | 153,117 | 130,398 | 62,520 | 346,035 |
| Long-term payables | | 58,829 | | | 58,829 |
| **Total financial liabilities and contingent liabilities** | 59,540,228 | 553,592 | 130,398 | 62,520 | 60,286,738 |

| 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 | 7,990,226 | | | | 7,990,226 |
| 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** | 56,421,232 | 932,375 | 94,685 | 50,939 | 57,499,231 |

## 10. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

### Risk management objectives and policies (Continued)

#### 10.3 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.

##### *10.3.1 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.

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

As at December 31, 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 RMB3,904,000 (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 arised 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 arised 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 December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| **Fixed interest rate financial instruments** | | |
| Financial assets: | **52,500** | 6,821 |
| Monetary funds | **52,500** | 6,821 |
| Financial liabilities: | **19,938,241** | 17,109,236 |
| Short-term borrowings | **19,185,000** | 16,095,000 |
| Lease liabilities | **753,241** | 1,014,236 |
| Long-term payables | | |
| **Floating interest rate financial instruments** | | |
| Financial assets: | **2,763,616** | 1,831,408 |
| Monetary funds | **2,763,616** | 1,831,408 |
| Financial liabilities: | **1,041,157** | 3,308,765 |
| Short-term borrowings | **722,435** | 1,828,208 |
| Long-term borrowings | **318,722** | 1,480,557 |

# 10. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

## Risk management objectives and policies (Continued)

### 10.3 Market risk (Continued)

#### *10.3.2 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 December 31, 2023, the foreign currency financial assets and liabilities held by the Group were converted to RMB. The amounts are listed as follows:

| | Foreign currency liabilities | | Foreign currency assets | |
|---|---|---|---|---|
| Item | **Amount as at December 31, 2023** | Amount as at December 31, 2022 | **Amount as at December 31, 2023** | Amount as at December 31, 2022 |
| USD | **2,034,471** | 3,037,003 | **5,027,517** | 5,292,672 |
| SAR | **499,153** | 343,120 | **700,553** | 808,076 |
| KWD | **230,640** | 133,472 | **812,779** | 769,297 |
| Other foreign currencies | **224,688** | 175,642 | **779,061** | 823,241 |
| **Total** | **2,988,952** | 3,689,237 | **7,319,910** | 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.

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%** | **112,239** | 5% | 84,588 |
| USD exchange rate declines | **-5%** | **-112,239** | -5% | -84,588 |
| SAR exchange rate rises | **5%** | **7,553** | 5% | 17,436 |
| SAR exchange rate declines | **-5%** | **-7,553** | -5% | -17,436 |
| KWD exchange rate rises | **5%** | **21,830** | 5% | 23,843 |
| KWD exchange rate declines | **-5%** | **-21,830** | -5% | -23,843 |

## 11 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.

### 11.1 Fair value of assets and liabilities measured at fair value as at December 31, 2023

| Item | Fair value as at December 31, 2022 | | | |
|---|---|---|---|---|
| | Measurement of fair value at level 1 | Measurement of fair value at level 2 | Measurement of fair value at level 3 | Total |
| **11.1.1 Continuous measurement at fair value** | | | | |
| ◆Receivables at FVTOCI | | | 2,735,081 | 2,735,081 |
| ◆Other equity instrument investments | | | 135,763 | 135,763 |
| **Total assets with continuous measurement at fair value** | | | 2,870,844 | 2,870,844 |

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

| Item | Fair value as at December 31, 2023 | Valuation techniques | Unobservable input values | Range (weighted average value) |
|---|---|---|---|---|
| Receivables at FVTOCI | **2,735,081** | Asset-based valuation or Discounted Cash Flow Model | N/A | N/A |
| Other equity instrument investments | **135,763** | Net value of assets | N/A | N/A |

### 11.3 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

#### 11.3.1 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 December 31, 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 | | | | 1,271 | | | | | **135,763** | |
| **Total** | 134,492 | | | | 1,271 | | | | | **135,763** | |

### 11.4 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.

# 12 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS

## 12.1 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 ("Sinopec Group") | 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%.

## 12.2 Information on subsidiaries of the Company

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

## 12.3 Joint ventures and associates of the Company

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

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

| Name of joint venture or associate | Relationship with the Company |
|---|---|
| Sinopec Bayshore Petroleum Service Co., LTD | Joint venture |
| Sinopec International Petroleum Engineering Mexico DS Joint Venture | Joint venture |
| 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 |
| Oil & Gas Engineering Technology Service Co., Ltd | Associate |
| Beijing Masonry Intelligent Control Technology Co., Ltd | Associate |

## 12 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (Continued)

### 12.4 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 Jianghan 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 |

### 12.5 Related-party transactions

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

*12.5.1.1 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 | **10,383,595** | 11,803,515 |
| Joint ventures and associates of the Group | Purchase of materials and equipment | According to normal commercial terms or related agreements | **48** | 377,805 |

*12.5.1.2 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 | **59,011** | 68,940 |
| Joint ventures and associates of the Group | Sales of products | According to normal commercial terms or related agreements | **212** | |

# 12 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (Continued)

## 12.5 Related-party transactions (Continued)

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

*12.5.1.3 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 | 48,946,921 | 46,647,299 |
| Joint ventures and associates of the Group | Petroleum engineering technology service | According to normal commercial terms or related agreements | 4,649,684 | 3,896,918 |
| Joint ventures and associates of the Group | Petroleum engineering technology service | According to normal commercial terms or related agreements | 31,031 | 256,187 |

*12.5.1.4 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 | 148,202 | |
| Joint ventures and associates of the Group | Receipt of labor services | According to normal commercial terms or related agreements | 2,101,454 | 2,039,600 |

*12.5.1.5 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 | 70,088 | 106,648 |
| Joint ventures and associates of the Group | Rendering of comprehensive services services | According to normal commercial terms or related agreements | 1,534 | 2,645 |

*12.5.1.6 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 | 34,198 | 41,602 |
| | Receipt of others comprehensive services | According to normal commercial terms or related agreements | 942,389 | 750,963 |
| Joint ventures and associates of the Group | Receipt of others comprehensive services | According to normal commercial terms or related agreements | 2,612 | 1,923 |

*12.5.1.7 Rendering 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 | 237,410 | 278,469 |
| Joint ventures and associates of the Group | Rendering sci-tech R&D services | According to normal commercial terms or related agreements | 4,701 | 15,204 |

### 12.5.2 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 | 1,194 | 3,163 |
| Sinopec Group and its subsidiaries | Housing | According to normal commercial terms or related agreements | 1,742 | 649 |
| Joint ventures and associates of the Group | equipment | According to normal commercial terms or related agreements | 1,417 | 1,181 |

## 12 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (Continued)

### 12.5 Related-party transactions (Continued)

#### 12.5.2 Related-party lease (Continued)

The Company as the lessee:

| Name of the lessor | Type of leased assets | Pricing and decision-making process of related transactions | Current period<br>Rental fees paid in the current period | Prior period<br>Rental fees paid in the prior period |
|---|---|---|---|---|
| Sinopec Group and its subsidiaries | Land and real estate | According to normal commercial terms or related agreements | **283,338** | 607,928 |
| | Including: short-term lease | According to normal commercial terms or related agreements | **30,017** | 75,234 |
| | Right-of-use assets | According to normal commercial terms or related agreements | **253,322** | 532,694 |
| Sinopec Group and its subsidiaries | Equipment | According to normal commercial terms or related agreements | **125,331** | 146,921 |
| | Including: short-term lease | According to normal commercial terms or related agreements | **122,673** | 145,377 |
| | Right-of-use assets | According to normal commercial terms or related agreements | **2,658** | 1,543 |
| Joint ventures and associates of the Group | Equipment | According to normal commercial terms or related agreements | **49,961** | 275,725 |
| | Including: short-term lease | According to normal commercial terms or related agreements | **8,118** | 39,292 |
| | Right-of-use assets | According to normal commercial terms or related agreements | **41,843** | 236,433 |

#### 12.5.3 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 | March 2024 | No |
| Central Plains Uganda Branch | Performance guarantee | USD174,000 thousand | January 2023 | February 2028 | No |
| Sinopec International Petroleum Service Corporation | Performance guarantee | USD67,000 thousand | April 2019 | April 2024 | No |
| Sinopec International Petroleum Service Corporation | Performance guarantee | USD611,000 thousand | June 2021 | October 2029 | No |
| Sinopec International Petroleum Service Corporation | Performance guarantee | USD91,664 thousand | February 2022 | October 2029 | No |
| Sinopec International Petroleum Engineering Mexico DS Joint Venture | 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 2045 | No |

# 12 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (Continued)

## 12.5 Related-party transactions (Continued)

### 12.5.4 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 | **7,658** | 1,145 |
| | Loan interest expense | Based on normal commercial terms | **682,830** | 594,984 |
| | Obtaining the borrowing | Based on normal commercial terms | **27,351,504** | 44,571,010 |
| | Payment of the loan | Based on normal commercial terms | **26,398,951** | 44,368,880 |
| Joint ventures and associates of the Group | Interest expenses of financial leases | Based on normal commercial terms | | 216 |

### 12.5.5 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 | **84,290** | 80,200 |
| | Return on security fund | Based on normal commercial terms or relevant agreements | **114,933** | 112,657 |

### 12.5.6 Remuneration of key management personnel

There are 15 key management personnel who received remuneration from the Company in the current period, and 15 key management personnel in the previous period.

| Item | Current period | Prior period |
|---|---|---|
| Remuneration | **9,860** | 10,125 |
| Retirement scheme contribution | **608** | 625 |
| **Total** | **10,468** | 10,750 |

## 12.6 Receivables from and payables to related parties

### 12.6.1 Receivables

| Item | Related party | Balance as at December 31, 2023<br>Book balance | Balance as at December 31, 2022<br>Book balance |
|---|---|---|---|
| Bank deposits | Sinopec Finance Co., Ltd. | **1,043,814** | 47,531 |
| | Sinopec Century Bright Capital Investment Limited | **796,415** | 802,100 |
| Accounts receivable | Sinopec Group and its subsidiaries | **3,927,454** | 4,362,460 |
| | Joint ventures of the Group | **20,354** | 11,341 |
| | Joint ventures and associates of Sinopec Group | **837,396** | 1,149,973 |
| Contract assets | Sinopec Group and its subsidiaries | **6,829,354** | 6,719,322 |
| | Joint ventures and associates of Sinopec Group | **1,737,126** | 1,727,820 |
| Prepayments | Sinopec Group and its subsidiaries | **93,764** | 83,073 |
| | Joint ventures and associates of Sinopec Group | | 7,048 |
| Other receivables | Sinopec Group and its subsidiaries | **282,732** | 349,639 |
| | Joint ventures and associates of the Group | **139,194** | 8,199 |
| | Joint ventures and associates of Sinopec Group | **372,366** | 490,374 |

## 12 RELATED PARTIES AND RELATED-PARTY TRANSACTIONS (Continued)

### 12.6 Receivables from and payables to related parties (Continued)

#### 12.6.2 Payables

| Item | Related party | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|---|
| Accounts payable | Sinopec Group and its subsidiaries | **2,481,469** | 2,406,778 |
| | Joint ventures and associates of the Group | **90,398** | 107,009 |
| | Joint ventures and associates of Sinopec Group | **3,636** | 16,074 |
| Contract liabilities | Sinopec Group and its subsidiaries | **3,664,743** | 3,175,493 |
| | Joint ventures and associates of Sinopec Group | **679,837** | 744,098 |
| Other payables | Sinopec Group and its subsidiaries | **69,875** | 69,875 |
| | Joint ventures and associates of the Group | **172** | 243 |
| | Joint ventures and associates of Sinopec Group | **157,703** | 132,540 |
| Short-term borrowings | Sinopec Finance Co., Ltd. | **19,185,000** | 16,095,000 |
| | Sinopec Century Bright Capital Investment Limited | **722,435** | 1,828,208 |
| Interest payable | Sinopec Group and its subsidiaries | **17,586** | 21,796 |
| Long-term borrowings maturing within one year | Sinopec Group and its subsidiaries | | 1,000,000 |
| Lease liabilities | Sinopec Group and its subsidiaries | **7,256** | 423,475 |
| | Joint ventures and associates of Sinopec Group | **403** | 118,839 |
| Non-current liabilities | Sinopec Group and its subsidiaries | **12** | 12 |

### 12.7 Centralized management of funds

#### 12.7.1 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.

#### 12.7.2 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 December 31, 2023, the total amount deposited by the Group in Sinopec Finance and Century Bright was RMB1,840,229,000 (December 31, 2022: RMB849,631,000), which was listed as " Cash at bank and on hand," and there was no withdrawal restriction or impairment.

#### 12.7.3 Funds borrowed by the Company from the parent company or member units of the group

As of December 31, 2023, the balance of funds borrowed by the Group from Sinopec Finance and Century Bright was RMB19,907,435,000 (December 31, 2022: RMB17,923,207,000), and the balance of funds borrowed by the Group from the parent company Sinopec Group was RMB0.00 (December 31, 2022: 1,000,000,000).

# 13 COMMITMENTS AND CONTINGENCIES

## 13.1 Significant commitments

### 13.1.1 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 December 31, 2023 | As at December 31, 2022 |
|---|---|---|
| Construction of long-term assets commitments | 138,720 | 15,905 |
| Investment commitments | 129,625 | 129,625 |

### 13.1.2 Performance of prior commitments

The Group has fulfilled the capital and operating lease commitments as at December 31, 2023.

## 13.2 Contingencies

### 13.2.1 Significant contingencies existed on the balance sheet date

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.

***(1) 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 December 31, 2022, the remaining balance of estimated liabilities was RMB150,743,000.

***(2) Contingent liabilities arising from overseas tax penalties and their financial impacts***

Sinopec International Petroleum Engineering Algeria Co., Ltd. (“Algeria Subsidiary”), a subsidiary of Sinopec International Petroleum Service Corporation (hereinafter referred to as “Sinopec International”), has been operating in Algeria since its establishment. The Algerian tax department is conducting a tax audit on the taxes and chargers generated by the business income of the Algerian subsidiary in 2018-2020, and the Algerian subsidiary and the project departments of Sinogong have hired local agents to conduct tax defense after receiving the preliminary investigation results. Based on the results of previous annual audits and the assessment of the tax risks of the project, the management of the Company has made provision for estimated liabilities for the relevant taxes and fees that may be incurred. As of December 31, 2023, the balance of estimated liabilities was RMB49,366,000.

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

As at December 31, 2023, Sinopec Oilfield Service Limited, the subsidiary of the Company, has provided guarantee amount of USD1,517,373,000 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 December 31, 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.

## 14 POST BALANCE SHEET EVENTS

As at March 26, 2024, there are no post balance sheet events to be disclosed by the Group.

## 15 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 December 31, 2023 | As at December 31, 2022 |
|---|---|---|
| Short-term borrowings | 19,907,435 | 17,923,208 |
| Lease liabilities maturing within one year | 436,121 | 517,190 |
| Long-term borrowings maturing within one year | | 1,000,000 |
| Long-term borrowings | 318,722 | 480,557 |
| Lease liabilities | 317,120 | 497,045 |
| Less: cash balances as shown in the statement of cash flows | 2,788,798 | 1,801,150 |
| **Net debt** | 18,190,600 | 18,616,850 |
| Shareholders' equity | 8,023,202 | 7,427,319 |
| **Total capital** | 26,213,802 | 26,044,169 |
| **Debt-to-capital ratio** | 69.39% | 71.48% |

## 16 OTHER SIGNIFICANT EVENTS

### 16.1 Correction of prior accounting errors

There were no corrections of accounting errors in prior periods during the reporting period.

### 16.2 Annuity plan

For details about the main components of the annuity plans, please refer to the Note 3.21.2 Accounting treatment of dismissal benefits."

### 16.3 Discontinued operation

There is no discontinued operation during the reporting period.

### 16.4 Segment information

#### 16.4.1 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.

# 16 OTHER SIGNIFICANT EVENTS (Continued)

## 16.4 Segment information (Continued)

### 16.4.1 Determination criteria and accounting policies for reportable segments (Continued)

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.

### 16.4.2 Financial information of reportable segments

| Current period or As at December 31, 2023 | Geophysics | Drilling engineering | Logging and mud logging | Special down-hole operations | Engineering construction | Others | Offset | Total |
|---|---|---|---|---|---|---|---|---|
| Operating revenue | 5,780,324 | 42,174,596 | 6,644,487 | 11,249,485 | 17,852,120 | 9,734,623 | -13,454,696 | 79,980,939 |
| Including: income from external transactions | 5,672,348 | 39,803,724 | 3,555,682 | 10,697,995 | 17,817,700 | 2,433,490 | | 79,980,939 |
| Income from inter-segment transactions | 107,976 | 2,370,872 | 3,088,805 | 551,490 | 34,420 | 7,301,133 | -13,454,696 | |
| Including: income from primary business | 5,780,324 | 42,174,596 | 6,644,486 | 11,249,486 | 17,852,120 | 8,017,017 | -12,792,983 | 78,925,046 |
| Operating costs | 5,315,417 | 39,902,326 | 6,019,064 | 10,509,678 | 16,522,473 | 9,373,235 | -13,454,696 | 74,187,497 |
| Including: costs of primary business | 5,315,417 | 39,902,326 | 6,019,064 | 10,509,678 | 16,522,473 | 8,166,414 | -12,898,036 | 73,537,336 |
| Operating expenses | 303,151 | 2,073,513 | 348,500 | 451,279 | 771,777 | 1,438,422 | | 5,386,642 |
| Operating profit (loss) | 182,027 | 463,320 | 296,881 | 357,146 | 632,166 | -1,031,571 | | 899,969 |
| Total assets | 6,249,564 | 10,614,355 | 4,457,471 | 8,124,855 | 22,914,821 | 24,186,553 | -1,384,645 | 75,162,974 |
| Total liabilities | 5,251,583 | 7,995,911 | 2,970,292 | 4,437,053 | 22,098,107 | 25,771,471 | -1,384,645 | 67,139,772 |
| Supplementary information: | | | | | | | | |
| 1. Capital expenditure | 302,077 | 1,859,562 | 360,851 | 517,434 | 339,507 | 626,646 | | 4,006,077 |
| 2. Depreciation and amortization expenses | 531,856 | 3,901,456 | 378,679 | 807,081 | 320,163 | 535,741 | | 6,474,976 |
| 3. Losses from impairment of assets | -3,179 | -66,123 | -7,958 | -7,219 | -303,129 | -10,679 | | -398,287 |

| Prior period or As at December 31, 2022 | Geophysics | Drilling engineering | Logging and mud logging | Special down-hole operations | Engineering construction | Others | Offset | Total |
|---|---|---|---|---|---|---|---|---|
| Operating revenue | 4,868,755 | 39,556,120 | 6,068,003 | 9,964,863 | 17,539,960 | 9,186,412 | -13,411,425 | 73,772,688 |
| Including: income from external transactions | 4,756,990 | 36,814,540 | 3,257,608 | 9,366,492 | 17,436,238 | 2,140,820 | | 73,772,688 |
| Income from inter-segment transactions | 111,765 | 2,741,580 | 2,810,395 | 598,371 | 103,722 | 7,045,592 | -13,411,425 | |
| Including: income from primary business | 4,868,755 | 39,556,120 | 6,068,003 | 9,964,863 | 17,539,960 | 7,260,145 | -12,774,402 | 72,483,444 |
| Operating costs | 4,572,357 | 37,426,913 | 5,498,805 | 9,325,702 | 16,020,967 | 8,570,168 | -13,411,425 | 68,003,487 |
| Including: costs of primary business | 4,572,357 | 37,426,913 | 5,498,805 | 9,325,702 | 16,020,967 | 7,293,336 | -12,929,842 | 67,208,238 |
| Operating expenses | 263,412 | 1,683,651 | 263,610 | 312,510 | 1,204,721 | 1,432,434 | | 5,160,338 |
| Operating profit (loss) | 51,952 | 466,427 | 316,137 | 331,193 | 343,652 | -776,969 | | 732,392 |
| Total assets | 5,709,085 | 30,373,430 | 4,636,423 | 7,743,455 | 22,352,376 | 37,584,884 | -37,199,136 | 71,200,517 |
| Total liabilities | 4,680,689 | 24,488,460 | 3,359,394 | 4,850,991 | 21,672,974 | 41,919,826 | -37,199,136 | 63,773,198 |
| Supplementary information: | | | | | | | | |
| 1. Capital expenditure | 588,602 | 2,339,696 | 195,919 | 715,235 | 726,733 | 662,632 | | 5,228,817 |
| 2. Depreciation and amortization expenses | 464,603 | 3,742,306 | 341,500 | 743,074 | 310,363 | 482,529 | | 6,084,375 |
| 3. Losses from impairment of assets | -25,853 | 26,697 | 4,499 | -24,642 | -80,659 | 124,311 | | 24,353 |

## 16 OTHER SIGNIFICANT EVENTS (Continued)

### 16.4 Segment information (Continued)

#### 16.4.3 Other segment information

*16.4.3.1 Revenue from external transactions of products and services*

| Item | Current period | Prior period |
|---|---|---|
| Geophysics | **5,672,348** | 4,756,990 |
| Drilling engineering | **39,803,724** | 36,814,540 |
| Logging and mud logging | **3,555,682** | 3,257,608 |
| Special down-hole operations | **10,697,995** | 9,366,492 |
| Engineering construction | **17,817,700** | 17,436,238 |
| Others | **2,433,490** | 2,140,820 |
| **Total** | **79,980,939** | 73,772,688 |

*16.4.3.2 Area information*

| Current period or As at December 31, 2023 | China | Other countries | Offset | Total |
|---|---|---|---|---|
| Operating revenue | **63,835,888** | **16,145,051** | | **79,980,939** |
| Non-current assets | **28,152,481** | **7,685,078** | | **35,837,559** |

| Prior period or As at December 31, 2022 | China | Other countries | Offset | Total |
|---|---|---|---|---|
| Operating revenue | 60,654,155 | 13,118,533 | | 73,772,688 |
| Non-current assets | 28,881,608 | 5,786,384 | | 34,667,992 |

*16.4.3.3 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.

### 16.5 The main impact of the implementation of the Rules for the Preparation of Information Disclosure of Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reporting (Revised in 2023)

When preparing these financial statements, the Company complied with the "Information Disclosure and Preparation Rules for Companies that Offer Securities to the Public No. 15 – General Provisions on Financial Reports (Revised in 2023)" issued by the China Securities Regulatory Commission on December 22, 2023." requirements to disclose relevant financial information. Except for disclosures of financial instruments, inventories, accounts receivable, contract assets, research and development expenditures, government subsidies, etc., the implementation of this regulation has not had a significant impact on the disclosure format of major financial data for comparable accounting periods for other items.

## 17 NOTES TO MAIN ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY

### 17.1 Other receivables

| Item | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Other receivables | **20,942,180** | 20,982,530 |
| **Total** | **20,942,180** | 20,982,530 |

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

## 17.1 Other receivables (Continued)

### 17.1.1 Other receivables

*(1) Disclosure of other receivables by aging*

| Aging | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Within 1 year | 19,564,599 | 16,017,264 |
| 1 – 2 years | 1,377,469 | 585,106 |
| 2 – 3 years | 7 | |
| 3 years and above | 109 | 4,380,164 |
| Sub-total | 20,942,184 | 20,982,534 |
| Less: provision for bad debts | 4 | 4 |
| **Total** | 20,942,180 | 20,982,530 |

*(2) Details of provision for bad debts*

| | Balance as at December 31, 2023 | | | | | Balance as at December 31, 2022 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Book balance | | Provision for bad debts | | | Book balance | | Provision for bad debts | | |
| Category | Amount | Proportion (%) | Amount | Expected credit loss rate in the next 12 months (%) | Book value | Amount | Proportion (%) | Amount | Expected credit loss rate in the next 12 months (%) | Book value |
| Provision for bad debts accrued on a combination basis | 20,942,184 | 100.00 | 4 | 1.09 | 20,942,180 | 20,982,534 | 100.00 | 4 | 3.17 | 20,982,530 |
| Including: | | | | | | | | | | |
| Related-party portfolio | 20,941,818 | 100.00 | | | 20,941,818 | 20,982,408 | 100.00 | | | 20,982,408 |
| Non-related-party portfolio | 366 | | 4 | 1.09 | 362 | 126 | | 4 | 3.17 | 122 |
| **Total** | 20,942,184 | 100.00 | 4 | | 20,942,180 | 20,982,534 | 100.00 | 4 | | 20,982,530 |

Provision for bad debts accrued on a combination basis:

Portfolio provision items:

| | Balance as at December 31, 2023 | | |
|---|---|---|---|
| Category | Book balance | Provision for bad debts | Proportion (%) |
| Other receivables from related parties | 20,941,818 | | |
| Non-related-party portfolio | 366 | 4 | 1.09 |
| **Total** | 20,942,184 | 4 | 1.09 |

*(3) Classification by nature*

| Category | Balance as at December 31, 2023 | Balance as at December 31, 2022 |
|---|---|---|
| Other receivables from wholly-owned subsidiaries | 20,941,818 | 20,982,408 |
| Others | 366 | 126 |
| **Total** | 20,942,184 | 20,982,534 |

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

### 17.1 Other receivables (Continued)

#### 17.1.1 Other receivables (Continued)

*(4) Top 5 of other receivables as at December 31, 2023, presented by debtor*

| Company | Nature | Balance as at December 31, 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 | 7,500,199 | Within 1 year | 35.81 | |
| Sinopec Zhongyuan Petroleum Engineering Corporation | Amount from wholly-owned subsidiaries | 5,017,285 | Within 1 year | 23.96 | |
| Sinopec Geophysical Corporation | Amount from wholly-owned subsidiaries | 3,141,037 | Within 1 year | 15.00 | |
| Sinopec Shengli Petroleum Engineering Corporation | Amount from wholly-owned subsidiaries | 2,329,000 | Within 1 year | 11.12 | |
| Sinopec East China Petroleum Engineering Corporation | Amount from wholly-owned subsidiaries | 2,010,000 | Within 1 year | 9.60 | |
| **Total** | | 19,997,521 | | 95.49 | |

### 17.2 Long-term equity investments

| Item | Balance as at December 31, 2023 | | | Balance as at December 31, 2022 | | |
|---|---|---|---|---|---|---|
| | Book balance | Provision for impairment | Book value | Book balance | Provision for impairment | Book value |
| Investments in subsidiaries | 35,783,582 | | 35,783,582 | 35,783,581 | | 35,783,581 |
| Investments in associates and joint ventures | 9,893 | | 9,893 | 8,792 | | 8,792 |
| **Total** | 35,793,475 | | 35,793,475 | 35,792,373 | | 35,792,373 |

#### 17.2.1 Investments in subsidiaries

| Investee | Balance as at December 31, 2022 | Increase in the current period | Decrease in the current period | Balance as at December 31, 2023 | Provision for impairment made in the current period | Balance of provision for impairment as at December 31, 2023 |
|---|---|---|---|---|---|---|
| Sinopec Jingwei Co., Ltd. | 892,995 | | | 892,995 | | |
| Sinopec Shengli Petroleum Engineering Corporation | 5,205,033 | | | 5,205,033 | | |
| Sinopec Jianghan 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 | | |

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

## 17.2 Long-term equity investments (Continued)

### 17.2.2 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 | | | | 1,101 | | | | | | 9,893 | |
| Subtotal | 8,792 | | | | 1,101 | | | | | | 9,893 | |
| 2. Associated enterprises | | | | | | | | | | | | |
| **total** | 8,792 | | | | 1,101 | | | | | | 9,893 | |

### 17.2.3 Investment income

| Item | Current period | Prior period |
|---|---|---|
| Long-term equity investment income accounted for by the cost method | **182,906** | |
| Investment income from long-term equity investments under equity method | **1,101** | 794 |
| Gains from derecognition of long-term equity investments | | -345,478 |
| **Total** | **184,007** | -344,684 |

# 18 SUPPLEMENTARY INFORMATION

## 18.1 Breakdown of non-recurring profit or loss in the current period

| Item | Amount | Remark |
|---|---|---|
| Profit or loss from disposal of non-current assets | 156,514 | |
| 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) | 83,467 | |
| Profit or loss from debt restructuring | 34,011 | |
| 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 | |
| Reversal of impairment provisions for receivables and contract assets that are separately tested for impairment | 49,867 | |
| Other items of profit or loss subject to the definition of non-recurring profit or loss | -40,300 | |
| Sub-total | 282,539 | |
| Affected amount of income tax | 52,775 | |
| **Total** | 229,764 | |

## 18.2 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 | 7.63 | 0.031 | |
| Net profit attributable to ordinary shareholders of the Company after deducting the non-recurring profit or loss | 4.65 | 0.019 | |

# 18 SUPPLEMENTARY INFORMATION (Continued)

## 18.3 Accounting data difference between the domestic and overseas accounting standards

### 18.3.1 Reconciliation of differences between CASBE and IFRS financial statements

| | Net profit | | Net assets | |
|---|---|---|---|---|
| | **Current period** | Prior period | **Balance as at December 31, 2023** | Balance as at December 31, 2022 |
| **Based on CASBE** | **589,216** | 475,898 | **8,023,202** | 7,429,734 |
| **Adjusted items and amounts in accordance with IFRS:** | | | | |
| Special reserves | **-13,133** | 107,801 | | |
| **Based on IFRS** | **576,083** | 583,699 | **8,023,202** | 7,429,734 |

### 18.3.2 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.

## 18.4 Supplementary information related to changes in accounting policies

In accordance with the Interpretation No. 16 of Accounting Standards for Business Enterprises, the Company has changed the relevant accounting policies and 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 after the restatement is as follows:

| Item | Balance at the beginning of the previous year | Balance at the end of the previous year | Closing balance |
|---|---|---|---|
| **Current asset:** | | | |
| Cash and cash equivalents | 2,508,224 | 1,838,229 | **1,833,084** |
| Accounts receivable | 8,151,019 | 10,537,217 | **9,227,260** |
| Receivables at FVTOCI | 1,295,971 | 1,468,340 | **1,757,756** |
| Advances to suppliers | 338,555 | 406,578 | **501,489** |
| Other receivables | 2,552,292 | 3,196,602 | **3,805,829** |
| Inventories | 1,088,304 | 1,116,341 | **1,853,358** |
| Contract assets | 13,546,895 | 15,613,899 | **19,161,033** |
| Other current 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 investments | 47,048 | 50,215 | **36,850** |
| Investment in other equity instruments | 21,760 | 134,492 | **134,492** |
| Fixed assets | 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 assets | 506,596 | 481,490 | **413,393** |
| Long-term deferred expenses | 6,595,930 | 7,255,439 | **6,309,741** |
| Deferred income 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** |

## 18 SUPPLEMENTARY INFORMATION (Continued)

### 18.4 Supplementary information related to changes in accounting policies (Continued)

| Item | Balance at the beginning of the previous year | Balance at the end of the previous year | Closing balance |
|---|---|---|---|
| **Current Liabilities:** | | | |
| Short-term borrowings | 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** |
| Contract liabilities | 3,547,938 | 5,115,819 | **4,459,447** |
| Employee compensation payable | 644,026 | 570,290 | **661,149** |
| Taxes and surcharges payable | 737,725 | 998,894 | **697,733** |
| Other payables | 2,355,823 | 2,728,144 | **3,262,601** |
| Non-current liabilities maturing 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 borrowings | 1,554,686 | 480,557 | **440,774** |
| Lease liabilities | 390,866 | 497,045 | **366,761** |
| Long-term payables | 28,885 | 74,657 | **96,425** |
| Estimated liabilities | 205,771 | 200,998 | **191,209** |
| Deferred income | 9,288 | 11,576 | **15,640** |
| Deferred income tax liabilities | 24,818 | 68,496 | **62,665** |
| **Total non-current liabilities** | 2,214,314 | 1,333,329 | **1,173,474** |
| **Total liabilities** | 57,206,310 | 63,778,327 | **64,752,117** |
| **Owner's Equity:** | | | |
| Share capital | 18,984,340 | 18,984,340 | **18,984,340** |
| Capital reserves | 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 reserves | 200,383 | 200,383 | **200,383** |
| Retained earnings | -24,266,007 | -23,804,977 | **-23,479,073** |
| Total equity attributable to owners of the parent company | 6,851,848 | 7,429,734 | **8,078,854** |
| Minority interest | | | |
| **Total owner's equity** | 6,851,848 | 7,429,734 | **8,078,854** |
| **Total liabilities and owners' equity** | 64,058,158 | 71,208,061 | **72,830,971** |

Sinopec Oilfield Service Corporation

March 26, 2024

# Section X Financial Statements

## PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

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## INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SINOPEC OILFIELD SERVICE CORPORATION

(Established in the People's Republic of China with limited liability)

## OPINION

We have audited the consolidated financial statements of Sinopec Oilfield Service Corporation (the "Company") and its subsidiaries (together, the "Group") set out on pages 168 to 231, which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and informing our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follow:

## Revenue recognition

Refer to note 2.19 (Revenue recognition), note 4(6) (Critical accounting judgement and estimates), note 5 (revenue and segment information) and notes 23(a) & (b) (contract assets and cost to fulfil contracts/contract liabilities) to the consolidated financial statements for related disclosures and accounting polices respectively.

Revenue related to rendering of services and construction contracts is derived from provision of petroleum engineering and technical services to the People's Republic of China (the "PRC") and overseas petroleum exploration and development companies, including geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction services.

When the progress towards satisfaction of a performance obligation can be reasonably measured, the Group should recognise revenue over time in accordance with the progress of performance obligation being satisfied at the end of reporting period. The recognition of revenue mainly depends on the management's critical estimation and judgement, including total amount of consideration to which the Group will be entitled, total budgeted costs, remaining contract costs and estimated progress completed-to-date. If there is any change on the final contract billing amount or actual execution progress, actual results may differ from the management's estimates. Hence, we have identified the revenue recognition related to rendering of services and construction contracts as a key audit matter.

**Our response:**

Our key procedures in relation to the revenue recognition related to provision of petroleum engineering and technical services included:

- evaluating the appropriateness of the application of accounting policies for recognising revenue associated with the rendering of services and construction contracts in light of business nature, contract terms and IFRS 15 "Revenue from contracts with customers";
- understanding, assessing and testing the design and implementation of internal controls about management's determination on the total budgeted contract revenue, the total budgeted contract costs, the actual contract costs incurred, remaining contract costs and progress of performance obligation being satisfied for contract to evaluate the operating effectiveness of such internal controls;
- reviewing contracts and interviewing with the management to understand and assess the reasonableness of the basis and assumptions of the total budgeted revenue and total budgeted contract costs, and checking the consistency of the preparation and assumptions of various types of projects;
- performing variance analysis by comparing the accumulated costs incurred as at 31 December 2023 with the budgeted contract costs, checking the significant costs incurred subsequent to the end of the reporting period and assessing the reasonableness of the management's estimation on workload forecast and remaining contract costs;
- testing, on a sample basis, the application of progress of performance obligation being satisfied by cross-checking the principal terms set out in the relevant contracts to supporting documents such as progress billing reports or acceptance certificates and progress reports being issued by customers;
- evaluating the reasonableness about budgeted revenue, budgeted costs and budgeted gross profit of sub-divisional contracts by analysis and calculation; and
- testing, on a sample basis, the amount and period of the aforesaid revenue recognised having regard to respective progress of performance obligation being satisfied at the end of the reporting period, and comparing, on a sample basis, the accumulated costs incurred up to the end of the reporting period with the budgeted costs to verify the existence of cost overrun.

We found that the management's judgment in determining the progress of performance obligation being satisfied and, the revenue recognition are supported by available evidence.

## Expected credit losses ("ECL") on trade receivables and contract assets

Refer to note 2.7 (Financial instruments), note 4(2) (Critical accounting judgement and estimates), note 21 (Trade receivables) and note 23(a) (Contract assets and cost to fulfil contracts) to the consolidated financial statements for related disclosures and accounting polices respectively.

During the year ended 31 December 2023, the Group's gross amount of trade receivables and contract assets are RMB12.836 billion and RMB16.405 billion respectively, representing 41% of total assets. As at 31 December 2023, the accumulated ECL allowance for trade receivables and contract assets amounted to RMB2.233 billion and RMB0.199 billion respectively.

We have identified ECL measurement of trade receivables and contract assets as a key audit matter because the ECL measurement of trade receivables and contract assets is inherent uncertain as it requires the management's subjective judgment and the aforesaid balance has a significant impact on the Group's consolidated financial statements.

**Our response:**

Our key procedures in relation to the ECL on trade receivables and contract assets included:

- assessing and testing the related internal controls of the measurement of ECL established by the management, and testing the effectiveness of key control executions;
- evaluating the management's relevant considerations and objective evidence for ECL measurement of trade receivables and contract assets (including historical records and circumstances of bad debts of trade receivables and contract assets with similar characteristics, customer credit and market environment, etc.), and assessing the appropriateness of the methods being applied in grouping of the trade receivables and contract assets and calculation for the ECL;
- gathering public information about the customers whose balances of trade receivables and contract assets is material or exceeds the credit period, or their industry development status to identify any situations affecting the Group's ECL assessment results of trade receivables and contract assets;
- assessing the accuracy and classification on trade receivables by obtaining ageing analysis of the trade receivables as at 31 December 2023 and reviewing, on a sample basis, key information such as aging, overdue days, and relationship by checking supporting documents such as accounting vouchers and invoices;
- arranging audit confirmations to those customers with significant balance of trade receivables, and comparing the results to the returned confirmations with the Group's record;
- recalculating the ECL on trade receivables and contract assets and comparing the results with the amounts recorded by the Group; and
- evaluating the reasonableness of management's ECL assessment by considering the customer's settlement subsequent to the reporting period.

We found that that the management's judgment in determination and estimation in the measurement of ECL on trade receivables and contract assets is supported by available evidence.

## Other information in the annual report

The directors are responsible for the other information. The other information comprises all the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Director's responsibilities for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS Accounting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

## Auditor's responsibilities for the audit of the consolidates financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**BDO Limited**

*Certified Public Accountants*

**Chan Tsz Hung**

Practising Certificate no. P06693

Hong Kong, 26 March 2024

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended as at 31 December 2023

| | Notes | 2023<br>RMB'000 | 2022<br>RMB'000<br>(Restated) |
|---|---|---|---|
| **Revenue** | 5 | **79,980,939** | 73,772,688 |
| Cost of sales and taxes and surcharges | | **(74,530,517)** | (68,186,777) |
| **Gross profit** | | **5,450,422** | 5,585,911 |
| Selling expenses | | **(82,689)** | (75,044) |
| General and administrative expenses | | **(2,394,486)** | (2,303,286) |
| Research expenses | | **(2,083,796)** | (1,838,968) |
| Finance expenses, net | 6 | **(894,073)** | (627,596) |
| Expected credit loss | | **403,244** | (21,924) |
| Write down of inventories to net realisable value | | **–** | (2,429) |
| Reversal of/(provision for) expected credit loss and write-down of inventories to net realisable value | 7 | **403,244** | (24,353) |
| Investment income | 8 | **1,200** | 500 |
| Share of profit from joint ventures | 19(a) | **13,992** | 890 |
| Share of profit from associates | 19(b) | **6,850** | 6,614 |
| **Other income** | 9 | **609,315** | 266,592 |
| Other expenses, net | 10 | **(114,772)** | (154,098) |
| **Profit before income tax** | 11 | **915,207** | 837,162 |
| Income tax expense | 12 | **(339,124)** | (253,463) |
| **Profit for the year** | | **576,083** | 583,699 |
| **Other comprehensive income for the year, net of tax** | | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | | |
| Net movement in fair value of financial assets at fair value through other comprehensive income (non-recycling) ("FVTOCI") | | **938** | (5,813) |
| Exchange differences on translation of financial statements of overseas joint venture | | **16,447** | – |
| **Total comprehensive income for the year** | | **593,468** | 577,886 |
| | | | |
| **Earnings per share for profit attributable to owners of the Company (presented in RMB per share)** | | **RMB** | RMB |
| Basic and diluted | 13 | **0.030** | 0.031 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

| | Notes | As at 31 December 2023 RMB'000 | As at 31 December 2022 RMB'000 (Restated) | As at 1 January 2022 RMB'000 (Restated) |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 17(a) | **26,401,129** | 26,432,082 | 24,924,711 |
| Other non-current assets | 17(b) | **7,938,767** | 7,255,439 | 6,595,302 |
| Intangible assets | 18 | **330,581** | 378,240 | 400,130 |
| Interests in joint ventures | 19(a) | **517,961** | 23,340 | 24,122 |
| Interests in associates | 19(b) | **35,535** | 26,875 | 22,926 |
| Financial assets at FVTOCI | 20 | **135,763** | 134,492 | 21,760 |
| Deferred tax assets | 35 | **400,687** | 370,014 | 316,475 |
| **Total non-current assets** | | **35,760,423** | 34,620,482 | 32,305,426 |
| **Current assets** | | | | |
| Inventories | 24 | **1,042,559** | 1,013,245 | 1,009,166 |
| Financial assets at FVTOCI | 20 | **2,735,081** | 1,468,340 | 1,295,971 |
| Trade receivables | 21 | **10,602,242** | 10,537,217 | 8,151,019 |
| Prepayments and other receivables | 22 | **5,841,569** | 6,013,554 | 5,162,319 |
| Contract assets and cost to fulfil contracts | 23(a) | **16,364,984** | 15,716,994 | 13,626,033 |
| Restricted cash | 25 | **27,318** | 37,079 | 32,917 |
| Cash and cash equivalents | 26 | **2,788,798** | 1,801,150 | 2,475,307 |
| **Total current assets** | | **39,402,551** | 36,587,579 | 31,752,732 |
| **Total assets** | | **75,162,974** | 71,208,061 | 64,058,158 |
| **Equity** | | | | |
| Share capital | 27 | **18,984,340** | 18,984,340 | 18,984,340 |
| Reserves | | **(10,961,138)** | (11,554,606) | (12,132,492) |
| **Total equity** | | **8,023,202** | 7,429,734 | 6,851,848 |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Long-term borrowings | 34 | **635,842** | 977,602 | 1,945,552 |
| Deferred income | 31 | **18,189** | 11,576 | 9,288 |
| Deferred tax liabilities | 35 | **87,028** | 68,496 | 24,818 |
| Provisions | 38 | **212,709** | 200,998 | 205,771 |
| **Total non-current liabilities** | | **953,768** | 1,258,672 | 2,185,429 |
| **Current liabilities** | | | | |
| Notes and trade payables | 32 | **35,195,688** | 33,591,453 | 29,890,348 |
| Other payables | 33 | **5,078,771** | 4,119,259 | 3,555,046 |
| Contract liabilities | 23(b) | **5,361,274** | 5,115,819 | 3,547,938 |
| Short-term borrowings | 34 | **20,343,556** | 19,440,398 | 17,816,036 |
| Current income tax payable | | **206,715** | 252,726 | 211,513 |
| **Total current liabilities** | | **66,186,004** | 62,519,655 | 55,020,881 |
| **Total liabilities** | | **67,139,772** | 63,778,327 | 57,206,310 |
| **Total equity and liabilities** | | **75,162,974** | 71,208,061 | 64,058,158 |
| **Net current liabilities** | | **(26,783,453)** | (25,932,076) | (23,268,149) |
| **Total assets less current liabilities** | | **8,976,970** | 8,688,406 | 9,037,277 |

On behalf of the board of directors

*Chairman of the Board:*

*CHEN Xikun*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year ended 31 December 2023

| | Share capital | Share premium | Other capital reserve | Surplus reserve | Specific reserve | Translation reserve | Other comprehensive income reserve (non-recycling) | Accumulated losses | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Note 27) | (Note 29(i)) | (Note 29(i)) | (Note 29(ii)) | (Note 29(iii)) | | (Note 29(iv)) | | |
| **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 3.1) | – | – | – | – | – | – | – | (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 year (Restated) | – | – | – | – | – | – | – | 583,699 | 583,699 |
| Other comprehensive income for the year: | | | | | | | | | |
| Net movement in fair value of financial assets at FVTOCI | – | – | – | – | – | – | (5,813) | – | (5,813) |
| Total comprehensive income | – | – | – | – | – | – | (5,813) | 583,699 | 577,886 |
| **Transactions with owners:** | | | | | | | | | |
| Appropriation of specific reserve | – | – | – | – | 1,435,693 | – | – | (1,435,693) | – |
| Utilisation of specific reserve | – | – | – | – | (1,328,170) | – | – | 1,328,170 | – |
| Transfer of other comprehensive income reserve | – | – | – | – | – | – | 14,868 | (14,868) | – |
| **Total transactions with owners** | – | – | – | – | 107,523 | – | 14,868 | (122,391) | – |
| **At 31 December 2022 (Restated) and 1 January 2023** | 18,984,340 | 11,622,283 | 95,490 | 200,383 | 326,705 | – | 5,232 | (23,804,699) | 7,429,734 |
| Profit for the year | – | – | – | – | – | – | – | 576,083 | 576,083 |
| Other comprehensive income for the year: | | | | | | | | | |
| Net movement in fair value of financial assets at FVTOCI | – | – | – | – | – | – | 938 | – | 938 |
| Exchange differences on translation of financial statements of overseas joint venture | – | – | – | – | – | 16,447 | – | – | 16,447 |
| Total comprehensive income | – | – | – | – | – | 16,447 | 938 | 576,083 | 593,468 |
| **Transactions with owners:** | | | | | | | | | |
| Appropriation of specific reserve | – | – | – | – | 1,230,578 | – | – | (1,230,578) | – |
| Utilisation of specific reserve | – | – | – | – | (1,243,712) | – | – | 1,243,712 | – |
| **Total transactions with owners** | – | – | – | – | (13,134) | – | – | 13,134 | – |
| **At 31 December 2023** | 18,984,340 | 11,622,283 | 95,490 | 200,383 | 313,571 | 16,447 | 6,170 | (23,215,482) | 8,023,202 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

| | Notes | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Cash flows generated from operations** | 37(a) | **6,069,661** | 4,492,533 |
| Interests received | | **23,649** | 15,408 |
| Income tax paid | | **(516,397)** | (310,072) |
| **Net cash generated from operating activities** | | **5,576,913** | 4,197,869 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment, intangible assets and other non-current assets | | **(4,153,602)** | (3,892,997) |
| Proceeds from disposal of property, plant and equipment | | **75,961** | 61,990 |
| Increase in investments in financial assets at FVTOCI (other than notes receivable) | | **–** | (112,732) |
| Dividends received from joint ventures | | **11,983** | 1,048 |
| Dividends received from associates | | **6,275** | 3,797 |
| Investment income received from financial assets at FVTOCI (other than notes receivable) | | **–** | (12,268) |
| **Net cash used in investing activities** | | **(4,059,383)** | (3,951,162) |
| **Cash flows from financing activities** | 37(b) | | |
| Proceeds from borrowings | | **27,351,504** | 44,571,010 |
| Repayments of borrowings | | **(26,568,095)** | (44,491,653) |
| Payment of lease liabilities | | **(628,989)** | (525,026) |
| Interests paid | | **(712,646)** | (605,580) |
| **Net cash used in financing activities** | | **(558,226)** | (1,051,249) |
| **Net increase/(decrease) in cash and cash equivalents** | | **959,304** | (804,542) |
| **Effect of foreign exchange rate changes on cash and cash equivalents** | | **28,344** | 130,385 |
| **Cash and cash equivalents at beginning of year** | | **1,801,150** | 2,475,307 |
| **Cash and cash equivalents at end of year** | 26 | **2,788,798** | 1,801,150 |

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 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. 22, Chaoyangmen North Street, Chaoyang District, Beijing, the PRC and the headquarter address is No. 9, Jishikou Road, 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.

These consolidation financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidation financial statements have been approved and authorised for issue by the Board of Directors on 26 March 2024.

# 2. SUMMARY OF ACCOUNTING POLICIES

The accounting policies applied in the preparation of the consolidation financial statements are set out below.

## 2.1 Basis of preparation

### (1) Statement of compliance

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

### (2) Basis of preparation of the consolidated financial statements and going concern assumption

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

The preparation of consolidated financial statements in conformity with IFRS Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are set out in Note 4.

As at 31 December 2023, the Group had net current liabilities of approximately RMB26,783,453,000 and capital commitments of approximately RMB138,720,000 (Note 36(a)). For assessing the appropriateness of the use of the going concern basis for the preparation of these consolidated financial statements, the directors of the Company have performed a cash flow forecast covering a period of 12 months from the year ended 31 December 2023, taking account of the following events and measures:

(i) On 26 February 2024, the Group has renewed the credit facility from Sinopec group's subsidiaries that includes a line of credit of RMB23.0 billion and USD0.3 billion (Total: approximately RMB24.8 billion), and also a line of credit promissory note and letter of guarantee of RMB12.0 billion. The facility remains valid until 1 March 2025;

(ii) As disclosed in Note 34, the Group's borrowings amounted to approximately RMB19.9 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; and

(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.

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 and the Group is expected to be able to generate net operating cash inflows in the next twelve months. As a result, the directors of the Company considered that the going concern basis of accounting is appropriate for the preparation of these consolidated financial statements.

## 2.2 Basis of preparation of the consolidated financial statements

### Scope of consolidation

The scope of consolidation is on the basis of control. Control refers to the power over investee of the Group, exposure or rights to variable returns in participating in the investee's related activities and the ability to use the power to affect those variable returns.

***Subsidiaries***

Subsidiaries are entities over which the Group has control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that the Group ceases control.

# 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

## 2.2 Basis of preparation of the consolidated financial statements (Continued)

***Associates***

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's shares of its associates' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amounts of the investments.

***Joint ventures***

A joint venture is a joint arrangement whereby the Group that has joint control of the arrangement has rights to the net assets of the arrangement.

The accounting treatment is in accordance with the provisions of long-term investment under equity method.

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

### (1) Foreign currency transactions

When foreign currency transactions occur, they are translated into the reporting currency at spot exchange rate at the dates of the transactions.

At the reporting date, foreign currency monetary items are translated using the spot exchange rate at the reporting date. Exchange differences arising from the differences between the spot exchange rate prevailing at the reporting date and those spot rates used on initial recognition or at the previous reporting date are recognised in profit or loss in current period; foreign currency non-monetary items carried at historical cost continue to be measured at the amounts using the spot exchange rates at the dates of the transactions; foreign currency non-monetary items carried at fair value are translated using the spot exchange rates at the date when the fair value was determined. Differences arising from retranslation are included in profit or loss in current period except for differences arising on retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

### (2) Translation of foreign currency statements

At the reporting date, when translating the foreign currency financial statements of overseas subsidiaries, the assets and liabilities of the statement of financial position are translated using the spot exchange rate at the reporting date.

The revenue and expenses in the consolidated statement of comprehensive income are translated using at spot rates with reasonable approximation of the exchange rates prevailing on the transaction dates.

All items in the statement of cash flows are translated using at spot rates with reasonable approximation of the exchange rates prevailing on the transaction dates. The impact of exchange rate changes on cash amount is reflected separately in the cash flow as "Effect of foreign exchange rate changes on cash and cash equivalents".

Differences arising from the translation of foreign currency financial statements are separately reflected in "other comprehensive income".

## 2.4 Property, plant and equipment (including other non-current assets)

### (1) Recognition and initial measurement

The Group's property, plant and equipment and other non-current asset are tangible assets that are held for use in production, rendering of services, for rentals, or for administrative purposes and have useful lives of more than one accounting year.

Property, plant and equipment and other non-current asset of the Group are stated at cost less accumulated depreciation and accumulated impairment loss.

### (2) Depreciation methods, estimated useful lives and residual value

The Group uses the straight-line method for depreciation. The Group's annual depreciation rates are shown as follows according to the category, expected useful lives and estimated net residual values rates.

| | |
|---|---|
| Buildings | 12 – 50 years |
| Oil engineering equipment and others | 4 – 30 years |

Among these, property, plant and equipment which have been impaired should deduct the cumulative amount of impairment provision to determine the depreciation rate. Other non-current assets, such as specific drilling and logging equipment, were depreciated over their estimated useful life or units of production. Other non-current assets that cannot generate future benefits are recognised in the profit or loss in the period of relevant cost being incurred.

The Group reviews the useful life and estimated residual value of a property, plant and equipment and other non-current assets and the depreciation method applied annually at each of the period end.

The estimated useful lives and residual values of property, plant and equipment and other non-current assets are adjusted if they are different from the original estimates.

# 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

## 2.4 Property, plant and equipment (including other non-current assets) (Continued)

### (3) Overhaul costs

The overhaul costs occurred in regular inspection of property, plant and equipment and other non-current assets are recognised in the cost of property, plant and equipment and other non-current assets if there is undoubted evidence to confirm that they meet the recognition criteria, otherwise, the overhaul costs are recognised in profit or loss for the current period. Property, plant and equipment and other non-current assets are depreciated during the intervals of the regular overhaul.

### (4) Construction in progress

The cost of construction in progress is determined according to the actual expenditure incurred for the construction, including all necessary construction expenditures incurred during the construction period, borrowing costs that shall be capitalised before the construction reaches the condition for intended use and other relevant expenses.

Construction in progress is transferred to other classes of property, plant and equipment when the assets are ready for their intended use.

## 2.5 Intangible assets

Intangible assets include software, etc.

The Group initially measures the intangible asset at cost, and analyses and judges its useful life when it is acquired. An intangible asset is amortised using straight-line method as follows:

| | |
|---|---|
| Software | 5 years |
| Others | 10 years/unit of production method |

The Group reviews the useful life and amortisation method at the end of each financial year, if it is different from the previous estimate, adjustment is made at previous estimates and accounted for according to changes in accounting estimates.

The carrying amount of an intangible asset should be transferred to profit or loss in current period when it is estimated that no further economic benefits can be brought to the Group as at the reporting date.

## 2.6 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment of non-financial assets such as subsidiaries, associates, joint ventures, property, plant and equipment (including right-of-use assets and other non-current assets) and intangible assets are determined as follows:

At the reporting date, the Group perform impairment test if there is any such evidence.

The recoverable amount of an asset is determined by the higher amount of fair value deducting disposal costs and net present value of future cash flows expected from the assets. When the asset or asset group's recoverable amount is lower than its carrying amount, the Group reduces its carrying amount to its recoverable amount. The reduced amount is included in profit or loss, while the provision for impairment of assets is recognised.

## 2.7 Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provision of the financial instrument.

A financial asset or financial liability (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

### (1) Classification and measurement of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income ("FVTOCI") – debt investment; FVTOCI – equity investment; or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

(i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

(ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

# 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

## 2.7 Financial instruments (Continued)

### (1) Classification and measurement of financial assets (Continued)

***Financial assets: Subsequent measurement and gains and losses***

*Financial assets at amortised cost*

Trade receivables, other receivables, restricted cash and cash and cash equivalents are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the profit or loss. Any gain or loss on derecognition is recognised in the profit or loss.

*Financial assets at FVTOCI – equity investments*

They are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the other comprehensive income reserve (non-recycling); and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the other comprehensive income reserve (non-recycling).

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

*Financial assets at FVTOCI – debt investments*

Notes receivables held by the Group are classified as at FVTOCI. Notes receivables are initially measured at fair value plus transaction costs. Subsequently, changes in their carrying amount as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognised in profit or loss. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these notes receivables had been measured at amortised cost. All other changes in their carrying amount are recognised in other comprehensive income and accumulated under the heading of other comprehensive income (recycling). When these notes receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

### (2) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

### (3) Impairment of financial assets

The Group recognises loss allowances for expected credit losses ("ECL") on financial assets measured at amortised cost and debt instruments that are measured at FVTOCI. The Group has the following types of assets that are subject to IFRS 9's ECL model:

- notes and trade receivables
- contract assets
- cash and cash equivalents
- restricted cash
- other receivables

The Group generally measures loss allowances at an amount equal to lifetime ECL, except that the credit risk of a financial assets has not been increased significantly since initial recognition, in which case, measured at 12-month ECL. ECL are a probability-weighted estimation of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For notes and trade receivables, and contract assets, the Group applies the simplified approach to provide for ECL as prescribed by IFRS 9 and has calculated ECL based on lifetime ECL, using provision matrix. The provision matrix is determined based on historical observed default rates over the expected life of the notes and trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

## 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### 2.7 Financial instruments (Continued)

#### (3) Impairment of financial assets (Continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information, in particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indication of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

***Credit-impaired financial assets***

At each reporting date, the Group assesses on a forward-looking basis whether financial assets carried at amortised cost are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

(i) significant financial difficulty of the borrower or issuer;

(ii) a breach of contract such as a default or past due event;

(iii) the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;

(iv) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(v) the disappearance of an active market for a security because of financial difficulties.

The Group recognises an impairment loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, other receivables, contract assets, restricted cash and cash and cash equivalents etc., where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the other comprehensive income reserve (recycling) without reducing the carrying amounts of these debt instruments.

***Write-off***

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

#### (4) Classification and measurement of financial liabilities

The Group's financial liabilities include notes and trade payables, other payables, long-term borrowings and short-term borrowings. Financial liabilities (other than lease liabilities) are classified as measured at amortised cost. Accounting policies for lease liability are set out in Note 2.20.

#### (5) Derecognition of financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

# 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

## 2.8 Inventories

Inventories are recognised at its actual cost when acquired. Inventories are calculated by weighted average method when issued.

Net realisable value is based on the estimated selling price deducting the estimated costs to be, the estimated selling expenses and related taxes amount incurred when it is completed. Recognition of the net realisable value is based on the verified evidence and considers the purpose of holding inventories and the effect of post balance sheet events to the extent that such events confirm conditions existing at the end of the reporting period.

At the reporting date, if the cost of inventory of the Group exceeds its net realisable value, the inventories is written down to their net realisable value, if the factors caused the inventory previously written-down have disappeared, the amount of write down is reversed to the extent that the new carrying amount is the lower of the cost and the net realisable value.

## 2.9 Contract assets and contract liabilities

The contract asset is the Group's right to consideration in the exchange for services that the Group has transferred to customer. The contract assets are transferred to trade receivables when receipt of the consideration is conditional only on the passage of time.

The Group expects that contract assets have the same risk characteristics as notes and trade receivables.

The contract liabilities are due to the non-refundable advance payment made by customers. Such liabilities fluctuated as a result of the terms of different projects. A contract liability is the Group's obligation to render services to a customer for which the Group has received consideration. A contract liability is recognised by the Group when the customer pays consideration but before the Group recognised the related revenue.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

## 2.10 Cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily drawn on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

## 2.11 Share capital

Ordinary shares are classified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent that they are incremental costs directly attributable to the equity transaction.

## 2.12 Borrowing costs

### (1) Recognition principle of capitalisation of borrowing costs

For borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, they shall be capitalised and included in the cost of related assets; other borrowing costs are recognised as expenses and included in profit or loss when incurred. Capitalisation of such borrowing costs can commence only when all of the following conditions are satisfied:

(1) Capital expenditures for the asset are being incurred, which includes the expenditure in the form of cash payment, transfer of non-cash assets or the interest bearing liabilities for the purpose of acquiring or constructing assets eligible for capitalisation;

(2) Borrowing costs are being incurred; and

(3) Activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.

### (2) Capitalisation period of borrowing costs

Capitalisation of such borrowing costs ceases when the qualifying assets being acquired, constructed or produced become ready for their intended use or sale. The borrowing cost incurred after that is recognised as an expense in the period in which they are incurred and included in profit or loss for the period incurred.

Capitalisation of borrowing costs is suspended during the periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally and when the interruption is for a continuous period of more than 3 months; the borrowing costs in the normally interrupted period are continued to be capitalised.

### (3) Calculation of rate and amount of borrowing costs to be capitalised

Interest expenses for specific borrowings incurred in the period, less interest income of unused specific borrowings deposited with bank or investment income arising from temporary investment are capitalised. The capitalisation rate of the general borrowing is determined by reference to the weighted average effective interest rate of general borrowings. The amount of capitalisation of general borrowings is determined by reference to the weighted average of the amount of cumulative expenditures of the asset over the amount of specific borrowings and the capitalisation rate of general borrowings.

## 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### 2.13 Deferred tax assets and deferred tax liabilities

Tax expense comprises current tax expense and deferred tax expense. Current tax and deferred tax are included in profit or loss for the current period as tax expense, except for deferred tax related to transactions or events that are recognised in other comprehensive income or directly recognised in shareholders' equity, which are recognised in other comprehensive income or directly in shareholders' equity.

Temporary differences are recognised as deferred tax using the balance sheet liability method.

All the taxable temporary differences are recognised as deferred tax liabilities except for those incurred in the following transactions:

(1) The initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) and does not give rise to equal taxable and deductible temporary difference when the transaction occurs;

(2) The taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, and the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group recognised deductible temporary differences, deductible tax losses as deferred tax assets to the extent that they are available for set-off future taxable income unless such timing difference was arisen from the following transactions:

(1) The transaction is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) and does not give rise to equal taxable and deductible temporary difference when the transaction occurs;

(2) The deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, the corresponding deferred tax asset is recognised when both of the following conditions are satisfied: it is probable that the temporary difference will reverse in the foreseeable future, it is probable that taxable profits will be available in the future, against which the temporary difference can be utilised.

The Group has also applied the mandatory exception to the recognition and disclosure of information about deferred tax assets and liabilities related to Pillar Two income taxes (i.e. income taxes arising from the jurisdictional implementation of OECD's Pillar Two model rules).

At the reporting date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and their tax effect is reflected.

### 2.14 Employee Benefits

#### (1) Scope of employee benefits

Employee benefits are all forms of consideration and compensation given by the Group in exchange for service rendered by employees. Employee benefits include short-term employee benefits, post-employment benefits and other long-term employee benefits. Employee benefits include benefits provided to employees' spouses, children, and other dependants, survivors of the deceased employees or to other beneficiaries.

#### (2) Short-term employee benefits

Wages, bonuses, contribution to the social welfare (including medical insurance, injury insurance, birth insurance, etc.) and house funding are recognised as liability and to the profit of loss or cost of related assets in the period of relevant costs being incurred. If related liabilities in which the employees render their services are not expected to be wholly payable within twelve months after the financial period of relevant expenses being incurred and the financial impact is significant, relevant liabilities will be measured at discounted values.

#### (3) Post employment benefits

Post-employment comprised of defined contribution plan. The Group's obligations under the defined contribution plan are limited to the fixed amount of contribution to the independent trustee.

***Defined contribution plans***

Defined contribution plans include the basic pension insurance, unemployment insurance and annuity scheme.

In addition to the basic social pension insurance, the Group sets up annuity scheme according to the relevant policies of annuity system, employees may voluntarily participate in the annuity scheme. The Group has no other significant commitments of social security of employees.

The Group recognised the contribution payable under the defined contribution plan as liabilities with corresponding amount recognised in the profit or loss of the financial period of services rendered by employees.

# 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

## 2.15 Provision

An obligation for additional losses of investees related to a contingency is recognised as a provision when all of the following conditions are satisfied:

1. The obligation is a present obligation of the Group;
2. It is probable that an outflow of economic benefits will be required to settle the obligation;
3. The amount of the obligation can be measured reliably.

Provisions are initially measured at the best estimate of the payment to settle the associated obligations and consider the relevant risk, uncertainty and time value of money. If the impact of time value of money is significant, the best estimate is determined as its present value of future cash outflow. The Group reviews the carrying amount of provisions at the reporting date and adjusts the carrying amount to reflect the best estimate.

If the expenses for clearing of predictive liability is fully or partially compensated by a third party, and the compensated amount can be definitely received, it is recognised separately as an asset. The compensated amount shall not be greater than the carrying amount of the predictive liability.

## 2.16 Research and development expenditure

Expenditure on the research phase is related to theories of oil-gas exploration and development, oil-gas exploration and development experiments, pilot tests for oil-gas exploration, researches of software, etc.; Expenditure on the development phase is related to applications of oil-gas exploration and development technology, pilot tests of oil-gas development, adaptability of technologies in a development process, software developments, etc.

Expenditure on the research phase is recognised in profit or loss when incurred.

Expenditure on the development phase is capitalised only when the Group can satisfy all of the following conditions: the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete the intangible asset is to use or sell it; how the intangible asset will generate economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; its ability to measure reliably the expenditure attributable to the intangible asset during its development phase. Otherwise, it is charged to profit or loss.

The research and development projects of the Group will enter into the development stage after meeting the above conditions and passing through the technical feasibility and economic feasibility studies and the formation of the project.

Capitalised expenditure on the development phase is presented as "development costs" in the statement of financial position and shall be transferred to intangible assets when the project is completed to its intended use state.

## 2.17 Government grants

Grants from the government are recognised only when there is a reasonable assurance that the grant will be received and the Group can comply with the attached conditions.

If a government grant is in the form of a transfer of a monetary asset, the item is measured at the amount received or receivable. Where there is undoubted evidence that the grants can meet the relevant conditions of financial support policy and is expected that the financial support fund is receivable, they can be measured in accordance with the receivable amount, and otherwise, they shall be measured according to the amount actually received. If a government grant is in the form of a transfer of a non-monetary asset, the item is measured at fair value. When fair value is not reliably determinable, the item is measured at nominal amount.

Government grant related to assets represents the government grant received for acquisition, construction of long-term assets. Except for these, all government grants are related to income.

Regarding to the government grant not clearly defined in the official documents and can be used for long-term assets, the part of government grant which can be referred to the value of the assets is classified as government grant related to assets and the remaining part is government grant related to income. For the government grant that is difficult to distinguish, the entire government grant is classified as government grant related to income.

A government grant related to an asset is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. For a government grant related to income, if the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the current period; if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and then recognised in profit or loss over the periods in which the costs are recognised.

When recognised government grants need to be returned, the repayment is offset against book balance of deferred income and the excess is recognised in profit or loss for the current period; if there is no related deferred income, it is directly recognised in profit or loss for the current period.

## 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### 2.18 Cost to fulfil contracts

If the costs incurred in fulfilling a contract with a customer are not within the scope of an accounting standard other than IFRS 15, the Group shall recognise an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

A recognised asset shall be subsequently amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. The assets shall be subjected to impairment review.

Capitalised cost to fulfil contracts is stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

### 2.19 Revenue recognition and other income

#### (1) Sales of products

Revenue from sales of products is recognised when control of the products has been transferred, being when the products are delivered to the customers and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

#### (2) Revenue from construction contracts and service contracts

***Drilling engineering and geophysics***

Revenues from drilling engineering and geophysics service contracts are recognised progressively over time using the output method, based on total value of contract work performed as a percentage of total contract sum, as customer simultaneously receives and consumes benefits provided by the Group's performance as the Group performs.

***Engineering construction***

Revenue from engineering construction contracts is recognised progressively over time using the input method, based on the contract costs incurred to date as a percentage of total forecast costs, as the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

***Special downhole operations and Logging and mud logging***

Revenue from special downhole operation and logging and mud logging service contract is recognised overtime using the output method when services are rendered as customer simultaneously receives and consumes benefits provided by the Group's performance as the Group performs.

#### (3) Dividend income

Dividend income is recognised when the right to receive payment is established.

#### (4) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

# 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

## 2.20 Leases

### (1) The Group as a lessee

For entering any new contracts, the Group considers whether a contract is, or contains a lease. The Group assesses whether the contract meets three key evaluations which are whether:

(i) the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;

(ii) the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

(iii) the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone selling price of the lease component and the aggregate stand-alone selling price of the non-lease components.

***Measurement and recognition of leases as a lessee***

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

The Group remeasures lease liabilities whenever:

– there are changes in lease term or in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

– there are changes in lease payments due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

– a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less.

The Group presents right-of-use assets in "property, plant and equipment", the same line item as that within which the corresponding underlying assets would be presented if they were owned.

### (2) The Group as a lessor

As a lessor, the Group classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

## 3. NEW AND AMENDED IFRS ACCOUNTING STANDARDS

### 3.1 Application of new and amendments to IFRS Accounting Standards

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

#### IFRS 17 and amendments to IFRS 17, Insurance contracts and related amendments

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:

(i) A specific adaptation for contracts with direct participation features (the variable fee approach).

(ii) A simplified approach (the premium allocation approach) mainly for short-duration contracts.

The adoption of IFRS 17 and its amendments does not have a material impact on the consolidated financial statements.

#### Amendment to IAS 8, Definition of Accounting Estimates

The amendments provide further guidance on the distinction between changes in accounting policies and changes in accounting estimates. The amendments do not have a material impact on the consolidated financial statements as the Group's approach in distinguishing changes in accounting policies and changes in accounting estimates is consistent with the amendments.

#### Amendments to IAS 1 and IFRS Accounting Standards Practice Statement 2, Disclosure of Accounting Policies

IAS 1 is amended to replace all instances of the term "material accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

IFRS Accounting Standards Practice Statement 2 Making Materiality Judgements (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

These amendments have no effect on the measurement or presentation of any items in the consolidated financial statements but affect the disclosure of accounting policies of the Group.

# 3. NEW AND AMENDED IFRS ACCOUNTING STANDARDS (CONTINUED)

## 3.1 Application of new and amendments to IFRS Accounting Standards (Continued)

### Amendments to 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 tables 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 consolidated statement of financial position as at 1 January 2022 and 31 December 2022 and the consolidated statement of comprehensive income and earnings per share for the year ended 31 December 2022:

| | 1 January 2022<br>RMB'000<br>(Originally stated) | Adjustments<br>RMB'000 | 1 January 2022<br>RMB'000<br>(Restated) |
|---|---|---|---|
| **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<br>RMB'000<br>(Originally stated) | Adjustment<br>RMB'000 | 31 December 2022<br>RMB'000<br>(Restated) |
|---|---|---|---|
| **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 |

| | For the year ended 31 December 2022 | | |
|---|---|---|---|
| | RMB'000<br>(Originally stated) | Adjustments<br>RMB'000 | RMB'000<br>(Restated) |
| **Consolidated statement of comprehensive income** | | | |
| Income tax expense | 265,547 | (12,084) | 253,463 |
| Profit for the year | 571,615 | 12,084 | 583,699 |
| Total comprehensive income for the year | 565,802 | 12,084 | 577,886 |
| **Earnings per share** | | | |
| Basic and diluted earnings per share (RMB) | 0.030 | 0.001 | 0.031 |

### Amendments to IAS 12, International Tax Reform – Pillar Two Model Rules

In December 2021, the Organisation for Economic Co-operation and Development (OECD) released a draft legislative framework for a global minimum tax that is expected to be used by individual jurisdictions. The goal of the framework is to reduce the shifting of profit from one jurisdiction to another in order to reduce global tax obligations in corporate structures. In March 2022, the OECD released detailed technical guidance on Pillar Two of the rules.

Stakeholders raised concerns with the IASB about the potential implications on income tax accounting, especially accounting for deferred taxes, arising from the Pillar Two model rules. The IASB issued the final amendments International Tax Reform – Pillar Two Model Rules, in response to stakeholder concerns, on 23 May 2023. The amendments were effective immediately upon being released.

The Amendments introduce a mandatory exception to entities from the recognition and disclosure of information about deferred tax assets and liabilities related to Pillar Two model rules. The Amendments also provide for additional disclosure requirements with respect to an entity's exposure to Pillar Two income taxes.

In one of the jurisdictions where the Group operates, the tax laws have been enacted to implement the Pillar Two model rules but such new tax laws are not yet effective as at 31 December 2023. The additional disclosures made under the Amendments to IAS 12 Income Taxes on Pillar Two Model Rules are provided in note 12.

## 3. NEW AND AMENDED IFRS ACCOUNTING STANDARDS (CONTINUED)

### 3.2 New or amended IFRS Accounting Standards that have been issued but are not yet effective and not early adopted

The new and amended accounting standards issued but not yet effective for the accounting period ended 31 December 2023 which are relevant to the Group but the Group has not early adopted are set out below:

| | |
|---|---|
| Amendments to IFRS 16 | Lease Liability in a Sale and Leaseback[1] |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current[1] |
| Amendments to IAS 1 | Non-current Liabilities with Covenants[1] |
| Amendment to IAS 7 and IFRS 7 | Supplier Finance Arrangements[1] |
| Amendments to IAS 21 | Lack of Exchangeability[2] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |

1 Effective for annual periods beginning on or after 1 January 2024
2 Effective for annual periods beginning on or after 1 January 2025
3 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined

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

## 4. CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

The Group continually evaluates the critical accounting estimates and key assumptions based on its historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The critical accounting estimates and key assumptions that are likely to have significant risks of causing material adjustments to the carrying amounts of assets and liabilities in the next financial year are set out as below:

### (1) Classification of financial assets

The Group's critical judgements on determining the classification of financial assets, including the business model and analysis of contractual cash flow characteristics.

The Group's assessment of the business model is performed on a financial assets portfolio basis, taking into consideration of the way for how the performance of the financial assets are evaluated and reported to the Group's key management personnel, the way for how the risks for being affected by the performance of the financial assets are evaluated and managed, and the way for how managers are compensated and etc.

The Group's critical judgements on whether the cash flows are consistent with the loan arrangement include whether principal amount may change (including future cash flow and amount) over the life of the financial asset (for example, if there are early repayments of principal) and whether interest only consists of consideration for the time value of money, for the credit risk, and for other basic lending risks and costs, as well as a profit margin. For examples, whether the amount for early repayment solely reflects the outstanding principal and related interest and the reasonable compensation for the early termination of agreement.

### (2) Provision for ECL of trade receivables and contract assets

The Group makes allowances on trade receivables (Note 21) and contract assets (Note 23) based on assumptions about risk of default and expected loss rates. The Group applies judgment in making these assumptions and selecting the inputs to the ECL calculation, based on the Group's past collection history, existing market conditions as well as forward looking estimates at the end of each reporting period. During the year ended 31 December 2023, reversal of ECL allowance on trade receivables of RMB134,408,000 (2022: reversal of ECL allowance of RMB82,515,000) and reversal of ECL allowance on contract assets of RMB4,250,000 (2022: ECL allowance of RMB97,454,000) respectively are recognised in profit or loss.

### (3) Write down of inventories

The Group regularly reviews the net realisable value of inventories and inventories write-down is recognised at the excess of the carrying amounts of inventories over their net realisable value. When making estimation of the net realisable value of inventories, the Group considers the purpose of the inventories held on hand and other information available to form the underlying assumptions, including the market prices of inventories and the Group's historical operating costs. The actual selling price, costs of completion, selling expenses and taxes may vary according to the changes in market conditions, manufacturing technology or the actual use of the inventories. The profit or loss for the period will be affected by the adjustment in carrying amount of inventories. The carrying amount of inventories is set out in Note 24.

## 4. CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

### (4) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefit. Significant judgement is required in determining the capitalisation of development costs. Development costs that do not meet the above criteria are expensed as incurred.

### (5) Depreciation and amortisation of property, plant and equipment, intangible assets and other non-current assets

The Group takes into account of residual value before calculating the depreciation and amortisation of property, plant and equipment, intangible assets and other non-current assets. The Group regularly review the estimated useful lives of the assets to determine the depreciation and amortisation charged in each reporting period. The useful lives of the assets are determined based on historical experiences of similar assets and the estimated technical changes, the amortisation periods for other non-current assets are determined by the Group in accordance with the expected benefit period of each assets. Depreciation and amortisation charges is revised if there is material effect on the previous estimation.

Carrying amount of property, plant and equipment and other non-current asset as well as intangible assets is set out in Notes 17 and 18.

### (6) Revenue recognition

The contract revenue of petroleum engineering and technical services provided by the Group is recognised over time. The recognition of related revenue depends on the total budgeted costs and the estimation of progress towards satisfaction of a performance obligation by the Group. The management of the Group adopts the expected value method to estimate the total amount of consideration to which the Group will be entitled, and evaluates the total budgeted costs according to historical information and construction plan. Consideration is included in the transaction price until it is highly probable that such an inclusion will not result in a significant revenue reversal in the future. In view of the fact that the construction service contract cycle may span multiple accounting periods, the Group will continuously and periodically review and revise the estimated amount of consideration to which the Group will be entitled, estimated contract costs and the progress towards satisfaction of a performance obligation. If the total amount of consideration to which the Group will be entitled, and total contract costs are actually higher or lower than the management's estimated value, the amount of revenue recognised will be affected in the future.

### (7) Provision for litigation claims

For the legal proceedings and claims, the Group derives the best estimate of the expenditure required to settle the related current obligations based on the legal advices consulted and according to the process and solutions of the legal proceedings and claims. The estimated losses will change according to the progress of the legal proceedings. The related information is set out in Note 39.

### (8) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses when the Group is probable to have sufficient taxable profits to offset those losses. The management estimates the timing and amount in relation to the future taxable profits, including the availability of tax planning strategy to recognise the appropriate amount of deferred tax assets. If the taxable profits in future accounting period is lower than the expected amount or the actual tax rate is lower than the expected tax rate, the deferred tax assets recognised will be reversed and included in the consolidated statement of comprehensive income. The related information is set out in Note 35.

### (9) Taxation

There are various uncertainties on interpretation of the complicated tax regulations (including related tax incentive regulations) and timing and extent of the future taxable profits. Regarding to various international business and complexity of current contract, there may be adjustment to the recognised taxable income and expenses in the future. The Group has reasonably estimated the provision of taxation in the countries where the Group operates. Such provision of taxation is based on different factors, such as previous tax audit experience and interpretation by related tax authorities. Since the Group operates in different tax regions, different interpretations may be resulted from various events. Relevant information is set out in Notes 12.

### (10) Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financing plan assessed as detailed in note 2.1 to these consolidated financial statements. However, because not all future events or conditions can be predicted, this assumption is not a guarantee as to the Group's and Company's ability to continue as a going concern.

## 5. REVENUE AND SEGMENT INFORMATION

The Group's revenue is as follows:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Geophysics | **5,672,348** | 4,756,990 |
| Drilling engineering | **39,803,724** | 36,814,540 |
| Logging and mud logging | **3,555,682** | 3,257,608 |
| Special downhole operations | **10,697,995** | 9,366,492 |
| Engineering construction | **17,817,700** | 17,436,238 |
| Others | **2,433,490** | 2,140,820 |
| | **79,980,939** | 73,772,688 |

### 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 reportable segments other than certain property, plant and equipment, certain intangible assets, certain other non-current assets, certain inventories, certain contract assets and cost to fulfil contracts, certain notes and trade receivables, certain prepayment and other receivables, certain cash and cash equivalents, and certain deferred tax assets.

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

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

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

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

## 5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

### Segment information (Continued)

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

For the year ended 31 December 2023 and as at that date, the segment results, assets and liabilities were as follows:

| | Geophysics | Drilling engineering | Logging and mud logging | Special downhole operations | Engineering construction | Unallocated | Eliminated | Total |
|---|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **During the year ended 31 December 2023** | | | | | | | | |
| **Segment revenue and results** | | | | | | | | |
| Revenue from external customers | 5,672,348 | 39,803,724 | 3,555,682 | 10,697,995 | 17,817,700 | 2,433,490 | – | 79,980,939 |
| Inter-segment revenue | 107,976 | 2,370,872 | 3,088,804 | 551,490 | 34,420 | 6,639,421 | (12,792,983) | – |
| **Segment revenue** | 5,780,324 | 42,174,596 | 6,644,486 | 11,249,485 | 17,852,120 | 9,072,911 | (12,792,983) | 79,980,939 |
| **Reportable segment profit/(loss)** | 177,706 | 114,220 | 248,443 | 281,902 | 579,917 | (981,524) | – | 420,664 |
| Other income | 23,287 | 344,965 | 20,860 | 77,134 | 106,567 | 36,502 | – | 609,315 |
| Other expenses | (12,440) | (69,061) | (6,520) | (3,670) | (5,477) | (17,604) | – | (114,772) |
| **Profit/(loss) before income tax** | 188,553 | 390,124 | 262,783 | 355,366 | 681,007 | (962,626) | – | 915,207 |
| Income tax expense | | | | | | | | (339,124) |
| **Profit for the year** | | | | | | | | 576,083 |
| **Supplementary information** | | | | | | | | |
| **Depreciation and amortisation** | | | | | | | | |
| – Property, plant and equipment | 359,971 | 1,951,469 | 204,290 | 530,992 | 297,357 | 301,228 | – | 3,645,307 |
| – Other non-current assets | 171,697 | 1,949,614 | 173,755 | 267,620 | 10,092 | 69,673 | – | 2,642,451 |
| – Intangible assets | 191 | 373 | 634 | 8,470 | 12,714 | 157,991 | – | 180,373 |
| **Capital expenditure** | | | | | | | | |
| – Property, plant and equipment | 302,077 | 1,857,162 | 354,838 | 512,720 | 321,345 | 519,116 | – | 3,867,258 |
| – Intangible assets | – | 2,400 | – | 4,714 | 18,162 | 107,530 | – | 132,806 |
| – Other non-current assets | 50,898 | 2,570,035 | 137,244 | 386,021 | 126,956 | 84,214 | – | 3,355,368 |
| Reversal of provision for ECL on trade receivables, net | (3,463) | (67,040) | (7,913) | (5,049) | (37,620) | (13,323) | – | (134,408) |
| Provision for ECL/(Reversal of provision for) on other receivables, net | 983 | 2,655 | (477) | (1,608) | (268,648) | 2,509 | – | (264,586) |
| (Reversal of provision for)/Provision for ECL on contract assets | (699) | (6,697) | 432 | (561) | 3,139 | 136 | – | (4,250) |
| **As at 31 December 2023** | | | | | | | | |
| **Assets** | | | | | | | | |
| Segment assets | 6,249,564 | 10,614,355 | 4,457,471 | 8,124,855 | 22,914,821 | 24,186,553 | (1,384,645) | 75,162,974 |
| **Liabilities** | | | | | | | | |
| Segment liabilities | 5,251,583 | 7,995,911 | 2,970,292 | 4,437,053 | 22,098,107 | 25,771,471 | (1,384,645) | 67,139,772 |

## 5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

### Segment information (Continued)

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

For the year ended 31 December 2022 and as at that date, the segment results, assets and liabilities were as follows:

| | Geophysics | Drilling engineering | Logging and mud logging | Special downhole operations | Engineering construction | Unallocated | Eliminated | Total |
|---|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **During the year ended 31 December 2022** | | | | | | | | |
| **Segment revenue and results** | | | | | | | | |
| Revenue from external customers | 4,756,990 | 36,814,540 | 3,257,608 | 9,366,492 | 17,436,238 | 2,140,820 | – | 73,772,688 |
| Inter-segment revenue | 111,765 | 2,741,580 | 2,810,395 | 598,371 | 103,722 | 7,045,592 | (13,411,425) | – |
| **Segment revenue** | 4,868,755 | 39,556,120 | 6,068,003 | 9,964,863 | 17,539,960 | 9,186,412 | (13,411,425) | 73,772,688 |
| **Reportable segment profit/(loss)** | 33,329 | 608,255 | 321,038 | 332,297 | 316,388 | (886,639) | – | 724,668 |
| Other income | 19,936 | 81,225 | 11,337 | 6,554 | 99,721 | 47,819 | – | 266,592 |
| Other expenses | (44,865) | (49,730) | (4,785) | (4,280) | (39,830) | (10,608) | – | (154,098) |
| **Profit/(loss) before income tax** | 8,400 | 639,750 | 327,590 | 334,571 | 376,279 | (849,428) | – | 837,162 |
| Income tax expense | | | | | | | | (253,463) |
| **Profit for the year** | | | | | | | | 583,699 |
| **Supplementary information** | | | | | | | | |
| **Depreciation and amortisation** | | | | | | | | |
| – Property, plant and equipment | 345,261 | 1,960,365 | 197,647 | 529,509 | 287,390 | 313,618 | – | 3,633,790 |
| – Other non-current assets | 119,152 | 1,780,771 | 142,358 | 203,453 | 9,842 | 14,722 | – | 2,270,298 |
| – Intangible assets | 190 | 1,171 | 1,495 | 10,112 | 13,130 | 131,906 | – | 158,004 |
| **Capital expenditure** | | | | | | | | |
| – Property, plant and equipment | 585,413 | 2,259,002 | 195,919 | 714,069 | 596,172 | 617,128 | – | 4,967,703 |
| – Intangible assets | 3,189 | 80,694 | – | 1,166 | 5,561 | 45,504 | – | 136,114 |
| – Other non-current assets | 192,146 | 2,242,586 | 212,335 | 205,265 | 58,268 | 72,577 | – | 2,983,177 |
| (Reversal of provision for)/Provision for ECL on trade receivables, net | (26,011) | 16,921 | 2,898 | (25,273) | (81,936) | 30,886 | – | (82,515) |
| (Reversal of provision for)/Provision for ECL on other receivables, net | (1,639) | 11,091 | 951 | 695 | (2,857) | (1,256) | – | 6,985 |
| Provision for/(Reversal of provision for) ECL on contract assets | 1,797 | (1,315) | 650 | (64) | 1,705 | 94,681 | – | 97,454 |
| Written down of inventories to net realisable value | – | – | – | – | 2,429 | – | – | 2,429 |
| **As at 31 December 2022** | | | | | | | | |
| **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 |

# 5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

## Segment information (Continued)

### (b) Geographical information

The following table presents the geographical information. Revenue is based on the location at which revenue were derived. Specified non-current assets include property, plant and equipment, other non-current assets, intangible assets, interests in joint ventures and interests in associates, which are based on the physical location of the assets or operations.

| | Revenue from external customers | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| The PRC | **63,835,888** | 60,654,155 |
| Middle East (Note) | **9,830,963** | 9,399,935 |
| Other countries | **6,314,088** | 3,718,598 |
| | **79,980,939** | 73,772,688 |

| | Specified non-current assets | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| The PRC | **28,152,480** | 28,834,098 |
| Saudi Arabia | **4,608,373** | 3,736,517 |
| Other countries | **2,463,120** | 1,545,361 |
| | **35,223,973** | 34,115,976 |

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

### (c) Major customer

For the years ended 31 December 2023 and 2022, revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Customer A | **54,004,946** | 47,105,168 |

Revenue from this customer was derived from the operating segments of geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction accounted for more than 60% of the Group's revenue.

## 5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

### Segment information (Continued)

#### (d) Analysis on revenue from contracts

For the years ended 31 December 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 customers' segment for geophysics, drilling engineering, logging and mud logging, special downhole operations and engineering construction service:

| | Geophysics | Drilling engineering | Logging and mud logging | Special downhole operations | Engineering construction | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **During the year ended 31 December 2023** | | | | | | | |
| **Timing of revenue recognition:** | | | | | | | |
| – At a point in time | – | 7,359 | – | 6,120 | 20,432 | 633,433 | 667,344 |
| – Over time | 5,672,348 | 39,796,365 | 3,555,682 | 10,691,875 | 17,797,268 | 1,800,057 | 79,313,595 |
| Total | 5,672,348 | 39,803,724 | 3,555,682 | 10,697,995 | 17,817,700 | 2,433,490 | 79,980,939 |
| **During the year ended 31 December 2022** | | | | | | | |
| **Timing of revenue recognition:** | | | | | | | |
| – At a point in time | – | 3,999 | – | 1,833 | 13,015 | 970,380 | 989,227 |
| – Over time | 4,756,990 | 36,810,541 | 3,257,608 | 9,364,659 | 17,423,223 | 1,170,440 | 72,783,461 |
| Total | 4,756,990 | 36,814,540 | 3,257,608 | 9,366,492 | 17,436,238 | 2,140,820 | 73,772,688 |

#### (e) Performance obligation of contracts with customers

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

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

## 6. FINANCE EXPENSES – NET

| | 2023 | 2022 |
|---|---|---|
| | RMB'000 | RMB'000 |
| **Finance income** | | |
| Interest income | | |
| – Sinopec Group's subsidiaries | 7,658 | 1,145 |
| – Third-parties and other financial institutions | 15,991 | 14,263 |
| | 23,649 | 15,408 |
| **Finance expenses** | | |
| Interest expenses on loans wholly repayable within 5 years | | |
| – Sinopec Group and its subsidiaries | (682,830) | (594,984) |
| – Third-party and other financial institutions | (79,730) | (49,261) |
| Interest expenses on lease liabilities | | |
| – Sinopec Group and its subsidiaries | (15,854) | (26,516) |
| – Associates and joint ventures of Sinopec Group | (7,399) | (13,698) |
| – Third-parties | (19,203) | (19,845) |
| Exchange (losses)/gain, net | (34,952) | 98,667 |
| Bank and other charges | (77,754) | (37,367) |
| | (917,722) | (643,004) |
| | (894,073) | (627,596) |

## 7. EXPECTED CREDIT LOSS ("ECL") AND WRITE-DOWN OF INVENTORIES TO NET REALISABLE VALUE

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Reversal of provision for ECL on trade and other receivables, net | **(398,994)** | (75,530) |
| (Reversal of provision for ECL)/Provision for ECL on contract assets, net | **(4,250)** | 97,454 |
| Write-down of inventories to net realisable value | **–** | 2,429 |
| | **(403,244)** | 24,353 |

## 8. INVESTMENT INCOME

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Investment income from financial assets at FVTOCI | **1,200** | 500 |

## 9. OTHER INCOME

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Gain on disposal of property, plant and equipment, net | **85,168** | 13,525 |
| Gain on disposal of other non-current assets, net | **2,675** | 12,363 |
| Gain on debt restructuring | **34,011** | 18,157 |
| Government grants (Note) | **350,293** | 107,386 |
| Waived payables | **20,509** | 14,711 |
| Penalty income | **2,508** | 4,290 |
| Compensation received | **3,489** | 8,201 |
| Insurance claims | **1,159** | 1,455 |
| Asset surplus | **90,682** | 41,648 |
| Others | **18,821** | 44,856 |
| | **609,315** | 266,592 |

Note:

For the years ended 31 December 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.

## 10. OTHER EXPENSES, NET

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Loss on scarps of assets | **22,011** | 71,538 |
| Penalty | **2,067** | 2,265 |
| Donation | **966** | 1,764 |
| Compensation | **1,314** | 9,016 |
| Impairment loss on property, plant and equipment | **4,957** | – |
| Loss on disposal of a joint venture | **13,003** | – |
| Others | **70,454** | 69,515 |
| | **114,772** | 154,098 |

## 11. PROFIT BEFORE INCOME TAX

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

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Staff costs, including directors and supervisors emoluments (Note 16) | **19,130,017** | 17,968,202 |
| Retirement benefit plan contribution (including in the above mentioned staff costs) | | |
| －Municipal retirement scheme costs | **1,449,372** | 1,374,355 |
| －Supplementary retirement scheme costs | **722,845** | 695,202 |
| Changes in inventories of finished goods and work in progress | **(3,815)** | (2,044) |
| Raw materials and consumables used | **30,961,028** | 30,508,153 |
| Depreciation and amortisation | | |
| －Property, plant and equipment | **3,645,307** | 3,633,790 |
| －Other non-current assets | **2,642,451** | 2,270,298 |
| －Intangible assets | **180,373** | 158,004 |
| Short-term leases and leases with lease term of 12 months or less | **2,953,666** | 1,504,664 |
| ECL, net | | |
| －Trade and other receivables | **(398,994)** | (75,530) |
| －Contract assets | **(4,250)** | 97,454 |
| Provision of impairment of assets, net | | |
| －Inventories | **–** | 2,429 |
| －Property, plant and equipment | **4,957** | – |
| Rental income from property, plant and equipment after relevant expenses | **(24,330)** | (13,794) |
| Gain on disposal of property, plant and equipment, net | **(85,168)** | (13,525) |
| Gain on disposal of other non-current assets, net | **(2,675)** | (12,363) |
| Auditors' remuneration | **7,200** | 7,200 |
| Exchange loss/(gain), net | **34,952** | (98,667) |

## 12. INCOME TAX EXPENSE

| | 2023<br>RMB'000 | 2022<br>RMB'000<br>(Restated) |
|---|---|---|
| **Current tax** | | |
| PRC enterprise income tax | **109,339** | 193,683 |
| Overseas enterprise income tax | **242,259** | 71,367 |
| | **351,598** | 265,050 |
| **Deferred tax** | | |
| Origination and reversal of temporary difference (Note 35) | **(12,474)** | (11,587) |
| **Income tax expense** | **339,124** | 253,463 |

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 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 can enjoy 15% preferential tax rate during the years ended 31 December 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.

During the year ended 31 December 2023, Pillar Two legislation was enacted in Kuwait in which the Group operates. However, the legislation is not in effect by 31 December 2023 and therefore there is no current income tax impact for the year.

The Group is in the progress of assessing the impacts. Due to the complexity of the tax laws, the Group has yet to complete their assessment and therefore the effect is not yet reasonably estimated.

Following the amendments to IAS 12, the Group has not recognised deferred tax assets and liabilities, if any, related to Pillar Two income taxes (see note 3.1 to these financial statements).

## 12. INCOME TAX EXPENSE (CONTINUED)

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

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Profit before income tax** | **915,207** | 837,162 |
| **Taxation calculated at the statutory tax rate** | **228,802** | 209,291 |
| **Income tax effects of:** | | |
| Difference in overseas profits tax rates | **(11,339)** | 48,104 |
| Non-deductible expenses | **91,560** | 44,081 |
| Utilisation of unrecognised tax losses and deductible temporary differences | **(28,915)** | (84,828) |
| Unrecognised tax losses and deductible temporary differences | **248,619** | 193,632 |
| Adjustment of current tax in previous years | **(38,439)** | (4,102) |
| Equity method accounting for the joint ventures and associates' profit or loss | **(4,552)** | (1,268) |
| Research and development expenses | **(146,612)** | (151,447) |
| **Income tax expense** | **339,124** | 253,463 |

## 13. EARNINGS PER SHARE

### (a) Basic

For the years ended 31 December 2023 and 2022, the basic earnings per share is calculated by dividing the profit attributable to owners of the Company.

| | 2023 | 2022<br>(Restated) |
|---|---|---|
| Profit for the year attributable to owners of the Company (RMB'000) | **576,083** | 583,699 |
| Weighted average number of ordinary shares in issue (Shares) | **18,984,340,033** | 18,984,340,033 |
| Basic earnings per share (RMB) | **0.030** | 0.031 |

### (b) Diluted

For the years ended 31 December 2023 and 2022, the diluted earnings per share was the same as the basic earnings per share for the years as there were no dilutive potential ordinary shares in existence during both years.

## 14. DIVIDENDS

The Board of Directors of the Company did not recommend the payment of any dividends for the years ended 31 December 2023 and 2022.

## 15. DIRECTORS', SUPERVISORS', AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS

Directors', supervisors' and highest individuals' emoluments, disclosed pursuant to the Listing Rules and the Hong Kong Companies Ordinance is as follows:

### (a) Directors' and supervisors' emoluments

Details of directors and supervisors of the Company are as follows:

#### (i) For the year ended 31 December 2023

| | Fee | Salary, allowance and bonus | Contributions to pension plans | Share-based payment | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Executive directors**: | | | | | |
| CHEN Xikun | – | 1,030 | 63 | – | 1,093 |
| YUAN Jiangqiang (i) | – | 1,030 | 63 | – | 1,093 |
| | – | 2,060 | 126 | – | 2,186 |
| **Non-executive directors:** | | | | | |
| LU Baoping (ii) | – | 35 | – | – | 35 |
| FAN Zhonghai | – | – | – | – | – |
| WEI Ran | – | – | – | – | – |
| ZHOU Meiyun | – | – | – | – | – |
| | – | 35 | – | – | 35 |
| **Independent non-executive directors:** | | | | | |
| CHEN Weidong | 200 | – | – | – | 200 |
| DONG Xiucheng | 200 | – | – | – | 200 |
| ZHENG Weijin | 200 | – | – | – | 200 |
| | 600 | – | – | – | 600 |
| **Supervisors:** | | | | | |
| DU Jiangbo | – | – | – | – | – |
| ZHANG Jianbo (iii) | – | – | – | – | – |
| ZHANG Qin | – | 55 | – | – | 55 |
| SUN Yongzhuang | – | 971 | 41 | – | 1,012 |
| ZHANG Bailing | – | 821 | 40 | – | 861 |
| DU Guangyi | – | 1,029 | 63 | – | 1,092 |
| WANG Jun | – | 876 | 63 | – | 939 |
| | – | 3,752 | 207 | – | 3,959 |
| | 600 | 5,847 | 333 | – | 6,780 |

Notes:

(i) Resigned on 8 December 2023.
(ii) Resigned on 27 July 2023.
(iii) Resigned on 13 February 2023.

For the year ended 31 December 2023, Mr. YUAN Jianqiang is also the general manager of the Company and his emoluments disclosed above included his remuneration of serving as the general manager.

## 15. DIRECTORS', SUPERVISORS', AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS (CONTINUED)

### (a) Directors' and supervisors' emoluments (Continued)

Details of directors and supervisors of the Company are as follows: (Continued)

#### (ii) For the year ended 31 December 2022

| | Fee | Salary, allowance and bonus | Contributions to pension plans | Share-based payment | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Executive directors**: | | | | | |
| CHEN Xikun | – | 945 | 58 | – | 1,003 |
| YUAN Jiangqiang | – | 945 | 58 | – | 1,003 |
| | – | 1,890 | 116 | – | 2,006 |
| **Non-executive directors:** | | | | | |
| LU Baoping | – | 35 | – | – | 35 |
| FAN Zhonghai | – | – | – | – | – |
| WEI Ran | – | – | – | – | – |
| ZHOU Meiyun | – | – | – | – | – |
| | – | 35 | – | – | 35 |
| **Independent non-executive directors:** | | | | | |
| CHEN Weidong | 200 | – | – | – | 200 |
| DONG Xiucheng | 200 | – | – | – | 200 |
| ZHENG Weijin | 200 | – | – | – | 200 |
| | 600 | – | – | – | 600 |
| **Supervisors:** | | | | | |
| MA Xiang (i) | – | 216 | 14 | – | 230 |
| DU Jiangbo | – | – | – | – | – |
| ZHANG Jianbo | – | – | – | – | – |
| ZHANG Qin | – | – | – | – | – |
| SUN Yongzhuang | – | 873 | 38 | – | 911 |
| ZHANG Bailing | – | 800 | 39 | – | 839 |
| DU Guangyi | – | 975 | 58 | – | 1,033 |
| WANG Jun (ii) | – | 459 | 35 | – | 494 |
| | – | 3,323 | 184 | – | 3,507 |
| | 600 | 5,248 | 300 | – | 6,148 |

Notes:
(i) Resigned on 29 March 2022.
(ii) Appointed on 26 May 2022.

For the year ended 31 December 2022, Mr. YUAN Jianqiang is also the general manager of the Company and his emoluments disclosed above included his remuneration of serving as the general manager.

## 15. DIRECTORS', SUPERVISORS', AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS (CONTINUED)

### (b) Five highest paid individuals

The number of director or supervisor and non-director or supervisor included in the five highest paid individuals for the years ended 31 December 2023 and 2022 are as follows:

| | 2023 | 2022 |
|---|---|---|
| Director or supervisor | 4 | 3 |
| Non-director or non-supervisor | 1 | 2 |
| | 5 | 5 |

The aggregate of the emoluments in respect of the highest paid non-director or supervisor are as follows:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Salaries, allowances and bonus | 987 | 1,881 |
| Contributions to pensions plans | 63 | 115 |
| Share-based payments | – | – |
| | 1,050 | 1,996 |

The emoluments of the one (2022: two) highest paid individuals who are non-director or supervisor are within the following bands:

| | 2023 | 2022 |
|---|---|---|
| Nil to HK$1,000,000 | 1 | 1 |
| HK$1,000,001 to HK$1,500,000 | – | 1 |

## 16. EMPLOYMENT BENEFITS

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Salaries, wages and other benefits | 16,957,800 | 15,898,645 |
| Contribution to pension plans (Note) | | |
| – Municipal retirement scheme costs | 1,449,372 | 1,374,355 |
| – Supplementary retirement scheme costs | 722,845 | 695,202 |
| | 19,130,017 | 17,968,202 |

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 31 December 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.

## 17. PROPERTY, PLANT AND EQUIPMENT AND OTHER NON-CURRENT ASSETS

### (a) Property, Plant and Equipment

For the year ended 31 December 2023

| | 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** | | | | | | |
| **At 1 January 2023** | 2,709,818 | 66,641,561 | 152,116 | 137,876 | 470,886 | 70,112,257 |
| Additions | 231,906 | 296,345 | 11,834 | 12,511 | 3,270,814 | 3,823,410 |
| Remeasurement of leases | 2,535 | 36,042 | 5,272 | – | – | 43,849 |
| Expiration of or early termination of leases | (148,660) | (474,759) | (28,118) | – | – | (651,537) |
| Disposals/Write-off | (8,362) | (2,415,013) | – | – | – | (2,423,375) |
| Transferred from construction in progress | 13,472 | 3,029,113 | – | – | (3,042,585) | – |
| **At 31 December 2023** | 2,800,709 | 67,113,289 | 141,104 | 150,387 | 699,115 | 70,904,604 |
| **Accumulated depreciation** | | | | | | |
| **At 1 January 2023** | 1,125,971 | 41,229,668 | 86,484 | 34,626 | – | 42,476,749 |
| Depreciation | 414,706 | 3,175,592 | 51,445 | 3,564 | – | 3,645,307 |
| Expiration of or early termination of leases | (126,018) | (441,755) | – | – | – | (567,773) |
| Disposals/Write-off | (6,703) | (2,091,954) | (28,085) | – | – | (2,126,742) |
| **At 31 December 2023** | 1,407,956 | 41,871,551 | 109,844 | 38,190 | – | 43,427,541 |
| **Accumulated impairment loss** | | | | | | |
| **At 1 January 2023** | 654 | 1,199,270 | – | – | 3,502 | 1,203,426 |
| Impairment loss | – | 4,957 | – | – | – | 4,957 |
| Disposals/Write-off | – | (132,449) | – | – | – | (132,449) |
| **At 31 December 2023** | 654 | 1,071,778 | – | – | 3,502 | 1,075,934 |
| **Carrying amounts** | | | | | | |
| **At 31 December 2023** | 1,392,099 | 24,169,960 | 31,260 | 112,197 | 695,613 | 26,401,129 |

## 17. PROPERTY, PLANT AND EQUIPMENT AND OTHER NON-CURRENT ASSETS (CONTINUED)

### (a) Property, Plant and Equipment (Continued)

For the year ended 31 December 2022

| | 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** | | | | | | |
| **At 1 January 2022** | 2,356,118 | 64,958,563 | 164,030 | 137,876 | 671,866 | 68,288,453 |
| Additions | 743,086 | 214,150 | 63,930 | – | 4,342,253 | 5,363,419 |
| Remeasurement of leases | 3,162 | 2,274 | 1,324 | – | – | 6,760 |
| Expiration of or early termination of leases | (391,237) | (204,162) | (77,168) | – | – | (672,567) |
| Disposals/Write-off | (8,551) | (2,865,257) | – | – | – | (2,873,808) |
| Transferred from construction in progress | 7,240 | 4,535,993 | – | – | (4,543,233) | – |
| **At 31 December 2022** | 2,709,818 | 66,641,561 | 152,116 | 137,876 | 470,886 | 70,112,257 |
| **Accumulated depreciation** | | | | | | |
| **At 1 January 2022** | 1,128,447 | 40,840,374 | 112,286 | 31,410 | – | 42,112,517 |
| Depreciation | 395,580 | 3,185,886 | 49,108 | 3,216 | – | 3,633,790 |
| Expiration of or early termination of leases | (390,715) | (202,925) | (74,910) | – | – | (668,550) |
| Disposals/Write-off | (7,341) | (2,593,667) | – | – | – | (2,601,008) |
| **At 31 December 2022** | 1,125,971 | 41,229,668 | 86,484 | 34,626 | – | 42,476,749 |
| **Accumulated impairment loss** | | | | | | |
| **At 1 January 2022** | 654 | 1,247,069 | – | – | 3,502 | 1,251,225 |
| Disposals/Write-off | – | (47,799) | – | – | – | (47,799) |
| **At 31 December 2022** | 654 | 1,199,270 | – | – | 3,502 | 1,203,426 |
| **Carrying amounts** | | | | | | |
| **At 31 December 2022** | 1,583,193 | 24,212,623 | 65,632 | 103,250 | 467,384 | 26,432,082 |

Notes:

(i) Recognised depreciation is analysed as follows:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Cost of sales | **3,469,023** | 3,466,269 |
| Selling expenses | **667** | 608 |
| General and administrative expenses | **106,829** | 118,377 |
| Research expenses | **68,788** | 48,536 |
| | **3,645,307** | 3,633,790 |

(ii) As at 31 December 2023, right-of-use assets with carrying amounts of RMB911,829,000 are included in property, plant and equipment (2022: right-of-use assets with carrying amounts of RMB1,115,599,000).

| | **Carrying amounts** | | **Depreciation** |
|---|---|---|---|
| | **As at 31 December 2023** | **As at 1 January 2023** | **During the year 31 December 2023** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Buildings | **481,630** | **629,737** | **359,900** |
| Oil engineering equipment and others | **286,742** | **316,980** | **190,181** |
| Land | **31,260** | **65,632** | **23,360** |
| Prepaid land leases | **112,197** | **103,250** | **3,564** |
| | **911,829** | **1,115,599** | **577,005** |

(iii) For the year ended 31 December 2023, the total increase in the right-of-use assets included in property, plant and equipment was RMB413,150,000 (2022: RMB921,166,000).

# 17. PROPERTY, PLANT AND EQUIPMENT AND OTHER NON-CURRENT ASSETS (CONTINUED)

## (b) Other non-current assets

For the year ended 31 December 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 | 2,160,564 | 855,354 | 332,606 | – | 3,348,524 |
| **At 31 December 2023** | 18,449,825 | 3,310,886 | 2,826,505 | 51,214 | 24,638,430 |
| **Accumulated depreciation** | | | | | |
| **At 1 January 2023** | 10,605,349 | 1,669,883 | 1,716,021 | 43,214 | 14,034,467 |
| Amortisation | 1,943,776 | 428,586 | 268,637 | 1,452 | 2,642,451 |
| Other decrease | 8,959 | 7,209 | 6,577 | – | 22,745 |
| **At 31 December 2023** | 12,558,084 | 2,105,678 | 1,991,235 | 44,666 | 16,699,663 |
| **Carrying amounts** | | | | | |
| **At 31 December 2023** | 5,891,741 | 1,205,208 | 835,270 | 6,548 | 7,938,767 |

For the year ended 31 December 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 | 2,092,649 | 513,404 | 351,025 | – | 2,957,078 |
| **At 31 December 2022** | 16,289,261 | 2,455,532 | 2,493,899 | 51,214 | 21,289,906 |
| **Accumulated depreciation** | | | | | |
| **At 1 January 2022** | 8,804,286 | 1,418,358 | 1,482,990 | 31,892 | 11,737,526 |
| Amortisation | 1,789,936 | 236,023 | 233,017 | 11,322 | 2,270,298 |
| Other decrease | 11,127 | 15,502 | 14 | – | 26,643 |
| **At 31 December 2022** | 10,605,349 | 1,669,883 | 1,716,021 | 43,214 | 14,034,467 |
| **Carrying amounts** | | | | | |
| **At 31 December 2022** | 5,683,912 | 785,649 | 777,878 | 8,000 | 7,255,439 |

## 18. INTANGIBLE ASSETS

For the year ended 31 December 2023

| | Computer software RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Cost** | | | |
| **At 1 January 2023** | **251,083** | **864,222** | **1,115,305** |
| Additions | **50,319** | **82,487** | **132,806** |
| Disposals/Write-off | **(660)** | **–** | **(660)** |
| **At 31 December 2023** | **300,742** | **946,709** | **1,247,451** |
| **Accumulated amortisation** | | | |
| **At 1 January 2023** | **162,689** | **574,376** | **737,065** |
| Amortisation | **25,566** | **154,807** | **180,373** |
| Disposals/Write-off | **(568)** | **–** | **(568)** |
| **At 31 December 2023** | **187,687** | **729,183** | **916,870** |
| **Carrying amounts** | | | |
| **At 31 December 2023** | **113,055** | **217,526** | **330,581** |

For the year ended 31 December 2022

| | Computer software RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Cost** | | | |
| **At 1 January 2022** | 206,662 | 783,509 | 990,171 |
| Additions | 55,401 | 80,713 | 136,114 |
| Disposals/Write-off | (10,980) | – | (10,980) |
| **At 31 December 2022** | 251,083 | 864,222 | 1,115,305 |
| **Accumulated amortisation** | | | |
| **At 1 January 2022** | 153,455 | 436,586 | 590,041 |
| Amortisation | 20,214 | 137,790 | 158,004 |
| Disposals/Write-off | (10,980) | – | (10,980) |
| **At 31 December 2022** | 162,689 | 574,376 | 737,065 |
| **Carrying amounts** | | | |
| **At 31 December 2022** | 88,394 | 289,846 | 378,240 |

Recognised amortisation is analysed as follows:

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Cost of sales | **161,018** | 144,256 |
| Selling expenses | **3** | 3 |
| General and administrative expenses | **18,498** | 12,848 |
| Research expenses | **854** | 897 |
| | **180,373** | 158,004 |

## 19. INTERESTS IN JOINT VENTURES AND ASSOCIATES

### (a) Interests in joint ventures

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **At 1 January** | **23,340** | 24,122 |
| Reclassification | **477,951** | (1,672) |
| Deregister | **(13,003)** | – |
| Share of total comprehensive income | **13,992** | 890 |
| Exchange adjustments | **16,447** | – |
| Distribution | **(766)** | – |
| **At 31 December** | **517,961** | 23,340 |

The interests in each joint venture are as follows:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Sinopec Gulf Petroleum Engineering Services, LLC ("Gulf Petroleum Engineering") | **–** | 13,003 |
| Zhong Wei Energy Service Co. Limited ("Zhong Wei") | **9,892** | 8,791 |
| EBAPAN, S.A. DE C.V ("EBAPAN") | **1,024** | 1,546 |
| DS Servicios Petroleros, S.A.de C.V. ("Mexico DS Company") | **507,045** | – |
| | **517,961** | 23,340 |

The details of joint ventures, unlisted and established as limited companies, of the Group are as follows:

| Name | Place of incorporation/ registration | Registered capital | | Actual interest held indirectly | Principal activities and place of operation |
|---|---|---|---|---|---|
| | | RMB'000 | MXN'000 | | |
| Gulf Petroleum Engineering | Kuwait | 27,312<br>(2022: 27,312) | – | 49.00%<br>(2022: 49.00%) | Oilfield service/Kuwait |
| Zhong Wei | The PRC | 305,000<br>(2022: 305,000) | – | 50.00%<br>(2022: 50.00%) | Oilfield technical service/ The PRC |
| EBAPAN | Mexico | – | 50<br>(2022: 50) | 50.00%<br>(2022: 50.00%) | Oil and gas extraction professional and auxiliary activities/Mexico |
| Mexico DS Company | Mexico | – | 5,250<br>(2022: 5,250) | 50.00%<br>(2022: 50.00%) | Oil and gas extraction professional and auxiliary activities/Mexico |

The above joint ventures are accounted for using equity method.

Notes:

(i) The decision of financial and operating strategies requires unanimous consent from the Group and other ventures as stated in the contracts signed by the both parties.

(ii) Commitments and contingent liabilities of the joint ventures

As at 31 December 2023 and 2022, there is no material contingent liability and commitment between the Group and its joint ventures or the joint ventures itself.

The summarised financial information of non-major joint ventures of the Group is as follows:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Profit for the year and total comprehensive income for the year | **26,175** | 3,001 |

## 19. INTERESTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

### (b) Interest in associates

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **At 1 January** | **26,875** | 22,926 |
| Reclassification | **–** | 1,672 |
| Additions | **6,013** | – |
| Share of total comprehensive income | **6,850** | 6,614 |
| Distribution | **(4,203)** | (4,337) |
| **At 31 December** | **35,535** | 26,875 |

The details of associates, unlisted and established as limited companies, of the Group are as follows:

| Name | Place of incorporation/ registration | Registered capital<br>RMB'000 | Actual interest held indirectly | Principal activities and place of operation |
|---|---|---|---|---|
| Ordos North China Ruida Oil Service Company Limited ("Ordos North") | The PRC | 10,000<br>(2022: 10,000) | 35.00%<br>(2022: 35.00%) | Oil and natural gas exploration/The PRC |
| Xinjiang North China Tianxiang Oil Service Company Limited ("Xinjiang North") | The PRC | 10,000<br>(2022: 10,000) | 20.00%<br>(2022: 20.00%) | Oil and natural gas exploration/The PRC |
| Zhenjiang Huajiang Oil Service Company Limited ("Huajiang Oil") | The PRC | 5,000<br>(2022: 5,000) | 37.00%<br>(2022: 37.00%) | Oil and natural gas exploration/The PRC |
| Henan Zhongyuan Petroleum Technology Service Company Limited ("Henan Zhongyuan") | The PRC | 10,000<br>(2022: 10,000) | 20.00%<br>(2022: 20.00%) | Oil and natural gas exploration/The PRC |
| Henan Zhongyou Petroleum Technology Service Company Limited ("Henan Zhongyou") | The PRC | 10,000<br>(2022: 10,000) | 20.00%<br>(2022: 20.00%) | Oil and natural gas exploration/The PRC |
| Qianjiang HengYun Comprehensive Vehicle Performance Inspecting Company Limited ("Qianjiang HengYun") | The PRC | 2,100<br>(2022: 2,100) | 49.10%<br>(2022: 49.10%) | Transportation services/The PRC |
| Beijing Shigong Intelligent Control Technology Company Limited ("Beijing Shigong") | The PRC | 20,043<br>(2022: nil) | 30.00%<br>(2022: 0%) | Oil and natural gas exploration/The PRC |

The above associates are accounted for using equity method.

Note:

Commitments and contingent liabilities of the associates

As at 31 December 2023 and 2022, there is no material contingent liability and commitment between the Group and its associates or associates themselves.

## 20. FINANCIAL ASSETS AT FVTOCI

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Non-current asset:** | | |
| **Financial assets at FVTOCI (non-recycling)** | | |
| Unlisted securities: Equity securities – the PRC | **135,763** | 134,492 |
| **Current assets:** | | |
| **Financial assets at FVTOCI** | | |
| Notes receivable | **2,735,081** | 1,468,340 |

Notes:

(i) Unlisted securities 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 securities as financial assets at FVTOCI (non-recycling), as the investment is held for strategic purpose.

(ii) As at 31 December 2023 and 2022, notes receivable 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.

(iii) Financial assets at FVTOCI are measured at fair value. Refer to Note 41.4 for details. All financial assets at FVTOCI are denominated in RMB.

## 21. TRADE RECEIVABLES

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| **Trade receivables** | | |
| – Sinopec Group and its subsidiaries | **3,927,454** | 4,362,460 |
| – Joint ventures of the Group | **20,354** | 11,341 |
| – Joint ventures and associates of Sinopec Group | **73,269** | 20,031 |
| – Third parties | **8,814,526** | 8,541,180 |
| | **12,835,603** | 12,935,012 |
| Less: ECL allowance | **(2,233,361)** | (2,397,795) |
| **Trade receivables – net** | **10,602,242** | 10,537,217 |

As at 31 December 2023 and 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:

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Within 1 year | **10,052,405** | 9,942,031 |
| 1 to 2 years | **416,954** | 380,380 |
| 2 to 3 years | **73,512** | 93,954 |
| Over 3 years | **59,371** | 120,852 |
| | **10,602,242** | 10,537,217 |

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

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Balance at beginning of the year | **2,397,795** | 2,415,495 |
| ECL allowance | **20,878** | 46,630 |
| Reversal | **(155,286)** | (129,145) |
| Others | **1,532** | 139,507 |
| Receivables written-off as uncollectible | **(31,558)** | (74,692) |
| At 31 December | **2,233,361** | 2,397,795 |

## 22. PREPAYMENTS AND OTHER RECEIVABLES

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Prepayments (Note (i)) | **515,307** | 410,442 |
| Less: Impairment | **(3,864)** | (3,863) |
| | **511,443** | 406,579 |
| Other receivables (Note (ii)) | | |
| Petty cash funds | **4,728** | 5,188 |
| Guarantee deposits | **1,153,100** | 1,349,502 |
| Disbursement of funds | **934,741** | 1,254,411 |
| Temporary payment | **899,349** | 1,003,269 |
| Escrow payments | **5,271** | 5,920 |
| Deposits | **42,785** | 94,537 |
| Export tax refund receivables | **5,386** | 21,161 |
| Excess value-added tax paid | **1,030,914** | 1,123,184 |
| Value added tax to be certified | **53,422** | 61,174 |
| Prepaid value-added tax | **1,403,186** | 1,153,395 |
| Prepaid income tax | **5,327** | 25,110 |
| Dividend receivable | **433** | 540 |
| Others | **382,627** | 367,275 |
| | **5,921,269** | 6,464,666 |
| Less: ECL allowance | **(591,143)** | (857,691) |
| | **5,330,126** | 5,606,975 |
| Prepayments and other receivables – net | **5,841,569** | 6,013,554 |

Notes:

(i) As at 31 December 2023, the prepayments included related party balances: Sinopec Group and its subsidiaries amounting at RMB93,764,000 (2022: RMB83,073,000) and associates and the joint ventures of Sinopec Group amounting at RMB nil (2022: RMB6,836,000).

(ii) As at 31 December 2023, the other receivables included related party balances: Sinopec Group and its subsidiaries amounting at RMB282,732,000 (2022: RMB349,639,000), the joint ventures of the Group amounting at RMB139,194,000 (2022: RMB8,199,000) and associates and the joint ventures of Sinopec Group amounting at RMB19,285,000 (2022: RMB23,587,000).

(iii) The amounts due from related parties are unsecured, interest free and repayable on demand.

(iv) The carrying amounts of the Group's prepayments and other receivables as at 31 December 2023 and 2022 approximate their fair values.

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

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Balance at the beginning of the year | **861,554** | 809,103 |
| ECL allowance | **76,517** | 127,187 |
| Reversal | **(341,103)** | (120,204) |
| Others | **(1,961)** | 45,468 |
| At 31 December | **595,007** | 861,554 |

# 23. CONTRACT ASSETS AND COST TO FULFIL CONTRACTS/CONTRACT LIABILITIES

## (a) Contract assets and cost to fulfil contracts

| | 2023 | 2022 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Contract assets arising from construction and service contracts (Note (a)) | **16,402,808** | 15,815,303 |
| Cost to fulfil contracts (Note (b)) | **161,736** | 103,095 |
| Less: ECL allowance | **(199,560)** | (201,404) |
| | **16,364,984** | 15,716,994 |

Notes:

(a) Typical payment terms which impact on the amount of contract assets recognised are as follows:

The Group's construction and service contracts include payment schedules which require progress payments over the construction period once certain specified milestones are reached. Approximate 5% of progress billings of engineering construction service would be retained as quality guarantee. This amount is included in contract assets and the Group's entitlement to this final payment until the end of guarantee period.

The amount of contract assets that is expected to be recovered after more than one year is RMB1,712,760,000 (31 December 2022: RMB1,987,467,000).

(b) Cost to fulfil contracts represented costs directly related to existing contracts or to specifically identifiable anticipated contracts, including direct labor, direct materials, cost allocation, costs clearly payable by the customer, and costs to enter contracts. Managements consider the cost to fulfil contracts is recoverable and the cost is deferred and amortised in the profit or loss when relevant contract revenue is recognised.

The movements of ECL allowance on contract assets are as follows:

| | 2023 | 2022 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Balance at the beginning of the year | **201,404** | 100,593 |
| (Reversal of)/Provision for ECL allowance | **(4,250)** | 97,454 |
| Others | **2,406** | 3,357 |
| At 31 December | **199,560** | 201,404 |

## (b) Contract liabilities

| | 2023 | 2022 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Contract liabilities arising from construction and service contracts | **5,361,274** | 5,115,819 |

Note:

When the Group received the deposits in advance to the commencement of construction period/provision of services, the amount will be recognised as contract liabilities at contract inception until the amount of recognised revenue is greater than the deposits.

The balance of contract liabilities as at 1 January 2023 is RMB5,115,819 (2022: RMB3,547,938,000), in which RMB3,637,714,000 (2022: RMB2,721,763,000) 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 31 December 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 performance obligation was RMB24.28 billion (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.

## 24. INVENTORIES

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Raw materials | **949,128** | 923,489 |
| Finished goods | **92,117** | 97,835 |
| Work in progress | **5,732** | 6,257 |
| Turnover materials | **12,077** | 14,258 |
| | **1,059,054** | 1,041,839 |
| Less: Inventories write-down | **(16,495)** | (28,594) |
| | **1,042,559** | 1,013,245 |

For the years ended 31 December 2023 and 2022, cost of inventories recognised as expenses and included in "cost of sales" amounting to RMB30,957,213,000 and RMB30,507,768,000 respectively. During the year ended 31 December 2023, there was reversal of provision for inventories of RMB12,099,000 was made to write down inventories to their net realisable values (2022: additional provision for inventories of RMB2,429,000) and inventories of RMB nil previously written down were written off (2022: RMB116,000).

## 25. RESTRICTED CASH

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Letter of credit guarantee deposits | **97** | 95 |
| Guarantee deposits | **27,221** | 36,984 |
| | **27,318** | 37,079 |

As at 31 December 2023 and 2022, restricted cash represents the deposits in banks with initial maturity due for six months.

As at 31 December 2023 and 2022, the annual interest rates on restricted cash are determined in accordance with the annual interest rates of bank current account.

At the end of the respective reporting periods, the maximum exposure to credit risk approximates to carrying amounts of the Group's restricted cash.

## 26. CASH AND CASH EQUIVALENTS

| | 2023 | 2022 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Cash on hand | 1,551 | 2,992 |
| An initial term of less than three months: | | |
| – Sinopec Finance Company Limited | 1,043,814 | 47,531 |
| – Sinopec Century Bright Capital Investment Company Limited | 796,415 | 802,100 |
| – Third party banks and other financial institutions | 947,018 | 948,527 |
| | 2,788,798 | 1,801,150 |

As at 31 December 2023 and 2022, the annual interest rates on cash at bank are determined in accordance with the annual interest rates of bank current account.

At the end of the respective reporting periods, the maximum exposure to credit risk approximates the carrying amounts of the Group's cash and cash equivalents.

## 27. SHARE CAPITAL

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Number of shares | Share capital | Number of shares | Share capital |
| | Share | RMB'000 | Share | RMB'000 |
| **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 |

## 28. THE STATEMENT OF FINANCIAL POSITION AND THE STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

### (i) The statement of financial position of the Company

| | As at 31 December 2023 RMB'000 | As at 31 December 2022 RMB'000 (Restated) | As at 1 January 2022 RMB'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | **48,600** | 96,080 | – |
| Intangible assets | **61,766** | 35,045 | – |
| Interests in subsidiaries | **35,793,475** | 35,792,373 | 27,891,662 |
| Deferred tax assets | **156** | 154 | – |
| **Total non-current assets** | **35,903,997** | 35,923,652 | 27,891,662 |
| **Current assets** | | | |
| Other receivables | **361** | 121 | – |
| Amount due from subsidiaries | **20,941,818** | 20,982,409 | 4,380,622 |
| Other current assets | **11,090** | 3,527 | 278 |
| Cash and cash equivalents | **1,044,457** | 35,787 | 147 |
| **Total current assets** | **21,997,726** | 21,021,844 | 4,381,047 |
| **Total assets** | **57,901,723** | 56,945,496 | 32,272,709 |
| **Equity** | | | |
| Share capital | **18,984,340** | 18,984,340 | 18,984,340 |
| Reserves | **9,630,882** | 9,585,594 | 13,238,794 |
| **Total equity** | **28,615,222** | 28,569,934 | 32,223,134 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Long-term borrowing | **–** | 13,298 | – |
| **Current liabilities** | | | |
| Other payables | **216,220** | 186,612 | 35,291 |
| Amount due to subsidiaries | **10,849,094** | 10,938,873 | 14,284 |
| Short-term borrowing | **18,221,187** | 17,236,779 | – |
| **Total current liabilities** | **29,286,501** | 28,362,264 | 49,575 |
| **Total liabilities** | **29,286,501** | 28,375,562 | 49,575 |
| **Total equity and liabilities** | **57,901,723** | 56,945,496 | 32,272,709 |
| **Net current (liabilities)/assets** | **(7,288,775)** | (7,340,420) | 4,331,472 |
| **Total assets less current liabilities** | **28,615,222** | 28,583,232 | 32,223,134 |

Approved and authorised for issue by the board of directors on 26 March 2024.

*Chairman of the Board:*

*CHEN Xikun*

## 28. THE STATEMENT OF FINANCIAL POSITION AND THE STATEMENT OF CHANGES IN EQUITY OF THE COMPANY (CONTINUED)

### (ii) The statement of changes in equity of the Company

| | Share capital | Share premium | Other capital reserve | Surplus reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | (Note 29(i)) | (Note 29(i) | (Note 29(ii)) | | |
| **As at 1 January 2022** | 18,984,340 | 13,919,394 | 49,001 | 200,383 | (929,984) | 32,223,134 |
| **Total comprehensive expense (Restated)** | – | – | (3,236,595) | – | (416,605) | (3,653,200) |
| **At 31 December 2022 and 1 January 2023** | **18,984,340** | **13,919,394** | **(3,187,594)** | **200,383** | **(1,346,589)** | **28,569,934** |
| Total comprehensive income | **–** | **–** | **–** | **–** | **45,288** | **45,288** |
| **At 31 December 2023** | **18,984,340** | **13,919,394** | **(3,187,594)** | **200,383** | **(1,301,301)** | **28,615,222** |

As at 31 December 2022 and 2023, the accumulated losses of Company are RMB1,346,589,000 and RMB1,301,301,000 respectively. Therefore, no distributable profits available as at 31 December 2022 and 2023.

## 29. RESERVES

### (i) Share premium and other capital reserve

In accordance with the relevant laws and regulations of the PRC, on this restructuring, the surplus of related asset revaluation, transaction with Sinopec Group, issue of share capital and share repurchases are reflected in this reserves. Other capital reserve includes the fair value of recognised share options.

### (ii) Surplus reserve

In accordance with the relevant laws and regulations of the PRC and the articles of association of the Company, it is required to appropriate 10% of its net profit to the statutory surplus reserve. When the balance of such a reserve reaches 50% of the respective companies registered capital, any further appropriation is optional. The statutory surplus reserve can be used to offset losses, if any, and may be converted into share capital by issuing new shares.

### (iii) Specific reserve

Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC, the Group is required to set aside an amount to a safety fund for its oil construction business. The fund can be used for improvements of safety at the worksite, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditures, an equivalent amount is transferred from safety fund to retained earnings.

### (iv) Other comprehensive income reserve (non-recycling)

Other comprehensive income reserve (non-recycling) includes net accumulated movement in fair value of equity investment at FVTOCI (refer to Note 2.7 to the consolidated financial statements for the accounting policies).

## 30. SHARE-BASED PAYMENTS

Pursuant to the resolution of the fourteen meeting of the eighth session of the Board of Directors of the Company on 1 November 2016, the proposal regarding "the Adjustment of the List of Participants and the Number of the Share Options under the Proposed Grant of the Share Option Incentive Scheme" and the proposal regarding "the Proposed Grant under Share Option Incentive Scheme" was approved.

According to the Company's share option incentive scheme, the grant date of share options was 1 November 2016, and there were a total of 49,050,000 share options granted to 477 participants (0.3469% of the total ordinary share capital issued). Each share option has a right to purchase an ordinary A share listed in PRC on vesting date at an exercise price of RMB5.63 under vesting conditions. The options are exercisable starting two years from the grant date, subject to the following vesting conditions:

(i) achieving compound annual growth rate of no less than 6% in profit before income tax for 2017, 2018 and 2019, respectively based on the profit before income tax of 2015;

(ii) ratio of earnings before interest, tax, depreciation and amortisation to net asset of the Group should be no less than 32% for 2017, 2018 and 2019 in respect to the three vesting periods;

(iii) the above (i) and (ii) conditions should be no lower than the 75% level of peer companies; and

(iv) the performance of the indicator for economic value added has reached the target set by the Sinopec Group for 2017, 2018 and 2019, and the changes of economic value added should be large than zero.

The total fair value of share options at the grant date was RMB54,229,200 for 49,050,000 share options, which has been valued by an external valuation expert using Black-Scholes valuation model. The Third Exercise Period under the First Grant of the A Share Option Incentive Scheme of the Company is from 1 November 2020 to 30 October 2021. On 28 October 2021, the outstanding Share Options granted to the Participants were cancelled in view of the relatively substantial difference between the Company's A Share price and the exercise price. As at 31 December 2022 and 2023, there is no outstanding share options.

No share-based payment expenses has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2022 and 31 December 2023.

## 31. DEFERRED INCOME

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **At 1 January** | **11,576** | 9,288 |
| Government grants received during the year | **352,614** | 106,679 |
| Recognised in the statement of comprehensive income for the year | **(346,001)** | (104,391) |
| **At 31 December** | **18,189** | 11,576 |

Deferred income mainly related to income from the national special research government grants.

## 32. NOTES AND TRADE PAYABLES

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Trade payables** | | |
| – Sinopec Group and its subsidiaries | **2,481,469** | 2,406,778 |
| – Joint ventures | **90,398** | 107,009 |
| – Sinopec Group's joint ventures and associates | **3,636** | 16,074 |
| – Third parties | **23,798,425** | 23,071,367 |
| | **26,373,928** | 25,601,228 |
| **Notes payables** | **8,821,760** | 7,990,225 |
| | **35,195,688** | 33,591,453 |

As at 31 December 2023 and 2022, the carrying amounts 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:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Within 1 year | **34,328,566** | 32,987,429 |
| 1 and 2 years | **563,627** | 370,450 |
| 2 and 3 years | **156,428** | 63,688 |
| Over 3 years | **147,067** | 169,886 |
| | **35,195,688** | 33,591,453 |

## 33. OTHER PAYABLES

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Salaries payables | **863,071** | 570,290 |
| Other tax payables | **794,189** | 746,168 |
| Interest payables (Note (i)) | **20,006** | 21,885 |
| Other payables (Note (ii)) | | |
| Guarantee deposits | **1,056,429** | 819,893 |
| Deposits | **157,375** | 145,438 |
| Disbursement of funds | **725,937** | 645,731 |
| Temporary receipts | **474,728** | 238,069 |
| Escrow payments | **45,194** | 44,611 |
| Withheld payments | **57,811** | 56,067 |
| Project expenses payable | **302,134** | 218,617 |
| Others | **581,897** | 612,490 |
| | **5,078,771** | 4,119,259 |

Notes:

(i) As at 31 December 2023, the interest payables include related party balances: Sinopec Group and its subsidiaries amounting at RMB17,586,000 (2022: RMB16,816,000).

(ii) As at 31 December 2023, the other payables include related party balances: Sinopec Group and its subsidiaries amounting to RMB69,875,000 (2022: RMB69,875,000), joint ventures of the Group amounting to RMB172,000 (2022: RMB242,000) and the joint ventures of Sinopec Group amounting at RMB2,654,000 (2022: RMB nil).

(iii) Amounts due to related parties are unsecured, interest free and repayable on demand.

## 34. BORROWINGS

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| **Current liabilities** | | |
| Loans from Sinopec Finance Company Limited (Note (a)) | **19,185,000** | 16,095,000 |
| Loans from Sinopec Century Bright Capital Investment Limited (Note (a)) | **722,435** | 1,828,208 |
| Loans from Sinopec Group (Note (a)) | **–** | 1,000,000 |
| Lease liabilities (Note (b)) | **436,121** | 517,190 |
| | **20,343,556** | 19,440,398 |
| **Non-current liabilities** | | |
| Bank borrowings (Note (a)) | **318,722** | 480,557 |
| Lease liabilities (Note (b)) | **317,120** | 497,045 |
| | **635,842** | 977,602 |
| | **20,979,398** | 20,418,000 |

Notes:

(i) The loans of the Group are repayable as follows:

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Within 1 year | **19,907,435** | 18,923,208 |
| 1 to 2 years | **318,722** | 480,557 |
| | **20,226,157** | 19,403,765 |

As at 31 December 2023, annual interest rates of credit loans from related parties and bank ranged from 2.90% to 3.75% (2022: 1.42% to 4.82%).

(ii) Lease liabilities

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Total future lease payments | | |
| – Within 1 year | **455,092** | 539,279 |
| – 1 to 2 years | **153,117** | 377,161 |
| – 2 to 5 years | **130,398** | 94,684 |
| – Over 5 years | **62,520** | 50,938 |
| | **801,127** | 1,062,062 |
| Future finance charges on lease liabilities | **(47,886)** | (47,827) |
| Present value of lease liabilities | **753,241** | 1,014,235 |

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Present value of future lease payments: | | |
| – Within 1 year | **436,121** | 517,190 |
| – 1 to 2 years | **143,015** | 363,905 |
| – 2 to 5 years | **117,805** | 88,571 |
| – Over 5 years | **56,300** | 44,569 |
| | **753,241** | 1,014,235 |
| Less: Portion due within one year included under current liabilities | **(436,121)** | (517,190) |
| Portion due after one year included under non-current liabilities | **317,120** | 497,045 |

Notes:

(a) For the year ended 31 December 2023, the Group leases various residential properties, office and equipment under non-cancellable operating lease agreements. The leases run for an initial period of 1 to 30 years (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.

(b) As at 31 December 2023, lease liabilities included related party balances: Sinopec Group and its subsidiaries amounting to RMB7,256,000 (2022: RMB423,475,000), the associated and joint ventures of Sinopec Group amounting to RMB403,000 (2022: RMB118,839,000).

## 35. DEFERRED TAX

Deferred tax assets and liabilities recognised:

The analysis of deferred tax assets and liabilities is as follows:

| | 2023<br>RMB' 000 | 2022<br>RMB' 000<br>(Restated) |
|---|---|---|
| Deferred tax assets | 400,687 | 370,014 |
| Deferred tax liabilities | (87,028) | (68,496) |
| **Deferred tax assets, net** | 313,659 | 301,518 |

The movement of the deferred tax account is as follows:

| | 2023<br>RMB' 000 | 2022<br>RMB' 000<br>(Restated) |
|---|---|---|
| **At 1 January** | 301,518 | 291,657 |
| Debited to profit or loss (Note 12) | 12,474 | 11,587 |
| Credited to other comprehensive income | (333) | (1,726) |
| **At 31 December** | 313,659 | 301,518 |

The movement of deferred tax assets/(liabilities) during the years ended 31 December 2023 and 2022, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

### Deferred tax assets

| | Deferred income<br>RMB' 000 | Provision for impairment on assets<br>RMB' 000 | Net movement in fair value of financial assets at FVTOCI<br>RMB' 000 | Tax losses<br>RMB' 000 | Lease liabilities<br>RMB' 000 | Total<br>RMB' 000 |
|---|---|---|---|---|---|---|
| **At 1 January 2022** | 372 | 308,936 | 1,456 | – | 5,711 | 316,475 |
| Credited/(debited) to: | | | | | | |
| Profit or loss | 360 | (19,463) | – | 72,264 | 1,833 | 54,994 |
| Other comprehensive income | – | – | (1,455) | – | – | (1,455) |
| **At 31 December 2022 and 1 January 2023** | 732 | 289,473 | 1 | 72,264 | 7,544 | 370,014 |
| Credited/(debited) to: | | | | | | |
| Profit or loss | 495 | (120,930) | – | 42,389 | 108,719 | 30,673 |
| Other comprehensive income | – | – | – | – | – | – |
| **At 31 December 2023** | 1,227 | 168,543 | 1 | 114,653 | 116,263 | 400,687 |

### Deferred tax liabilities

| | Accelerated depreciation allowance<br>RMB' 000 | Revaluation on assets<br>RMB' 000 | Net movement in fair value of financial assets at FVTOCI<br>RMB' 000 | Right-of-use assets<br>RMB' 000 | Total<br>RMB' 000 |
|---|---|---|---|---|---|
| **At 1 January 2022** | 136 | 7,729 | 1,573 | 15,380 | 24,818 |
| Debited/(credited) to: | | | | | |
| Profit or loss | 53,658 | – | – | (10,251) | 43,407 |
| Other comprehensive income | – | – | 271 | – | 271 |
| **At 31 December 2022 and 1 January 2023** | 53,794 | 7,729 | 1,844 | 5,129 | 68,496 |
| Debited/(credited) to: | | | | | |
| Profit or loss | 23,269 | – | – | (5,070) | 18,199 |
| Other comprehensive income | – | – | 333 | | 333 |
| **At 31 December 2023** | 77,063 | 7,729 | 2,177 | 59 | 87,028 |

## 35. DEFERRED TAX (CONTINUED)

### Deferred tax liabilities (Continued)

Deferred tax assets represent the recognised tax losses carried forward to the extent that the realisation of the related income tax benefits through the future taxable profits is probable. In accordance with the PRC tax law applicable to those companies in their respective jurisdictions, tax losses may be carried forward against future taxable income. Tax losses and deductible temporary differences not recognised as deferred tax assets in the Group is as follow:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Tax losses not recognised as deferred tax assets | **14,421,209** | 14,350,643 |
| Temporary differences not recognised as deferred tax assets | **3,777,510** | 2,907,252 |

The Group did not recognise the above as deferred tax assets as the management believes that it is less likely such deductible temporary differences and tax losses would be realised. The said tax losses not recognised as deferred tax assets would be expired within five years.

## 36. COMMITMENTS

### (a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding as at 31 December 2023 and 2022 not provided for in the financial statements are as follows:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Contracted but not provided for | **138,720** | 15,905 |

### (b) Lease commitments

#### The Group as a lessee

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

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Within 1 year | **46,397** | 45,938 |

As at 31 December 2023 and 2022, the Group leases various residential properties, office and equipment under non-cancellable operating leases, with a lease period of 6 to 12 months, which are qualified to be accounted for under short-term lease exemption under IFRS 16.

#### The Group as a lessor

The Group has entered into operating leases on its property, plant and equipment. Rental income recognised by the Group during the year was RMB58,916,000 (2022: RMB75,466,000)

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Within 1 year | **128,288** | 79,230 |
| 1 to 2 years | **11,170** | 24,250 |
| 2 to 3 years | **5,575** | 7,211 |
| 3 to 4 years | **5,498** | 5,579 |
| 4 to 5 years | **5,498** | 5,504 |
| Over 5 years | **3,039** | 5,507 |
| | **159,068** | 127,281 |

### (c) Investment commitments

As at 31 December 2023, the Group has outstanding commitments of RMB129,625,000 (2022: RMB129,625,000) in respect of its investment in joint ventures.

## 36. COMMITMENTS (CONTINUED)

### (d) Fulfilment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2023.

## 37(a). CASH GENERATED FROM OPERATIONS

| | Notes | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|---|
| **Profit before income tax** | | **915,207** | 837,162 |
| **Adjustments for:** | | | |
| – Depreciation of property, plant and equipment | 11 | **3,645,307** | 3,633,790 |
| – Gains on disposal of property, plant and equipment | 9 | **(85,168)** | (13,525) |
| – Amortisation of other non-current assets | 11 | **2,642,451** | 2,270,298 |
| – Gains on disposal of other non-current assets | 9 | **(2,675)** | (12,363) |
| – Amortisation of intangible assets | 11 | **180,373** | 158,004 |
| – Interest income | 6 | **(23,649)** | (15,408) |
| – Interest expense | 6 | **805,016** | 704,304 |
| – Share of profit from joint ventures | 19(a) | **(13,992)** | (890) |
| – Share of profit from associates | 19(b) | **(6,850)** | (6,614) |
| – Reversal of provision for ECL on trade receivables, net | 21 | **(134,408)** | (82,515) |
| – (Reversal of provision for)/provision for ECL on other receivables, net | 22 | **(264,586)** | 6,985 |
| – (Reversal of provision for)/provision for ECL allowance on contract assets | 23 | **(4,250)** | 97,454 |
| – Impairment of property, plant and equipment | 10 | **4,957** | – |
| – Write down of inventories to net realisable value | 7 | **–** | 2,429 |
| – Investment income from financial assets at FVTOCI | 8 | **(1,200)** | (500) |
| – Loss on disposal of a joint venture | 10 | **13,003** | – |
| **Cash flows generated from operating activities before changes in working capital** | | **7,669,536** | 7,578,611 |
| **Changes in working capital:** | | | |
| – Inventories | | **(29,314)** | 4,079 |
| – Notes and trade receivables | | **(1,198,629)** | (2,476,053) |
| – Prepayments and other receivables | | **436,571** | (858,218) |
| – Contract assets and cost to fulfil contracts | | **(643,740)** | (2,188,416) |
| – Restricted cash | | **9,761** | (4,162) |
| – Deferred income | | **6,613** | 2,288 |
| – Provisions | | **11,711** | (4,773) |
| – Notes and trade payables | | **1,604,235** | 3,701,105 |
| – Other payables | | **(2,042,538)** | (2,829,809) |
| – Contract liabilities | | **245,455** | 1,567,881 |
| **Cash generated from operations** | | **6,069,661** | 4,492,533 |

## 37(b). RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

As at 31 December 2023, the details changes in the Group's liabilities arising from financing activities are as below:

| | Borrowings<br>RMB'000 | Lease liabilities<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|
| **At 1 January 2023** | 19,403,765 | 1,014,235 | 20,418,000 |
| **Changes from financing cash flows:** | | | |
| Proceeds from borrowings | 27,351,504 | – | 27,351,504 |
| Repayments of borrowings | (26,568,095) | – | (26,568,095) |
| Interest paid | (670,190) | – | (670,190) |
| Capital element of lease rentals paid | – | (628,989) | (628,989) |
| Interest element of lease rentals paid | – | (42,456) | (42,456) |
| **Total changes from financing cash flows** | 113,219 | (671,445) | (558,226) |
| **Other changes:** | | | |
| Addition of lease liabilities | – | 413,150 | 413,150 |
| Remeasurement of leases | – | 43,849 | 43,849 |
| Expiry write-off or early termination of lease liabilities | – | (83,764) | (83,764) |
| Interest expenses on borrowings | 762,560 | – | 762,560 |
| Interest expenses on lease liabilities | – | 42,456 | 42,456 |
| Exchange difference | (53,387) | (5,240) | (58,627) |
| **Total other changes** | 709,173 | 410,451 | 1,119,624 |
| **At 31 December 2023** | 20,226,157 | 753,241 | 20,979,398 |

As at 31 December 2022, the details changes in the Group's liabilities arising from financing activities are as below:

| | Borrowings<br>RMB'000 | Lease liabilities<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|
| **At 1 January 2022** | 19,074,777 | 686,811 | 19,761,588 |
| **Changes from financing cash flows:** | | | |
| Proceeds from borrowings | 44,571,010 | – | 44,571,010 |
| Repayments of borrowings | (44,491,653) | – | (44,491,653) |
| Interest paid | (545,521) | – | (545,521) |
| Capital element of lease rentals paid | – | (525,026) | (525,026) |
| Interest element of lease rentals paid | – | (60,059) | (60,059) |
| **Total changes from financing cash flows** | (466,164) | (585,085) | (1,051,249) |
| **Other changes:** | | | |
| Addition of lease liabilities | – | 921,166 | 921,166 |
| Remeasurement of leases | – | 6,760 | 6,760 |
| Expiry write-off or early termination of lease liabilities | – | (4,017) | (4,017) |
| Interest expenses on borrowings | 644,245 | – | 644,245 |
| Interest expenses on lease liabilities | – | 60,059 | 60,059 |
| Exchange difference | 150,907 | (71,459) | 79,448 |
| **Total other changes** | 795,152 | 912,509 | 1,707,661 |
| **At 31 December 2022** | 19,403,765 | 1,014,235 | 20,418,000 |

## 38. PROVISIONS

| | Provision for the pending litigations | Provision for onerous contracts | Provision for loss on judicial reorganisation | Others | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Note (a)) | (Note (b)) | (Note (c)) | | |
| **At 1 January 2022** | 4,000 | 25,004 | 158,233 | 18,534 | 205,771 |
| Provision during the year | – | 5,754 | 1,090 | 1,712 | 8,556 |
| Realisation during the year | – | (13,329) | – | – | (13,329) |
| **At 31 December 2022 and 1 January 2023** | **4,000** | **17,429** | **159,323** | **20,246** | **200,998** |
| Provision during the year | **–** | **–** | **–** | **49,367** | **49,367** |
| Reversal during the year | **(4,000)** | **–** | **(8,580)** | **–** | **(12,580)** |
| Realisation during the year | **–** | **(13,481)** | **–** | **(11,595)** | **(25,076)** |
| **At 31 December 2023** | **–** | **3,948** | **150,743** | **58,018** | **212,709** |

Notes:

(a) The Group recognised provision amounting to RMB nil (2022: RMB4,000,000) based on the estimated claim amount.

(b) As at 31 December 2023, the Group had a provision of approximately RMB3,948,000 (2022: RMB17,429,000) for onerous contracts, of which the expected unavoidable costs of meeting the performance obligation as stated in construction contracts have exceeded the economic benefits expected to be received. The unavoidable costs under a contract reflect the least net cost of existing from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The provision was recognised for the contract based on the estimated minimum net cost of completing the contract.

(c) On 16 August 2018, Sinopec (Brazil) Co., Ltd., an indirectly wholly-owned subsidiary of the Company (the "Brazil Subsidiary") applied for judicial reorganisation to the Third State Court of Commercial Enterprises in Rio de Janeiro, Brazil (the "Court of Rio") according to the relevant local laws in Brazil. On 31 August 2018, the Brazil Subsidiary received ruling from Court of Rio, which approved Brazil subsidiary's entered into judicial reorganisation and Nascimento & Rezende Advogados, the law firm, was appointed as the judicial reorganisation manager by Court of Rio.

According to relevant laws of Brazil, the Brazil Subsidiary is required to prepare a reorganisation plan upon the court of Rio has approved that the Brazil Subsidiary is allowed to implement the legal reorganisation procedure. Such legal reorganisation is conditional upon the approval of the reorganisation plan from the creditors' meeting and the court of Rio.

For the purpose of obtaining approval from creditors' meeting and the court of Rio in Brazil, the Brazil Subsidiary's reorganisation plan shall include full settlement of the amount due to employees in respect of the project, repayment of a proportion of debts due to suppliers, service providers and subcontractors, and payment of legal fees, fees on judicial authorities and other service fees in relation to the implementation of the legal reorganisation procedure. The management assessed that provision for loss on judicial reorganisation amounting to approximately RMB389,000,000 was made. At 31 December 2023, the balance for the provision was approximately RMB150,743,000.

## 39. CONTINGENCIES AND GUARANTEES

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

The Group is the defendant of certain lawsuits and also the third party or the designated party of other proceedings arising in the ordinary course of business. Management has assessed the possibility of adverse results of these contingencies, lawsuits or other proceedings and believes that any resulting liabilities will not have significant negative impact on the financial position, operating results or cash flow of the Group. Therefore, the management does not make provision for the foresaid matters.

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 Duli 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 Duli 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 defence 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 defence 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.

## 39. CONTINGENCIES AND GUARANTEES (CONTINUED)

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

On 12 May 2023, Ecuadorian time, Santiago court in Chile issued the judgement of first instance to dismiss the application of PAM and its relevant parties to revoke the arbitration ruling supports PAM's payment of approximately USD64 million as compensation to EBDC ("the Ruling"). In December 2023, EBDC and PAM entered into a settlement arrangement in Quito. Ecuador in relation to the payment of part of the award in the Ruling. Pursuant to the foregoing agreement, the parties agreed that PAM shall pay part of the award in the Ruling in 11 monthly instalments from December 2023, totalling approximately US$34.98 million and to set up coordinated work meetings to determine corresponding payment plans in relation to the remaining award in the Ruling.

As at 31 December 2023, as the Ruling results had not been fully executed, 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. If PAM and its relevant parties fulfil the settlement agreement and actually pay the award in the future, the Company shall record the resulting reversal amount of loss provision as a gain in profit and loss in the current period when the said amount is received. The Company will make active response and safeguard the legitimate rights and interests of the Company.

### (b) Contingent liabilities arising from overseas tax penalties and their financial impact

Sinopec Group International Petroleum Engineering Algeria Co., Ltd. ("Algeria Subsidiary"), a subsidiary of Sinopec International Oil Engineering Company Limited ("Sinopec International"), has been operating in Algeria since its establishment. The Algerian tax department is conducting a tax audit on the taxes and fees generated by the business income of the Algerian subsidiary from 2018 to 2020. After receiving the preliminary investigation results, the Algerian subsidiary of Sinopec International and each project department hired a local intermediary agency to conduct tax defense. Based on the audit results of previous years and the assessment of project tax risks, the company's management accrues estimated liabilities for the relevant taxes that may be involved. As at 31 December 2023, the estimated liability balance is RMB49,366,000.

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

As at 31 December 2023, there is no material contingency from guarantee provided for other entities except for disclosed in note 39(d) below (2022: none).

### (d) Performance guarantee

As at 31 December 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.

## 40. 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, during the year ended 31 December 2023 and 2022.

The transactions with related parties are carried out on normal commercial terms or relevant agreements with counter parties in the ordinary course of business.

The majority of these significant related party transactions with Sinopec Group and its fellow subsidiaries also constitute continuing connected transactions as defined under Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

## 40. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

### (a) Significant related party transactions arising with Sinopec Group and its subsidiaries and fellow subsidiaries:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Purchases of materials** | | |
| – Sinopec Group and its subsidiaries | 10,383,595 | 11,803,515 |
| **Sales of products** | | |
| – Sinopec Group and its subsidiaries | 59,011 | 68,940 |
| **Rendering of engineering services** | | |
| – Sinopec Group and its subsidiaries | 48,946,921 | 46,647,299 |
| **Receiving of engineering services** | | |
| – Sinopec Group and its subsidiaries | 148,202 | – |
| **Receiving of community services** | | |
| – Sinopec Group and its subsidiaries | 34,198 | 41,602 |
| **Rendering of integrated services** | | |
| – Sinopec Group and its subsidiaries | 70,088 | 106,648 |
| **Receiving of integrated services** | | |
| – Sinopec Group and its subsidiaries | 942,389 | 750,963 |
| **Rendering of technology development services** | | |
| – Sinopec Group and its subsidiaries | 237,410 | 278,469 |
| **Rental income – Buildings** | | |
| – Sinopec Group and its subsidiaries | 1,742 | 649 |
| **Rental income – Equipment** | | |
| – Sinopec Group and its subsidiaries | 1,194 | 3,163 |
| **Lease payment – Lands and buildings – short-term leases** | | |
| – Sinopec Group and its subsidiaries | 30,017 | 75,234 |
| **Lease payment – Lands and buildings – right-of-use assets** | | |
| – Sinopec Group and its subsidiaries | 253,322 | 532,694 |
| **Lease payment – equipment and vehicles – short-term leases** | | |
| – Sinopec Group and its subsidiaries | 122,673 | 145,377 |
| **Lease payment – equipment and vehicles – right-of-use assets** | | |
| – Sinopec Group and its subsidiaries | 2,658 | 1,543 |

## 40. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

### (a) Significant related party transactions arising with Sinopec Group and its subsidiaries and fellow subsidiaries: (Continued)

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Deposits interest income** | | |
| – Sinopec Group's subsidiaries | 7,655 | 1,145 |
| **Loans interest expenses** | | |
| – Sinopec Group and its subsidiaries | 682,830 | 594,984 |
| **Interest expenses on lease liabilities** | | |
| – Sinopec Group and its subsidiaries | 15,854 | 26,517 |
| **Borrowings obtained** | | |
| – Sinopec Group and its subsidiaries | 27,351,504 | 44,571,010 |
| **Borrowings repaid** | | |
| – Sinopec Group and its subsidiaries | 26,398,951 | 44,368,880 |
| **Safety and insurance fund expenses** | | |
| – Sinopec Group | 84,280 | 80,200 |
| **Safety and insurance fund refund** | | |
| – Sinopec Group | 114,933 | 112,657 |

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

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Rendering of engineering services** | | |
| – Associates and joint ventures of the Group | 31,031 | 256,187 |
| **Receiving of engineering services** | | |
| – Associates and joint ventures of the Group | 2,101,454 | 2,039,600 |

### (c) Significant related party transactions arising with Sinopec Group's associates and joint ventures:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Purchases of materials** | | |
| – Sinopec Group's associates and joint ventures | 48 | 377,805 |
| **Sales of products** | | |
| – Sinopec Group's associates and joint ventures | 212 | – |
| **Rendering of engineering services** | | |
| – Sinopec Group's associates and joint ventures | 4,649,684 | 3,896,918 |
| **Rendering of integrated services** | | |
| – Sinopec Group's associates and joint ventures | 763 | 503 |
| **Receiving of integrated services** | | |
| – Sinopec Group's associates and joint ventures | 1,303 | 599 |
| **Lease payment – equipment and vehicles –short-term leases** | | |
| – Sinopec Group's associates and joint ventures | 8,118 | 39,292 |
| **Lease payment – equipment and vehicles – right-of-use assets** | | |
| – Sinopec Group's associates and joint ventures | 41,843 | 236,433 |
| **Interest expenses on lease liabilities** | | |
| – Sinopec Group's associates and joint ventures | 7,399 | 13,698 |

# 40. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

## (d) Remuneration of key management personnel

Key management includes directors, supervisors, president, vice presidents, chief financial officer and secretary to the Board of Directors. The compensation paid or payable to key management form employee services is shown below:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Fee | **600** | 600 |
| Salaries, allowances and bonus | **9,860** | 10,125 |
| Contributions to pension plans | **608** | 625 |
| Share-based payments | **–** | – |
| | **11,068** | 11,350 |

Senior management, excluding directors and supervisors, whose remuneration fell within the following bands is as follows:

| | 2023<br>Number of Individuals | 2022<br>Number of Individuals |
|---|---|---|
| RMB0 to RMB500,000 | **3** | 2 |
| RMB500,001 to RMB1,000,000 | **3** | 4 |
| RMB1,000,001 to RMB2,000,000 | **1** | 1 |
| | **7** | 7 |

## (e) Provision for counter guarantee

As at 31 December 2023, the Group has provided the counter guarantee to Sinopec Group, amounting to RMB300,000,000 (2022: RMB300,000,000). The counter guarantee will be ended in September 2024 (2022: September 2024).

# 41. FINANCIAL AND CAPITAL RISKS MANAGEMENT

The Group established certain risk management policies to recognise and analyse the potential risk of the Group. The Group designed an internal control procedure according to proper acceptable risk level in order to monitor the risk position of the Group. Both risk management policies and related internal control system will be reviewed regularly to adapt the market condition or changes in operating activities of the Group. The implementation of internal control system will be reviewed regularly or randomly by the internal audit department in accordance to the risk management policies.

## 41. FINANCIAL AND CAPITAL RISKS MANAGEMENT (CONTINUED)

### 41.1 Category of financial assets and liabilities

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Financial assets** | | |
| *Financial assets at FVTOCI (non-recycling)* | | |
| – Unlisted equity investment | **135,763** | 134,492 |
| *Financial assets at FVTOCI* | | |
| – Notes receivables | **2,735,081** | 1,468,340 |
| | **2,870,844** | 1,602,832 |
| *Financial assets measured at amortised cost* | | |
| – Restricted cash and cash and cash equivalents | **2,816,116** | 1,838,229 |
| – Trade receivables | **10,602,242** | 10,537,217 |
| – Other receivables | **3,438,420** | 4,101,802 |
| | **16,856,778** | 16,477,248 |
| | **19,727,622** | 18,080,080 |
| **Financial liabilities** | | |
| *Financial liabilities measured at amortised cost* | | |
| – Notes and trade payables | **35,195,688** | 33,591,453 |
| – Other payables | **5,078,771** | 4,119,259 |
| – Borrowings | **20,979,398** | 20,418,000 |
| | **61,253,857** | 58,128,712 |

### 41.2 Financial risk factors

The Group's financial instrument risks mainly include interest rate risk, currency risk, credit risk and liquidity risk. 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 minimise potential adverse effects on the Group's financial performance.

#### (a) Market risk

Market risk includes interest rate risk and currency risk, refers to the risk that the fair value or future cash flow of a financial instrument will be fluctuated due to the changes in market price.

##### *(i) Interest rate risk*

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will be fluctuated due to the floating rate. Interest rate risk arises from recognised interest-bearing financial instrument and unrecognised financial instrument (e.g. loan commitments).

The Group's interest rate risk arises from cash and cash equivalents, borrowings and interest-bearing liabilities. Financial liabilities issued at floating rate expose the Group to cash flow 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 and to maintain an appropriate combination of financial instruments at fixed rate and floating rate through regular reviews and monitors.

The Group's finance department continuously monitors the interest rate position of the Group. Increase in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate interest-bearing borrowings, and therefore could have a material adverse effect on the Group's financial result. The management will make adjustments with reference to the latest market conditions. These adjustments may include enter into interest swap agreement to mitigate its exposure to the interest rate risk. For the year ended 31 December 2023 and 2022, the Group did not enter into any interest rate swap arrangements. The fair value interest rate risk of the deposit with bank was not significant because the fixed term deposits are short-term deposits.

# 41. FINANCIAL AND CAPITAL RISKS MANAGEMENT (CONTINUED)

## 41.2 Financial risk factors (Continued)

### (a) Market risk (Continued)

#### *(i) Interest rate risk (Continued)*

Interest-bearing financial instruments held by the Group are as below:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | % | RMB'000 | % | RMB'000 |
| **Fixed rate financial instruments** | | | | |
| Restricted cash and cash and cash equivalents (Notes 25 and 26) | **2.75%** | **3,000** | 2.75% | 3,000 |
| Borrowings (Note 34) | **2.90%-3.75%** | **19,938,241** | 1.42%-4.82% | 18,109,236 |
| **Floating rate financial instruments** | | | | |
| Restricted cash and cash and cash equivalents (Notes 25 and 26) | **0.01%-0.35%** | **2,813,116** | 0.01%-0.35% | 1,835,230 |
| Borrowings (Note 34) | **2.37%-2.92%** | **1,041,157** | 2.37%-2.92% | 2,308,765 |

As at 31 December 2023, it is estimated that a general increase of 50 basis points in the borrowings with variable interest rates, with all other variables held constant, would increase the Group's net loss and decrease the shareholder's equity for the year by approximately RMB3,904,000 (2022: increase the net loss and decrease the shareholder's equity for the year by approximately RMB12,408,000).

As at 31 December 2023, a general decrease of 50 basis points in variable interest rates would have had the same magnitude but of opposite effect the above borrowings, on the basis that all other variables remain constant.

The financial instruments held by the Group at the reporting date expose the Group to fair value interest rate risk. This sensitivity analysis as above been determined assuming that the change in interest rates had occurred at the reporting date and arisen from the recalculation of the above financial instrument issued at new interest rates. The non-derivative tools issued at floating interest rate held by the Group at the reporting date 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 the annual estimate amount of interest expenses or revenue at the floating interest rate. The analysis is performed on the same basis for last year.

#### *(ii) Currency risk*

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will be fluctuated due to the changes in foreign currency rates. Foreign currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured.

The Group's major operational activities are carried out in the PRC and a majority of the transactions are denominated in RMB. The Group is exposed to foreign currency risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily denominated in US Dollars, Saudi Riyals and Kuwait Dinars.

The foreign currency assets and liabilities include restricted cash, cash and cash equivalents, trade and other receivables, trade and other payables and borrowings which are denominated in foreign currencies.

The following table details the financial assets and liabilities held by the Group which denominated in foreign currencies and amounted to RMB are as follows:

| **As at 31 December 2023** | **USD** | **SAR** | **KWD** | **Others** |
|---|---|---|---|---|
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| Restricted cash and cash and cash equivalents | **621,753** | **21,946** | **173,485** | **157,642** |
| Trade and other receivables | **4,409,866** | **678,607** | **639,294** | **621,419** |
| Trade and other payables | **(993,312)** | **(499,153)** | **(230,640)** | **(224,688)** |
| Borrowings | **(1,041,157)** | **–** | **–** | **–** |
| Net exposure in RMB | **2,997,150** | **201,400** | **582,139** | **554,373** |

| As at 31 December 2022 | USD | SAR | KWD | Others |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Restricted cash and cash and cash equivalents | 749,934 | 42,050 | 213,681 | 302,105 |
| Trade and other receivables | 4,542,738 | 766,026 | 555,616 | 521,135 |
| Trade and other payables | (728,236) | (343,120) | (133,472) | (175,642) |
| Borrowings | (2,308,765) | – | – | – |
| Net exposure in RMB | 2,255,671 | 464,956 | 635,825 | 647,598 |

# 41. FINANCIAL AND CAPITAL RISKS MANAGEMENT (CONTINUED)

## 41.2 Financial risk factors (Continued)

### (a) Market risk (Continued)

#### *(ii) Currency risk (Continued)*

The Group's finance department is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies in order to minimise foreign exchange risk. The Group may sign a forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. In 2023 and 2022, the Group did not enter into any forward exchange contracts or currency swap contracts to mitigate the foreign currency risk.

The following table illustrates the effect on the Group's net profit/loss in regard to a 5% appreciation in RMB against the following currencies, with other variables were held constant as at 31 December 2023 and 2022:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| | **Decrease in net profit** | Decrease in net profit |
| – USD | **(112,239)** | (84,588) |
| – SAR | **(7,552)** | (17,436) |
| – KWD | **(21,830)** | (23,843) |

As at 31 December 2023 and 2022, the same 5% depreciation in RMB against the respective foreign currencies would have the same magnitude but of opposite effect, on the basis that all other variables remain constant.

### (b) 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. The Group's exposure to credit risk mainly arises from restricted cash, cash and cash equivalent, notes and trade receivables, contract assets and other receivables.

In order to minimise credit risk, the Group has developed and maintains the Group's credit risk gradings to categorise exposures according to their degree of risk of default. The credit rating information is based on the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

For receivables, the Group has policies to limit the credit risk exposure. 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, 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, shorten or cancel credit periods, to ensure the overall credit risk is limited to a controllable extent.

The Group has certain concentration of credit risk in respect of trade receivables as 20.78% (2022: 61.62%) of the total trade receivables was due from the Group's five largest customers. The Group has certain concentration of credit risk in respect of other receivables as 31.07% (2022: 36.77%) of the total other receivables was due from the Group's five largest customers.

For financial assets at amortised cost and contract assets, the exposures to credit risk are monitored such that any outstanding debtors are reviewed and followed up on an ongoing basis. The Group does not hold any collateral from its debtors.

#### *Impairment assessment under ECL model*

The Group's current credit risk grading framework comprises the following categories:

| | | Basis for recognising ECL | |
|---|---|---|---|
| **Category** | **Description** | **Trade receivables and contract assets** | **Other financial assets** |
| Performing | The counterparty has a low risk of default and does not have any past-due amounts | Lifetime ECL – not credit-impaired | 12-month ECL |
| Doubtful | There has been a significant increase in credit risk since initial recognition | Lifetime ECL – not credit-impaired | Lifetime ECL – not credit-impaired |
| In default | There is evidence indicating the asset is credit-impaired | Lifetime ECL – credit impaired | Lifetime ECL – credit impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off | Amount is written off |

*Trade receivables and contract assets*

As set out in Note 2.7, the Group assesses ECL under IFRS 9 on trade receivables and contract assets based on provision matrix, the expected loss rates are based on the payment profile for sales in the past years as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed.

As at 31 December 2023, the gross carrying amount of trade receivables of RMB976,229,000 (2022: RMB1,017,877,000) has been individually assessed and impaired in full. For remaining trade receivables and contract assets, based on the historical credit loss experience of the existing debtors and all available forward-looking information, the Group assessed the losses for trade receivables and contract assets based on debtors with aging for classes with different credit risk characteristics and exposures.

# 41. FINANCIAL AND CAPITAL RISKS MANAGEMENT (CONTINUED)

## 41.2 Financial risk factors (Continued)

### (b) Credit risk (Continued)

***Impairment assessment under ECL model (Continued)***

*Trade receivables and contract assets (Continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2023 and 2022:

| | As at 31 December 2023 | | | | |
|---|---|---|---|---|---|
| Type | Gross carrying amount RMB'000 | Proportion (%) | ECL allowance RMB'000 | ECL (%) | Net carrying amount RMB'000 |
| Provision made on individual basis | 976,229 | 7.61 | 979,229 | 100.00 | – |
| Provision made on collective basis | 11,859,374 | 92.39 | 1,257,132 | 10.60 | 10,602,242 |
| Including: | | | | | |
| Related party grouping | 4,021,077 | 31.33 | 50,766 | 1.26 | 3,970,311 |
| Third party grouping | 7,838,297 | 61.70 | 1,206,366 | 15.39 | 6,631,931 |
| **Total** | 12,835,603 | 100.00 | 2,233,361 | | 10,602,242 |

| | As at 31 December 2022 | | | | |
|---|---|---|---|---|---|
| Type | Gross carrying amount RMB'000 | Proportion (%) | ECL allowance RMB'000 | ECL (%) | Net carrying amount RMB'000 |
| Provision made on individual basis | 1,017,877 | 7.87 | 1,017,877 | 100.00 | – |
| Provision made on collective basis | 11,917,135 | 92.13 | 1,379,918 | 11.58 | 10,537,217 |
| Including: | | | | | |
| Related party grouping | 4,393,832 | 33.97 | 64,570 | 1.47 | 4,329,262 |
| Third party grouping | 7,523,303 | 58.16 | 1,315,348 | 17.48 | 6,207,955 |
| **Total** | 12,935,012 | 100.00 | 2,397,795 | | 10,537,217 |

Provision made on an individual basis:

| | As at 31 December 2023 | | | |
|---|---|---|---|---|
| Name | Gross carrying amount RMB'000 | ECL allowance RMB'000 | ECL (%) | Reason of provision |
| Entity A | 892,635 | 892,635 | 100.00 | The debtor is short of funds and the amount is outstanding for a long time. |
| Entity B | 47,178 | 47,178 | 100.00 | The debtor is short of funds and the amount is outstanding for a long time. |
| Entity C | 26,703 | 26,703 | 100.00 | The debtor is short of funds and the amount is outstanding for a long time. |
| Others | 9,713 | 9,713 | 100.00 | The debtor is short of funds and the amount is outstanding for a long time. |
| **Total** | 976,229 | 976,229 | | |

| | As at 31 December 2022 | | | |
|---|---|---|---|---|
| Name | Gross carrying amount RMB'000 | ECL allowance RMB'000 | ECL (%) | Reason of provision |
| Entity A | 936,653 | 936,653 | 100.00 | The debtor is short of funds and the amount is outstanding for a long time. |
| Entity B | 46,392 | 46,392 | 100.00 | The debtor is short of funds and the amount is outstanding for a long time. |
| Entity C | 25,220 | 25,220 | 100.00 | The debtor is short of funds and the amount is outstanding for a long time. |
| Others | 9,612 | 9,612 | 100.00 | The debtor is short of funds and the amount is outstanding for a long time. |
| **Total** | 1,017,877 | 1,017,877 | | |

## 41. FINANCIAL AND CAPITAL RISKS MANAGEMENT (CONTINUED)

### 41.2 Financial risk factors (Continued)

#### (b) Credit risk (Continued)

***Impairment assessment under ECL model (Continued)***

*Trade receivables and contract assets (Continued)*

Provision made on collective basis: Related party grouping

| | As at 31 December 2023 | | | As at 31 December 2022 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | ECL allowance | ECL | Gross carrying amount | ECL allowance | ECL |
| Category | RMB'000 | RMB'000 | (%) | RMB'000 | RMB'000 | (%) |
| Within 1 year | 3,837,904 | 14,961 | 0.39 | 4,211,263 | 18,605 | 0.44 |
| Including: | | | | | | |
| Not overdue | 3,361,555 | 11,870 | 0.35 | 3,653,294 | 13,377 | 0.37 |
| Overdue within 1 year | 476,349 | 3,091 | 0.65 | 557,969 | 5,228 | 0.94 |
| 1 to 2 years | 119,513 | 9,256 | 7.74 | 71,768 | 6,333 | 8.82 |
| 2 to 3 years | 24,333 | 2,779 | 11.42 | 28,861 | 3,814 | 13.22 |
| Over 3 years | 39,327 | 23,770 | 60.44 | 81,940 | 35,818 | 43.71 |
| Total | 4,021,077 | 50,766 | 1.26 | 4,393,832 | 64,570 | 1.47 |

Provision made on collective basis: Third party grouping

| | As at 31 December 2023 | | | As at 31 December 2022 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | ECL allowance | ECL | Gross carrying amount | ECL allowance | ECL |
| Category | RMB'000 | RMB'000 | (%) | RMB'000 | RMB'000 | (%) |
| Within 1 year | 6,214,501 | 52,512 | 0.84 | 5,731,881 | 38,266 | 0.67 |
| Including: | | | | | | |
| Not overdue | 4,806,350 | 12,634 | 0.26 | 4,716,416 | 11,732 | 0.25 |
| Overdue within 1 year | 1,408,151 | 39,878 | 2.83 | 1,015,465 | 26,534 | 2.61 |
| 1 to 2 years | 385,795 | 65,932 | 17.09 | 368,352 | 72,712 | 19.74 |
| 2 to 3 years | 105,685 | 44,753 | 42.35 | 208,800 | 95,150 | 45.57 |
| Over 3 years | 1,132,316 | 1,043,169 | 92.13 | 1,214,270 | 1,109,220 | 91.35 |
| Total | 7,838,297 | 1,206,366 | 15.39 | 7,523,303 | 1,315,348 | 17.48 |

The following table provides information about the Group's exposure to credit risk and ECLs for contract assets as at 31 December 2023 and 2022:

| | As at 31 December 2023 | | | | |
|---|---|---|---|---|---|
| Type | Gross carrying amount RMB'000 | Proportion (%) | ECL allowance RMB'000 | ECL (%) | Net carrying amount RMB'000 |
| Provision made on individual basis | 144,307 | 0.88 | 144,307 | 100.00 | – |
| Provision made on collective basis | 16,258,501 | 99.12 | 55,253 | 0.34 | 16,203,248 |
| Including: | | | | | |
| Petroleum engineering | 8,776,703 | 53.51 | 176,610 | 2.01 | 8,600,092 |
| Construction and Engineering | 7,626,105 | 46.49 | 22,950 | 0.30 | 7,603,156 |
| Total | 16,402,808 | 100.00 | 199,560 | | 16,203,248 |

| | As at 31 December 2022 | | | | |
|---|---|---|---|---|---|
| Type | Gross carrying amount RMB'000 | Proportion (%) | ECL allowance RMB'000 | ECL (%) | Net carrying amount RMB'000 |
| Provision made on individual basis | 141,901 | 0.90 | 141,901 | 100.00 | – |
| Provision made on collective basis | 15,673,402 | 99.10 | 59,503 | 0.38 | 15,613,899 |
| Including: | | | | | |
| Petroleum engineering | 9,276,777 | 58.66 | 181,592 | 1.96 | 9,095,185 |
| Construction and Engineering | 6,538,526 | 41.34 | 19,812 | 0.30 | 6,518,714 |
| Total | 15,815,303 | 100.00 | 201,404 | | 15,613,899 |

## 41. FINANCIAL AND CAPITAL RISKS MANAGEMENT (CONTINUED)

### 41.2 Financial risk factors (Continued)

#### (b) Credit risk (Continued)

***Impairment assessment under ECL model (Continued)***

*Other receivables*

As at 31 December 2023, lifetime ECL is applied for credit impaired other receivables with gross carrying amount RMB685,290,000 (2022: RMB800,723,000).

Other than abovesaid other receivables, the Group measures the loss allowance equal to 12-month ECL of remaining other receivables. There is no significant increase in credit risk since initial recognition, the Group apply 12-month ECL based on aging for classes with different credit risk characteristics and exposures.

The following table provides information about the Group's exposure to credit risk and ECLs for other receivables as at 31 December 2023 and 2022:

As at 31 December 2023

| | Gross carrying amount | ECLs allowance | | Net carrying amount |
|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | RMB'000 |
| Petty cash funds | 4,728 | 2.66 | 126 | 4,602 |
| Guarantee deposits | 1,153,100 | 9.29 | 107,117 | 1,045,983 |
| Disbursement of funds | 934,741 | 22.24 | 207,872 | 726,869 |
| Escrow payments | 5,271 | 0.93 | 49 | 5,222 |
| Deposits | 42,785 | 6.49 | 2,776 | 40,009 |
| Dividend receivable | 433 | – | – | 433 |
| Others | 382,627 | 9.18 | 35,133 | 347,494 |
| Total | 2,523,685 | | 353,073 | 2,170,612 |

ECL provision in the first stage:

| Category | Gross carrying amount RMB'000 | ECL (%) | ECL allowance RMB'000 | Net carrying amount RMB'000 |
|---|---|---|---|---|
| Provision made on collective basis: | | | | |
| – Petty cash funds | 4,728 | 2.66 | 126 | 4,602 |
| – Guarantee and other deposits | 1,094,742 | 3.70 | 40,505 | 1,054,237 |
| – Others | 880,579 | 4.01 | 35,312 | 845,267 |
| Total | 1,980,049 | 3.88 | 75,943 | 1,904,106 |

ECL provision in the third stage:

| Category | Gross carrying amount RMB'000 | ECL (%) | ECL allowance RMB'000 | Net carrying amount RMB'000 |
|---|---|---|---|---|
| Provision made on collective basis: | | | | |
| – Guarantee and other deposits | 101,143 | 68.60 | 69,387 | 31,756 |
| – Others | 442,493 | 46.95 | 207,743 | 234,750 |
| Total | 543,636 | 50.98 | 277,130 | 266,506 |

# 41. FINANCIAL AND CAPITAL RISKS MANAGEMENT (CONTINUED)

## 41.2 Financial risk factors (Continued)

### (b) Credit risk (Continued)

***Impairment assessment under ECL model (Continued)***

*Other receivables (Continued)*

As at 31 December 2022

| | Gross carrying amount | ECLs allowance | | Net carrying amount |
|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | RMB'000 |
| Petty cash funds | 5,188 | 4.0 | 205 | 4,983 |
| Guarantee deposits | 1,349,502 | 9.9 | 133,650 | 1,215,852 |
| Disbursement of funds | 1,254,411 | 14.5 | 182,084 | 1,072,327 |
| Escrow payments | 5,920 | 19.5 | 1,153 | 4,767 |
| Deposits | 94,537 | 11.8 | 11,162 | 83,375 |
| Dividend receivable | 540 | – | – | 540 |
| Others | 367,275 | 8.5 | 31,245 | 336,030 |
| Total | 3,077,373 | | 359,499 | 2,717,874 |

ECL provision in the first stage:

| Category | Gross carrying amount RMB'000 | ECL (%) | ECL allowance RMB'000 | Net carrying amount RMB'000 |
|---|---|---|---|---|
| Provision made on collective basis: | | | | |
| – Petty cash funds | 5,188 | 3.95 | 205 | 4,983 |
| – Guarantee and other deposits | 1,327,929 | 4.01 | 53,250 | 1,274,679 |
| – Others | 980,190 | 4.64 | 45,481 | 934,709 |
| Total | 2,313,307 | 4.28 | 98,936 | 2,214,371 |

ECL provision in the third stage:

| Category | Gross carrying amount RMB'000 | ECL (%) | ECL allowance RMB'000 | Net carrying amount RMB'000 |
|---|---|---|---|---|
| Provision made on collective basis: | | | | |
| – Guarantee and other deposits | 116,111 | 78.9 | 91,562 | 24,549 |
| – Others | 647,955 | 26.1 | 169,001 | 478,954 |
| Total | 764,066 | 34.1 | 260,563 | 503,503 |

*Restricted cash and cash and cash equivalents*

The Group's bank deposits are mainly deposited in state-owned banks and other large and medium-sized listed banks, and the Group considers the credit risk to be insignificant that the losses due to the breach of contract is minimal.

*Notes receivables measured at FVTOCI*

The Group's notes receivables measured at FVTOCI issued by banks and other financial institutions with high credit ratings, and the Group considers the credit risk to be insignificant that the losses due to the breach of contract is minimal.

The Group's maximum exposure to credit risk is the carrying amount of each financial asset in the statement of financial position as stated in Note 41.1. The Group did not provide any financial guarantees that may pose credit risk to the Group.

# 41. FINANCIAL AND CAPITAL RISKS MANAGEMENT (CONTINUED)

## 41.2 Financial risk factors (Continued)

### (c) 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.

Regarding to the management of liquidity risk, the Group's management monitors cash and cash equivalents to meet operational needs and reduce the effect of floating cash flow. The Group's management monitors the usage of bank loan so that the Group does not breach borrowing limits or covenants while maintaining sufficient commitment on reserve fund from major financial institute to meet needs of short-term and long-term liquidity. Besides, to improve the cash flow position, the Group also considers to negotiate with suppliers with a view to lower the amount due.

The Group raised working capital through its operations, bank and other borrowings. As at 31 December 2023, the Group's unused line of credit was RMB12,779,970,000 (2022: RMB13,189,601,000).

The financial assets and liabilities of the Group at the reporting date are analysed by their maturity date as below at their undiscounted contractual cash flows:

| | Within 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **As at 31 December 2023** | | | | | | |
| Restricted cash and cash and cash equivalents | **2,816,116** | **–** | **–** | **–** | **2,816,116** | **2,816,116** |
| Trade receivables | **10,602,242** | **–** | **–** | **–** | **10,602,242** | **10,602,242** |
| Financial assets at FVTOCI – Notes receivables | **2,735,081** | **–** | **–** | **–** | **2,735,081** | **2,735,081** |
| Other receivables | **3,438,420** | **–** | **–** | **–** | **3,438,420** | **3,438,420** |
| Notes and trade payables | **(35,195,688)** | **–** | **–** | **–** | **(35,195,688)** | **(35,195,688)** |
| Other payables | **(5,078,771)** | **–** | **–** | **–** | **(5,078,771)** | **(5,078,771)** |
| Borrowings | **(20,307,940)** | **(598,827)** | **(70,320)** | **(37,830)** | **(21,014,917)** | **(20,979,398)** |
| | **(40,990,540)** | **(598,827)** | **(70,320)** | **(37,830)** | **(41,697,517)** | **(41,661,998)** |
| **As at 31 December 2022** | | | | | | |
| Restricted cash and cash and cash equivalents | 1,838,229 | – | – | – | 1,838,229 | 1,838,229 |
| Trade receivables | 10,537,217 | – | – | – | 10,537,217 | 10,537,217 |
| Financial assets at FVTOCI – Notes receivables | 1,468,340 | – | – | – | 1,468,340 | 1,468,340 |
| Other receivables | 4,101,802 | – | – | – | 4,101,802 | 4,101,802 |
| Notes and trade payables | (33,591,453) | – | – | – | (33,591,453) | (33,591,453) |
| Other payables | (4,119,259) | – | – | – | (4,119,259) | (4,119,259) |
| Borrowings | (19,484,283) | (857,807) | (94,685) | (50,939) | (20,487,714) | (20,418,000) |
| | (39,249,407) | (857,807) | (94,685) | (50,939) | (40,252,838) | (40,183,124) |

## 41.3 Capital risk management

The objectives of the Group's capital risk management are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or disposes assets to reduce its liabilities.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net liabilities divided by total capital. Net liabilities are calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is the sum of total equity and net liabilities as shown in the consolidated statement of financial position. Total equity includes the equity attributable to shareholders of the parent and non-controlling interests.

# 41. FINANCIAL AND CAPITAL RISKS MANAGEMENT (CONTINUED)

## 41.3 Capital risk management (Continued)

At the reporting date, the gearing ratio is set out as below:

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Total borrowings (Note 34) | **20,979,398** | 20,418,000 |
| Less: Cash and cash equivalents (Note 26) | **(2,788,798)** | (1,801,150) |
| Net debts | **18,190,600** | 18,616,850 |
| Total equity | **8,023,202** | 7,429,734 |
| Total capital | **26,213,802** | 26,046,584 |
| Gearing ratio | **69%** | 71% |

## 41.4 Fair value estimation

### Fair value measurements

Other than noted as below, the carrying value of the Group's financial assets and liabilities stated at the consolidated statement of financial position are not materially different from their fair values.

Fair value is the price that would be received to sell assets or paid to transfer liabilities in an orderly transaction between market participants at the measurement date. The Group discloses fair value measurements of financial instruments by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2).
- Inputs for the asset or liability that are not based on observable market data (level 3).

### (a) Recurring fair value measurement of the Group's financial assets measured at fair value

The financial assets measured at fair value in the consolidated statement of financial position on a recurring basis are grouped into the fair value hierarchy as follows:

| | Level 3 | |
|---|---|---|
| | 2023 RMB'000 | 2022 RMB'000 |
| *Financial assets at FVTOCI (non-recycling)* | | |
| – Unlisted equity investments | **135,763** | 134,492 |
| *Financial assets at FVTOCI* | | |
| – Notes receivable | **2,735,081** | 1,468,340 |
| | **2,870,844** | 1,602,832 |

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

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| At 1 January | **1,602,832** | 1,317,731 |
| Addition/(Deduction) | **1,266,741** | 277,562 |
| Movement in fair value recognised in other comprehensive income | **1,271** | 7,539 |
| At 31 December | **2,870,844** | 1,602,832 |

The fair value of the unlisted equity securities and notes receivables is measured using valuation techniques with reference to the net asset value and asset-based valuation and discounted cash flow, where appropriate. The Directors believe that the change in fair value (which is included in other comprehensive income) derived from the valuation technique is reasonable and is the most appropriate value at the end of the reporting period.

There have been no transfers into or out of Level 3 during the year ended 31 December 2023 (2022: Nil).

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

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

## 42. POST BALANCE SHEET EVENTS

As at 26 March 2024, there are no other material events after reporting period to be disclosed.

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

As at 31 December 2023 and 2022, the Group has direct interests in the following principal subsidiaries:

| Name | Establishment/ Place of incorporation and type of legal entity | Registered capital | Actual interest held | Principal activities and place of operation |
|---|---|---|---|---|
| Sinopec Oilfield Service Co., Ltd. | The PRC/Limited Company | RMB4,000,000 | 100% | Petroleum engineering and technical services/The PRC |
| Sinopec Shengli Oil Engineering Company Limited | The PRC/Limited Company | RMB700,000 | 100% | Petroleum engineering and technical services/The PRC |
| Sinopec Zhongyuan Oil Engineering Company Limited | The PRC/Limited Company | RMB450,000 | 100% | Petroleum engineering and technical services/The PRC |
| Sinopec Jianghan Oil Engineering Company Limited | The PRC/Limited Company | RMB250,000 | 100% | Petroleum engineering and technical services/The PRC |
| Sinopec East China Oil Engineering Company Limited | The PRC/Limited Company | RMB864,297 | 100% | Petroleum engineering and technical services/The PRC |
| Sinopec North China Oil Engineering Company Limited | The PRC/Limited Company | RMB886,300 | 100% | Petroleum engineering and technical services/The PRC |
| Sinopec Southwest China Oil Engineering Company Limited | The PRC/Limited Company | RMB300,000 | 100% | Petroleum engineering and technical services/The PRC |
| Sinopec Oil Engineering Geophysical Company Limited | The PRC/Limited Company | RMB300,000 | 100% | Geophysical exploration/ The PRC |
| Sinopec Oil Engineering and Construction Corporation | The PRC/Limited Company | RMB500,000 | 100% | Engineering and Construction/ The PRC |
| Sinopec Shanghai Offshore Oil Engineering Company Limited | The PRC/Limited Company | RMB2,000,000 | 100% | Offshore Oil engineering and technical services/The PRC |
| Sinopec International Oil Engineering Company Limited | The PRC/Limited Company | RMB700,000 | 100% | Petroleum engineering and technical services/The PRC |
| Sinopec Jingwei Company Limited | The PRC/Limited Company | RMB1,000,000,000 | 100% | Testing, logging and locating service/The PRC |

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, results in particulars of excessive length.

# Section XI Documents Available for Inspection

The following documents are available for inspection at the legal address of the Company from 27 March 2024 (Wednesday) upon requests by related supervisory institute and shareholders in accordance with the Articles of Association of the Company and relevant regulations:

1. The original copy of the annual report signed by the Chairman of the Company;
2. The financial statements signed by the Chairman, General Manager, Chief Financial Officer and the Head of the Accounting Department;
3. The original reports of the auditors and the accounts prepared in accordance with the PRC Accounting Standards for Business Enterprises signed by the Certified Public Accountants, registered the PRC under the seal of BDO China Shu Lun Pan CPAs (LLP); The original reports of the auditors and the financial statements prepared in accordance with IFRSs signed by BDO Limited;
4. Documents and Announcements disclosed in the reporting period;
5. The Article of Associations of the Company;
6. Copies of the Annual Reports and Interim Reports from 1993 to 2023 and the First Quarterly Report and the Third Quarterly Report from 2002 to 2023 of the Company.

*This Annual Report has been drafted in both English and Chinese. In the event that different interpretation occurs, except the financial statements prepared in accordance with IFRSs and its related reports of the auditors, the Chinese version is considered to be more accurate.*

中国石化
SINOPEC