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中 石 化 煉 化 工 程 （ 集 團 ） 股 份 有 限 公 司
SINOPEC Engineering (Group) Co., Ltd.*

(a joint stock limited liability company incorporated in the People's Republic of China)

(Stock Code: 2386)

Annual Results Announcement for the Year ended 31 December 2015

1 Important Notice

- 1.1 This announcement is extracted from the content of the 2015 annual report (the “**Annual Report**”) of SINOPEC Engineering (Group) Co., Ltd. (“**SINOPEC SEG**” or the “**Company**”), which is also published on the websites of the The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) (www.hkex.com.hk) and the Company (www.segroup.cn). The investors should read the Annual Report for more details.
- 1.2 The financial statements for the year ended 31 December 2015 (the “**Reporting Period**”) of SINOPEC SEG and its subsidiaries (the “**Group**”), prepared in accordance with the International Financial Reporting Standards (the “**IFRS**”), have been audited by Grant Thornton Hong Kong Limited, which has issued standard unqualified opinions on the financial statements.

2 Basic Information of the Company

2.1 Company Profile

Stock Name of H Shares	:	SINOPEC SEG
Stock Code of H Shares	:	2386
Place of Listing of H Shares	:	the Hong Kong Stock Exchanges
Legal Representatives	:	Mr. ZHANG Jianhua
Authorised Representatives	:	Mr. YAN Shaochun, Mr. SANG Jinghua
Secretary to the Board of Directors	:	Mr. SANG Jinghua
Place of Business and Correspondence Address	:	Tower B, No. 19, Anhui Beili, Chaoyang District, Beijing, the PRC (Postcode: 100101)
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* For identification purposes only.

2.2 Principal Financial Data and Indicators

Summary of Financial Data and Indicators Prepared in Accordance with International Financial Reporting Standards (“IFRS”)

Unit: RMB ’000

Items	As at 31	As at 31	As at 31	As at 31	As at 31	Changes from
	December 2015	December 2014	December 2013	December 2012	December 2011	the end of 2014 (%)
Non-current assets	7,939,453	8,052,331	8,166,479	8,078,778	6,992,691	(1.40)
Current assets	50,464,917	44,032,264	39,198,790	29,051,247	37,411,516	14.61
Current liabilities	30,798,517	26,347,950	23,620,920	26,762,416	37,890,135	16.89
Non-current liabilities	2,967,341	2,864,071	2,764,008	3,286,359	3,780,664	3.61
Consolidated equity attributable to equity holders of the Company	24,634,775	22,869,116	20,976,714	7,077,985	2,730,107	7.72
Net asset per share of equity holders of the Company (RMB)	5.56	5.16	4.74	2.28	0.88	7.72

Unit: RMB ’000

Items	Year ended 31 December					Changes over the same period of 2014 (%)
	2015	2014	2013	2012	2011	2014
Revenue	45,498,354	49,345,959	43,571,851	38,526,489	30,600,677	(7.80)
Gross profit	6,157,034	6,290,612	6,406,191	5,528,106	5,074,336	(2.12)
Operating profit	3,845,193	4,039,003	4,413,485	3,832,023	3,724,592	(4.80)
Profit before taxation	4,240,047	4,550,695	4,751,041	4,252,067	4,243,958	(6.83)
Profit attributable to equity holders of the Company	3,317,704	3,489,799	3,656,802	3,316,970	3,375,039	(4.93)
Basic earnings per share (RMB)	0.75	0.79	0.93	1.07	1.09	(4.93)
Net cash flow generated from/ (used in) operating activities	5,793,143	333,312	(85,995)	1,556,489	1,688,845	1,638.05
Net cash flow generated from/ (used in) operating activities per share (RMB)	1.31	0.08	(0.02)	0.50	0.54	1,638.05

Items	Year ended 31 December				
	2015	2014	2013	2012	2011
Gross profit margin (%)	13.5	12.7	14.7	14.3	16.6
Net profit margin (%)	7.3	7.1	8.4	8.6	11.0
Return on assets (%)	6.0	7.0	8.7	8.1	8.4

Items	As at 31 December 2015	As at 31 December 2014	As at 31 December 2013	As at 31 December 2012	As at 31 December 2011
Asset-liability ratio (%)	57.8	56.1	55.7	80.9	93.8

3 Business Review and Prospects

3.1 Business Review

During the Reporting Period, the Group's total revenue and net profits attributable to the Company's shareholders were RMB45.498 billion and RMB3.318 billion, respectively. As at the end of the Reporting Period, the Group's backlog was RMB111.100 billion. The value of new contracts entered into by the Group during the Reporting Period was RMB52.676 billion.

The business of the Group is mainly comprised of four segments: (1) Engineering, consulting and licensing; (2) EPC Contracting; (3) Construction; and (4) Equipment manufacturing.

The following table sets forth the revenue generated from each of the segments and their respective percentage of the Group's total revenue (before inter-segment elimination) during the periods indicated:

	Year ended 31 December				
	2015		2014		Change
	Revenue (RMB '000)	Percentage of total revenue (%)	Revenue (RMB '000)	Percentage of total revenue (%)	
Engineering, consulting and licensing	2,625,673	5.3	3,645,174	6.8	(28.0)
EPC Contracting	27,838,722	56.5	30,132,251	56.2	(7.6)
Construction	18,123,282	36.8	19,159,750	35.7	(5.4)
Equipment manufacturing	679,517	1.4	704,107	1.3	(3.5)
Subtotal	<u>49,267,194</u>	<u>100.0</u>	<u>53,641,282</u>	<u>100.0</u>	(8.2)
Total after inter-segment elimination ⁽¹⁾	<u>45,498,354</u>	N/A	<u>49,345,959</u>	N/A	(7.8)

Note:

- (1) The total after inter-segment elimination means the aggregate revenue generated from each business segment after inter-segment elimination to exclude the impact of inter-segment transactions. Inter-segment elimination mainly arises from the inter-segment sales to the EPC Contracting segment made by the construction and equipment manufacturing segments.

During the Reporting Period, the total revenue of the Group was RMB45.498 billion, a decrease of 7.8% from the same period of the previous year. The main reasons of such decrease include: 1) a decrease in the business volume of Engineering, Procurement and Construction Contracting (“**EPC Contracting**”), design and construction as compared with that in the previous year, and several large EPC projects were at the finishing stage, including Sinochem Quanzhou 12 million tons per annum (“**Mtpa**”) Oil Refining Complex (“**Sinochem Quanzhou Project**”), Yuanba Gas Field Natural Gas Purification Complex of Sinopec (“**Yuanba Natural Gas Purification Project**”), and Aromatics Project of Kazakhstan Atyrau Refinery. As a result, there was less revenue recognised on a year-on-year basis; 2) both Zhong’An Lianhe Coal Chemical Project and the Qinghai DaMei Coal Chemicals Project (“**Postponed Projects**”) have been postponed per the request of project owners within the Reporting Period, whilst the Group has stopped to recognise the revenue and cost from the Postponed Projects. The project owners of the Postponed Projects said that they would resume the Postponed Projects once the market sentiments are rallied in the future. Therefore, the Postponed Projects are considered the Group’s contracts on hand and recorded as its backlog. The Group will disclose further development of the Postponed Projects in a timely manner where appropriate. As at the end of the Reporting Period, the backlog value of the Postponed Projects amounted to approximately RMB12.100 billion. Other than the Postponed Projects, other projects on hand have been operating normally. For the details of the backlog of the Group during the Reporting Period, please refer to the section headed “**Management’s Discussion and Analysis – 4. Discussion on Backlog and New Contracts**” in the Annual Report.

During the Reporting Period, the Group derived its revenue mainly from the projects such as Coal Chemical Complex of Zhongtian Hechuang Energy Co., Ltd. (“**Zhongtian Hechuang Coal Chemical Project**”), the EPC Contracting project of receiving terminal stations of Guangxi LNG Project of Beihai Liquefied Natural Gas Co., Ltd. of Sinopec (“**Guangxi LNG Project**”), FCC Project of Kazakhstan Atyrau Refinery, U.S. JUMBO PTA and PET Project.

The following table sets forth the revenue generated from different industries in which the Group's clients operate for the periods indicated:

	Year ended 31 December				
	2015		2014		Change
	Percentage of		Percentage of		
	Revenue	total revenue	Revenue	total revenue	
	(RMB '000)	(%)	(RMB '000)	(%)	
Oil refining	7,683,275	16.9	10,006,661	20.3	(23.2)
Petrochemicals	11,982,650	26.3	16,010,839	32.4	(25.2)
New coal chemicals	17,431,865	38.3	14,938,090	30.3	16.7
Other industries	8,400,564	18.5	8,390,369	17.0	0.1
Total	45,498,354	100.0	49,345,959	100.0	(7.8)

The Group derived its revenue mainly from services provided to clients in the oil refining, petrochemical and new coal chemical and other industries. During the Reporting Period, since the large EPC of oil refining and petrochemical industries are mainly at the starting stage or at the finishing stage, the Company's revenue from the oil refining industry was RMB7.683 billion, representing a decrease of 23.2% on a year-on-year basis. The revenue derived from the petrochemical industry was RMB11.983 billion, representing a decrease of 25.2% on a year-on-year basis. The revenue derived from the new coal chemical industry was RMB17.432 billion, representing an increase of 16.7% on a year-on-year basis. This was mainly due to the revenue growth of projects such as Zhongtian Hechuang Coal Chemical Project. The revenue derived from other industries was RMB8.401 billion, which was basically equivalent on a year-on-year basis, and mainly derived from the projects such as the clean energy LNG receiving station.

The following table sets forth the Group's revenue generated in the PRC and overseas for the periods indicated:

	Year ended 31 December				Change (%)
	2015		2014		
	Percentage of		Percentage of		
	Revenue	total revenue	Revenue	total revenue	
	(RMB '000)	(%)	(RMB '000)	(%)	
PRC	36,407,242	80.0	42,507,010	86.1	(14.4)
Overseas	9,091,112	20.0	6,838,949	13.9	32.9
Total	45,498,354	100.0	49,345,959	100.0	(7.8)

The Group continues to expand its overseas business steadily. During the Reporting Period, the overseas revenue of the Group was RMB9.091 billion, representing an increase of 32.9% on a year-on-year basis. This was mainly attributable to the revenue increase from the large overseas EPC projects, such as U.S. JUMBO PTA and PET Project, Petronas RAPID project of Malaysia's Petroliaam Nasional Berhad ("**Malaysia Oil Refining Project**") and FCC Project of Kazakhstan Atyrau Refinery.

As at the end of the Reporting Period, the backlog of the Group amounted to RMB111.100 billion, representing an increase of 6.9% as compared with that as at 31 December 2014, and 2.44 times of the total revenue of RMB45.498 billion in 2015. During the Reporting Period, the value of new contracts amounted to RMB52.676 billion, representing a decrease of 13.2% on a year-on-year basis.

During the Reporting Period, the Group entered into the following representative domestic projects: the EPC Contracting project for the engineering of receiving terminal stations of Tianjin LNG Project of Tianjin Liquefied Natural Gas Co., Ltd. of Sinopec ("**Tianjin LNG Project**"), Guangxi LNG Project, engineering and procurement (EP) project for polyethylene plant in relation to the deep processing and comprehensive utilisation of the coal chemicals by-products of Shenhua Ningxia Coal Industry Group Co., Ltd. ("**Shenhua Ningxia Coal Chemical Project**"), EPC Contracting project for ethylene oxide plant with a capacity of 200 kilo tons per annum ("**Ktpa**") of Maoming Petrochemical Nanhai Fine Chemical Co., Ltd. ("**Maoming Ethylene Oxide Project**"), the EPC Contracting project of Anqing 250 Ktpa Butanol and Octanol Project for Sinopec Anqing Branch ("**Anqing Butanol and Octanol Project**"), EPC Contracting project for Chongqing Fulong LNG plant of Chongqing Sinopec Tonghui Energy Co., Ltd. ("**Chongqing LNG Project**"), the second and third production line design contract of Phase I of Shenhua direct coal liquefaction project for Ordos branch of China Shenhua Coal To Liquid and Chemical Co., Ltd. ("**Shenhua Direct Coal to Liquid Design Project**"), EPC Contracting project for the sewage treatment facilities for the Yan'an refinery gas resources comprehensive utilisation of Yanchang Petroleum Beijing Petrochemical Engineering Co., Ltd. ("**Yan'an Refinery Gas Resource Comprehensive Utilisation Project**"), and etc.

Representative overseas projects included AL-Zour refinery project of Kuwait National Petroleum Company in Kuwait ("**Kuwait Oil Refining Project**"), the polypropylene EPCC project of Thailand IRPC Public Company Limited ("**Thailand PP Project**"), the utilities and infrastructure of the Saudi phosphate fertiliser project of Saudi Arabian Mining Co. ("**Saudi Phosphate Fertiliser Project**"), and etc.

During the Reporting Period, the Group's capital expenditure was approximately RMB443 million, which was mainly used to improve the operational or non-operational facilities, update construction equipment, set up information technology systems, procure scientific research equipment, prevent potential hazards, and etc.

3.2 Business Highlights

3.2.1 Successful Implementation of Major Projects

Zhongtian Hechuang Coal Chemical Project: Please refer to the announcement dated 26 December 2013 published by the Company for further details. As at the end of the Reporting Period, approximately eight tenths of the overall progress of the project had been completed. All 110kv substations have started to accept power supply, plus full handover of air separation units and generation of steam by boilers.

The 500 Ktpa plastics engineering project of Inner Mongolia China Coal Mengda New Energy Chemical Industry Co., Ltd.: The scope of work under the contract for this project mainly includes the EPC Contracting for a 1.8 Mtpa methanol-to-olefin (DMTO) unit, a 300 Ktpa polyolefin unit, a 600 Ktpa olefin separation unit, etc. The handover of the project was successfully completed as at the end of the Reporting Period.

Guangxi LNG Project: Please refer to the announcement dated 1 July 2015 published by the Company for further details. As at the end of the Reporting Period, approximately eight tenths of the overall progress of the project has been completed.

Tianjin LNG Project: Please refer to the announcement dated 1 July 2015 published by the Company for further details. As at the end of the Reporting Period, approximately six tenths of the overall progress of the project has been completed.

Kuwait Oil Refining Project: Please refer to the announcement dated 14 October 2015 published by the Company for further details. As at the end of the Reporting Period, the detailed design of the projects started, requisition of critical equipments commenced.

Malaysia Oil Refining Project: Please refer to the announcement dated 29 August 2014 published by the Company for further details. As at the end of the Reporting Period, over two tenths of the overall progress has been completed, among which over six tenths of design of the project has been completed. The requisition of equipment is in full swing and onsite piling has been generally completed. The progress, cost, quality and safety of this project were under control.

Aromatics Project of Kazakhstan Atyrau Refinery: The scope of work under the contract for this project mainly includes EPCC of a 1 Mtpa continuous catalytic reforming unit, a 500 Ktpa aromatics extraction, a 500 Ktpa PX unit and utilities, etc. As at the end of the Reporting Period, the handover for the project has been fulfilled and all units have been put into operation.

FCC Project of Kazakhstan Atyrau Refinery: The scope of work under the contract for this project mainly includes EPCC of 13 process units including 2.43 Mtpa FCC units, and 47 utilities units. As at the end of the Reporting Period, approximately seven tenths of the overall progress of the project has been completed.

U.S. JUMBO PTA and PET Project: The scope of work under the contract for this project includes EPC Contracting for 1.2 Mtpa PTA units, a 1 Mtpa PET unit, utilities and facilities. As at the end of the Reporting Period, on-site work went well and the progress, cost, quality and safety of this project were under control.

3.2.2 Fruitful Market Development

In 2015, under the impact of factors such as sluggish macro economic situation, plummeting oil price and over-capacity of some oil refining products, large Chinese petroleum companies further cut their capital expenditure on projects of oil refining and petrochemical engineering, which led to the number of new development projects (most of which were reconstruction projects) decreased markedly except the projects of quality upgrading of refined oil products and LNG receiving terminals. The new coal chemical market of China also met extreme challenges and part of the investment plans for tracking projects were delayed. In the Middle East and Southeast Asia, the invitation for bidding for some large projects still took place pursuant to the plan considered for years.

Facing relatively difficult market condition, the Group exploited its overall advantage of its industry, business and technical chains, transformed challenges into power; sought opportunity in difficulty; proactively explored domestic and foreign markets with full efforts. During the Reporting Period, the value of new contracts signed by the Group was RMB52.676 billion. Newly signed domestic contracts amounted to RMB33.537 billion and overseas contracts amounted to approximately USD2.944 billion.

Domestically, during the Reporting Period, the Group signed new contracts for a number of large projects, such as Tianjin LNG Project with a contract value of RMB5.600 billion; Guangxi LNG Project with a contract value of RMB4.705 billion; Shenhua Ningxia Coal Chemical Project with a contract value of RMB1.019 billion; Maoming Ethylene Oxide Project with a contract value of RMB928 million; Anqing Butanol and Octanol Project with a contract value of RMB471 million; Chongqing LNG Liquefaction Project with a contract value of RMB448 million; Shenhua Direct Coal to Liquid Design Project with a contract value of RMB370 million; Yan'an Refinery Gas Resource Comprehensive Utilisation Project with a contract value of RMB350 million.

During the Reporting Period, the Group signed new contracts for a number of large overseas projects, such as Kuwait Oil Refining Project with a contract value of USD1.696 billion; Saudi Phosphate Fertiliser Project with a contract value of USD448 million; Thailand PP Project with a contract value of USD220 million.

In addition to above projects, the Group has also tracked some oil refining, petrochemical engineering, new coal chemical, environmental protection and energy saving projects, which are expected to be signed in the future.

3.2.3 Significant Technology Progress

Steady Progression of the R&D of Major Technologies developed along with the Key Projects

Projects under the national “863 Program” and the technological sector of the 12th Five-Year Plan:

- **Development of the new technology for extraction of phenol from medium-low-temperature coal tar and hydrogenation for making clean fuels:** Detailed design is underway for the slurry bed coal tar hydrocracking of Inner Mongolian Qinghua Group with a capacity of 500 Ktpa.
- **Development of the technology for packaged process for synthetic natural gas (SNG):** The design of process package has been completed for 4 million Nm³/d SNG.

The packaged technological development of the two projects of packaged process for fluidised bed polyethylene in gas-liquid state and the industrial application of IHCC technology for prolific light oil has been completed, with the packaged technologies having been in the stage of promotion. As for the development of packaged technology for fluid bed residual hydrogenation and for high-quality needle-like cokes and industrial testing for hydrogenated production of China V RS-2200 low-cost diesel fuel, their technical stability has been verified and conditions are available for promotion thereof.

As packaged technologies for the pure epoxy ethane, the SE coal slurry gasification, the large LNG receiving terminals, the premium hydroisomerisation dewax base oil, their principal parts were completed, which have entered the construction stage. R&D is proceeding as planned for the technologies used by refineries to improve energy efficiency and ensure low carbon and used by petrochemical plants to treat the discharge of sewage according to higher standard.

Innovative Results in Application of Environmental Protection and Energy Saving Technology

The need for energy saving and emission reduction has promoted the application of the series of technologies for the quality upgrading of oil products: The Group has undertaken 13 projects for upgrading the quality of gasoline and diesel fuel of China Petrochemical Corporation (“**Sinopec Group**”), including 6 quality upgrading projects for gasoline and 7 quality upgrading projects for diesel fuel. During the Reporting Period, all the projects are in smooth progress. The technical measures improvement, technology transformation and optimised energy conservation can significantly improve the quality of the oil products of the existing manufacturing enterprises, lower the energy consumption of per unit products and speed up the process of environmental protection.

Pilot project of contract-based management of sludge drying of Sinopec Jiujiang Company: During the Reporting Period, detailed design of the project has been completed and the construction is at the finishing stage.

Successful Technological Innovation of SINOPEC Engineering Group Luoyang Technology Research and Development Center (R&D Center)

Key R&D projects are in good progress:

- i. All the tests have been completed for the Fluidised-bed Methanol to Gasoline (FMTG) pilot device; design of the project has been generally completed for the R&D project of using biological fluidised bed to treat PTA sewage; the pilot project of moving bed is in full-scale installation and construction.
- ii. The technical plan of development and industrial test project of the advanced delayed coking process (ADCP) with higher liquid yield has passed review and the experimental base has been ascertained for the project. The other projects are in orderly progress including the development of the second-generation technology for the refinery corrosion protection, the researches on the anti-corrosion technology for the use of syngas to ethylene glycol unit, the anti-corrosion plan and materials selection studies for the pulverised coal gasification unit and pipeline. As for the development of the in-depth energy saving technology for the refining heating furnace, the industrial application of the industrial unit has been fully completed, leading to obviously higher heat efficiency of the heating furnace.

Steady progress of the collaborative R&D projects: During the Reporting Period, the R&D center carried out different forms of R&D activities with the subsidiaries to support the enhancement of their engineering technology in the aspects of the R&D on packaged technology, engineering and technical services. All of the 29 projects are operating well, showing the initial synergistic effect.

Steady Growth in Technology Licensing

During the Reporting Period, newly signed technology licensing contracts amounted to RMB148.8 million.

Good Momentum in Patent Applications

During the Reporting Period, 460 pieces of new patent applications were completed (including 189 invention patents), and 416 pieces were authorised. As at the end of the Reporting Period, the Company owned 1,779 patents in China (including 715 invention patents, accounting for 40.2%), which cover the major business fields of the Company, including oil refining, petrochemical engineering, new coal chemical engineering, medical chemical engineering, clean energy and environmental engineering.

Fruitful Results in Technology Innovation

At the National Science and Technology Awards Conference held on 8 January 2016, the “Development and Application of Packaged Technology for Efficient and Environmental-Friendly Aromatics” project engaged by the Group won the 2015 National Special Award for Scientific and Technological Progress, which was the second time for the Group to be awarded the highest honour of Scientific and Technology Progress Awards after the “Industrialised Application of the Technology for the Safe and Efficient Development of Extra Large Gas Field of Exceptional Depth and High Content of Sulfur” project. In the project, the Group made outstanding contributions in aspects such as innovations in process and engineering technology, energy utilisation, smart control, safety and environmental protection and work implementation through the pioneering work it did in green new technology for refinement of raw materials, new molecular sieve materials of efficient transformation and separation, and the new technology for in-depth integration of aromatics complex that can substantially lower energy consumption, innovative integrated control methods, design methods and manufacturing processes, which achieved smart control, the long-cycle essential safety of the process unit, localisation of key equipment and other targets. The technological achievement has markedly improved China’s technology for the production of aromatics and its international competitiveness.

During the Reporting Period, the Group won 87 awards (times) for scientific and technological achievements from the State and Sinopec Group.

Four achievements won the 2014 national awards for scientific and technological progress, including two first prizes of National Technological Invention Award and National Scientific and Technological Progress Award won with respect to the DMTO technology and the design, manufacture and maintenance of important pressure vessels under extreme conditions, respectively. In addition, two technology achievements won National Technological Invention Award and second prize of National Scientific and Technological Progress Award, respectively.

21 scientific and technological achievements engaged by the Company won the 2014 Sinopec Group award for scientific and technological progress. Of which, one special award, four first prizes, eight second prizes and eight third prizes. The scientific and technological progress of the development and application of the key technology for aromatics won the special award for scientific and technological progress.

16 projects won the high-quality project awards of Sinopec Group, including Wuhan ethylene project and the project in Anqing for the adaptive modification of sulfur-containing oil and quality upgrading of oil products.

3.2.4 Steady Advancement of Environmental Protection and Energy Saving Business

The Group actively followed the national development direction of energy saving and environmental protection industries, and vigorously pushed energy saving and environmental protection business. It actively promoted its own technologies, and carried out strategic cooperation with well-known domestic and foreign technology licensors, and provided customers with an integrated solution, which covered flue gas desulfurisation and denitrification, sewage treatment, sludge reduction and drying, soil cleaning-up, CO₂ recycling, low temperature residual heat power generation and other fields. The Group was actively involved in Sinopec's "Clear Water & Blue Sky Plan" and "Energy Efficiency Doubling Plan", and explored and implemented new business models regarding contract energy management and contract environmental protection management, and provided energy saving diagnosis and optimisation services for enterprises, and further developed environmental protection and energy saving business. During the Reporting Period, the Group signed new environmental protection business contracts of approximately RMB1.124 billion, which were mainly from flue gas desulfurisation/denitrification and water treatment projects, and new energy saving business contracts of approximately RMB213 million, which were mainly from energy saving reform projects.

During the Reporting Period, the Group initiated multi-level exchanges and cooperation with many domestic and foreign environmental protection and energy saving technology licensors to build and improve its technology chain and service chain in the field of environmental protection and energy saving. The Group created a new cooperation mode by signing strategic cooperation agreements with partners to jointly promote pilot projects. For example, the Group signed the "Energy Saving Service Cooperation Agreement" with Zhejiang Kaishan Compressor Co., Ltd. ("**Kaishan Compressor**") to jointly promote the application of "low-energy-level energy recycling technology" refinery chemical industry; subsequent to the application of the low-temperature thermal-energy power generation by hot water at Sinopec Hainan Refinery branch, the Company promoted the application of the low-temperature thermal-energy power generation by hot oil at Sinopec Beijing Yanshan Company. The project has been commissioned successfully and is in smooth operation. Currently, the Group is working on the plan and feasibility study for the optimisation of the energy saving of a number of similar units and aromatics complexes. The Group has signed a strategic cooperation framework agreement with British Dunton in soil clean-up. The Group has also promoted initial cooperation in a number of domestic soil clean-up projects; the Group initiated exchanges with well-known foreign CO₂ conversion technology companies, studied the state policy for carbon emission trading to foster the related market as early as possible. The Group also actively promoted the exchange and cooperation with China University of Petroleum on biomass fermentation technology.

3.2.5 Intensified Enterprise Reform

We have extensively promoted resource optimisation, reform and restructuring according to the vision of “building a world-class engineering company” and the developmental mode of “integrated operation and group-oriented management and control”. The Group, with its professional restructuring served as an impetus, has commenced deepening reform and optimising resources and accelerated the restructuring reform of Sinopec Heavy Lift Transportation Engineering Co., Ltd. (the “**Lift and Transportation Company**”), R&D Center, Sinopec Engineering Group Saudi Arabia Co., Ltd., (the “**Saudi Company**”), made great progress during the Reporting Period, which effectively stimulated the optimisation of resource allocation and improved comprehensive competitiveness of the Group.

During the Reporting Period, the Group achieved initial results in the restructuring and reform of its lift and transportation business and completed the transfer of assets where the transfer of personnel are underway. In terms of business operations, the Lift and Transportation Company is in full-fledged expansion of domestic and foreign markets and has successfully engaged in the Daxie Project of CNOOC.

During the Reporting Period, the tasks for the reform of the R&D Center have been completed, showing the initial benefits of the reform and reflecting the good start in collaborative R&D and sharing of resources. The Company has initiated cooperation of distinctive features with the subsidiaries.

During the Reporting Period, the Group further clarified the orientation and main responsibilities of the Saudi Company and optimised the reform plan.

3.2.6 Safe Operation

During the Reporting Period, in terms of the QHSE management, the Group carried out comprehensive and strict management of activities, paid close attention to the implementation of policies and assignment of responsibilities, and, based on the principle of strengthening management and implementation of responsibilities, implemented the requirements for full participation, assignment of responsibilities, perfection of systems, continual improvement, process control and clients services. Through activities such as signing QHSE liability statements, conducting training, supervision, inspections and advancing site HSE standardisation, the Group carefully looked for weak links and managed the QHSE supervision and management of direct operation segments properly. As a result, the basic management work was further enhanced, and the quality, safety and overseas public security of the projects under construction were under full control.

As at the end of the Reporting Period, no safety, quality and overseas public security accident had happened in the project under execution owing to conscientiousness and strict management of all employees of the Group, and 254 million safe man hours in accumulation were realised by the Group, of which 47 million safe man hours were realised overseas.

3.3 Business Prospects

In 2016, the global economy will continue facing a variety of challenges, while regional and global economic growth will be under extreme pressure. Owing to the effects caused by the oversupply of crude oil, weak demand and the interest rate hike by the Federal Reserve System, the trend of international oil price is still not optimistic, and the oil price may stay low in the near future. The domestic market of new coal chemical engineering still finds itself under the pressure for environmental protection and the challenge against profitability, without much likelihood for quick recovery in the short term. Under such extreme situation, capital expenditure of large domestic and foreign petroleum companies are very likely to continue to pull back on spending and will cause considerable adverse impact on the market development and performance of the Group.

In 2016, the Group will positively face the situation, bravely take on challenges, with an aim to deepen reform, drive innovation and tighten management, and use its best efforts to enhance projects effectiveness and push on technological progress. It will leverage its advantages in market competition to coordinate market development resources and expand its market shares. In 2016, the target domestic new contract amount of the Group is RMB27.0 billion, and the target overseas new contract amount is USD3.0 billion.

3.3.1 Continuously Promote In-depth Reform and Accelerate the Optimisation of Internal Resources

In 2016, the Group will make full use of the policy environment for reform, carry out thorough investigation, make systematic thinking, improve internal management system, keep to the reform direction toward professionalism and differentiation, accelerate the transformation of internal systems and mechanisms, continuously improve the modern corporate system; effectively boost the transformational development of construction enterprises and the upgrading of construction business, and constantly increase the ratio of high-end business and enhance profitability.

3.3.2 Explore Transformational Development to Expand New Business Scope and Modes

In 2016, based on the strategic philosophy of technology-led market, the Group will actively promote its own technologies and will, at the same time, enter into strategic cooperation with world famous technology patent licensors to explore transformational development, open up new business fields and modes and enhance its overall competitiveness. The Group will continue to study new business modes, e.g. the management of energy and environment through contract, assistance in financing, summarise and promote the experience of Jiujiang Petrochemical in contract-based environmental management, launch new pilot projects under the precondition of keeping risks under control; make attempt at the mode of contract-based energy management in the energy saving and transformation project of the refinery within Sinopec Group. Several such projects and the projects for utilisation of low-temperature heat are in steady progress.

3.3.3 Strengthen Process Management and Project Control, Take Multiple Measures Simultaneously, and Increase Cost Efficiency

In 2016, the Group will intensify the overall coordination and horizontal communications of projects, give full play to its overall strength, tighten the control over the implementation process of projects, enhance project implementation efficiency, strengthen project implementation capability by improving work processes of projects, including planning, execution, examination and conclusion; intensify the compilation of cost budget of projects and the cost analysis of completed EPC projects, assign the responsibility for cost management and continuously deepen the management of project cost; further advance project settlement, strengthen the process control, progress confirmation and contract change management of project implementation, impel the timely settlement of the projects; further standardise subcontracting management, build a uniform subcontracting management system by focusing on the safety, quality control and enhancement of economic benefits in the implementation process of projects, strengthen the management of subcontractors; establish an integrated management mechanism for overseas projects, intensify the allocation of resources and control of risks, enhance the profitability of overseas projects.

3.3.4 Capture the Strategic Opportunity of the “Belt and Road” Initiative for Global Development Advancement

In 2016, the Group will leverage on the national “Belt and Road” strategy, strengthen the cooperation with financial institutions and work hard to explore overseas markets; actively take part in and organise the EPC driven by the “project investment” function and demand; track and serve well the overseas investment cooperation projects advocated by Sinopec Group, exploit its own advantages and seize hold of the opportunity; track the investment needs and intention of domestic capital for overseas refining chemical projects, obtain the opportunity to contract for projects by bridging and linking project investment. The Group will give play to its advantages in business chain and industrial chain, strengthen the front-end fostering of customer business, provide “one-stop” technical and financial solutions as well as integrated services that cover project consultation, integrated planning, financing strategy and support, FEED, EPC and PMC; continuously enhance the competitiveness of overseas business and attain its value goals on the basis of its own traditional advantages and the business mode of differentiated operations.

3.3.5 Focus on Technology Progression to Maintain and Enhance Technology Leading Advantages

In 2016, the Group will enhance its technology innovation ability and implement the “innovation-driven” strategy to ensure its long-term development. By improving the ability of technology control to provide technical support for production and operations and improve the quality, efficiency and benefits of project design and construction. The measures to be taken will include: (i) to organise major technology cooperation and implementation of technology innovation projects by keeping being market-oriented; (ii) to pay attention to and strengthen the technology management, control and support during the implementation of projects; (iii) to accelerate the integration of technical standards, continuously promote the sharing of technical resources and realise synergic development; (iv) to successfully operate technology R&D center to make adequate use of the resources, fully leverage on its cutting-edged advantages in the development of engineering technology, cement the cooperation with world famous patent licensors, and facilitate and stimulate market demand through its own technology.

3.3.6 Vigorously Exploit Environmental Protection and Energy Saving Sectors to Create New Business Growth

In 2016, the Group will continue to energetically push forward the business of energy saving and environmental protection in keeping with the development direction of the national industry and energy saving and environmental protection, promote its own technologies in the market and open up the energy saving and environmental protection market by all means. In terms of environmental protection, the subsidiary engineering companies of the Group will expand the market for the quality upgrading of oil products and seize hold the opportunity to provide services like design consultation for the projects of Sinopec Group, while the subsidiary construction enterprises of the Group will actively communicate with project owners and designers in a bid to obtain larger shares of construction. The Group will strengthen the expansion of the market for treatment of coal-to-chemical sewage, organise the investigation of and cooperation with sewage treatment technology providers, form its own integrated solutions, offer to provide environmental protection consulting services for coal-to-chemical customers, pay close attention to and track the progress of sewage treatment projects. In terms of energy saving, the Group will increase the promotion and application of the technology for low-temperature residual heat; provide energy saving diagnosis for the petrochemical enterprises of Sinopec Group and facilitate the implementation of projects for integrated utilisation of low-temperature residual heat.

3.3.7 Establish Modern Human Resource Management System and Management Incentive Mechanism

In 2016, the Group will continuously optimise the employment management mechanism to meet the needs for human resources in the construction of its projects; speed up the building of the staff career system and scientifically design a longitudinal position system based on posts by relying on the existing post management system to create a system that contributes to success in career and on-post development; further the salary system by devising methods of controlling manpower cost through dynamic adjustment; improve and optimise the KPI system and the setting of indicators to create the work atmosphere that facilitates the mobilisation of the enthusiasm, originality and cooperativeness of employees through effective performance evaluation to boost its own sustainable development.

3.3.8 Set up an Integrated Management Information System

In 2016, the Group will revolve around the strategy for development of engineering segment business to deploy an integrated ERP management system of engineering enterprises that covers design, procurement and construction, and fully enhance the business management level and project management capability of the enterprise; focus on the ERP management system to gradually set up and improve an information management system and integrated platform for collaborative work, accelerate the in-depth fusion between informatisation and business, enhance the overall management level and operation efficiency of the Group. Meanwhile, the Group will integrate the allocation of resources, increase the sharing of the fruits of engineering software, standardise the operation mechanism, improve the efficiency of collaboration, solidly and effectively boost the application of informatisation achievements, gradually form the synergy of informatisation and the application by enterprises to provide all-round engineering data for an integrated management information system.

4 Management Discussion and Analysis

4.1 Analysis of the reasons of the significant changes in the revenue structure compared to last financial year

The following discussion and analysis should be read in conjunction with the Group's audited financial statements and the accompanying notes contained in the Annual Report. Parts of the financial data involved below, unless otherwise stated, were abstracted from the Group's audited financial statements prepared according to the IFRS.

4.1.1 Revenue

The revenue of the Group decreased by 7.8% from RMB49.346 billion for the year ended 31 December 2014 to RMB45.498 billion for the year ended 31 December 2015 since the large EPC of oil refining and petrochemical industries are mainly at the starting stage or at the finishing stage, leading to revenue being reduced on a year-on-year basis.

4.1.2 Cost of sales

The cost of sales of the Group decreased by 8.6% from RMB43.055 billion for the year ended 31 December 2014 to RMB39.341 billion for the year ended 31 December 2015, mainly due to the revenue decrease as well as a decrease in the sub-contracting cost and outsourcing costs of equipment and materials resulting from intensified project management.

4.1.3 Gross profit

The gross profit of the Group decreased by 2.1% from RMB6.291 billion for the year ended 31 December 2014 to RMB6.157 billion for the year ended 31 December 2015, which was basically the same on a year-on-year basis; the gross profit margin increases from 12.7% in the same period of last year to 13.5% which mainly benefits from the gross profit contributed by the projects such as Zhongtian Hechuang Coal Chemical Project, Fujian EO/EG Project, Shaanxi Pucheng DMTO Project, Yuanba Purification Plant Project and etc.

4.1.4 Other income

The other income of the Group increased by 111.7% from RMB174 million for the year ended 31 December 2014 to RMB368 million for the year ended 31 December 2015, which was mainly due to the net income on foreign exchange transaction because of rise of exchange rate in the US dollar against the RMB during the Reporting Period.

4.1.5 Selling and marketing expenses

The selling and marketing expenses of the Group decreased by 17.2% from RMB122 million for the year ended 31 December 2014 to RMB101 million for the year ended 31 December 2015.

4.1.6 Administrative expenses

The administrative expenses of the Group decreased by 0.8% from RMB1.125 billion for the year ended 31 December 2014 to RMB1.116 billion for the year ended 31 December 2015, which was basically the same on a year-on-year basis.

4.1.7 Research and development costs

The research and development costs of the Group increased by 26.8% from RMB934 million for the year ended 31 December 2014 to RMB1.185 billion for the year ended 31 December 2015, which was mainly due to the Group continued making large investments in R&D in order to maintain its advantage in the technology.

4.1.8 Other operating expenses

The other operating expenses of the Group increased by 7.1% from RMB262 million for the year ended 31 December 2014 to RMB280 million for the year ended 31 December 2015, which is mainly because of increased provision for impairment of receivables.

4.1.9 Other gains - net

The net other gains of the Group decreased from RMB17,477.1 thousand for the year ended 31 December 2014 to RMB2,469.6 thousand for the year ended 31 December 2015.

4.1.10 Operating profit

Due to the foregoing reasons, the operating profit of the Group decreased by 4.8% from RMB4.039 billion for the year ended 31 December 2014 to RMB3.845 billion for the year ended 31 December 2015.

4.1.11 Financial income - net

The net finance income of the Group decreased by 24.6% from RMB497 million for the year ended 31 December 2014 to RMB375 million for the year ended 31 December 2015, mainly due to a decrease in deposit rate as compared with the same period of the previous year.

4.1.12 Income tax expense

The Group's income tax expense decreased by 13.1% from RMB1.061 billion for the year ended 31 December 2014 to RMB922 million for the year ended 31 December 2015, the effective income tax rate decreased from 23.3% to 21.7% on a year-on-year basis.

4.1.13 Profit for the year

Due to the above reasons, the profit in the Reporting Period decreased by 4.9% from RMB3.490 billion for the year ended 31 December 2014 to RMB3.318 billion for the year ended 31 December 2015.

4.1.14 Total comprehensive income for the year

As a combined result of the reasons above and the effects of other comprehensive income of the Group, the total amount of the comprehensive income of the Group decreased by 5.7% from RMB3.286 billion for the year ended 31 December 2014 to RMB3.099 billion for the year ended 31 December 2015.

4.2 Discussion on the backlog and new contracts

Backlog represents the total estimated contract value of work that remains to be completed pursuant to outstanding contracts as at a certain date, net of estimated value added tax and is based on the Group's assumption that the relevant contracts will be performed in accordance with their terms. Backlog is not a measure defined by generally accepted accounting principles. Any modification, termination or suspension of these contracts by the Group's clients may have a substantial and immediate effect on the Group's backlog. Projects may also remain in the Group's backlog for an extended period of time beyond what was initially anticipated due to various factors beyond the Group's control.

The following table sets forth the total value of backlog for each business segment of the Group as at the dates indicated:

	As at 31 December 2015 (RMB '000)	As at 31 December 2014 (RMB '000)	Change (%)
Engineering, consulting and licensing	6,935,838	6,514,745	6.5
EPC Contracting	89,776,105	82,079,668	9.4
Construction	14,273,326	15,191,362	(6.0)
Equipment manufacturing	114,615	136,508	(16.0)
Total	<u>111,099,884</u>	<u>103,922,283</u>	6.9

The following table sets forth the total value of backlog categorised by the industries in which the Group's clients operate as at the dates indicated:

	As at 31 December 2015 (RMB '000)	As at 31 December 2014 (RMB '000)	Change (%)
Oil refining	32,951,451	26,639,953	23.7
Petrochemicals	22,730,572	23,600,743	(3.7)
New coal chemicals	37,345,973	47,261,719	(21.0)
Other industries	18,071,888	6,419,868	181.5
Total	111,099,884	103,922,283	6.9

The following table sets forth the total value of the projects in backlog by regions as at the dates indicated:

	As at 31 December 2015 (RMB '000)	As at 31 December 2014 (RMB '000)	Change (%)
PRC	74,418,344	77,288,816	(3.7)
Overseas	36,681,540	26,633,467	37.7
Total	111,099,884	103,922,283	6.9

The following table sets forth the total value of backlog categorised by the clients of each of (i) Sinopec Group and its associates, and (ii) non-Sinopec Group and its associates as at the dates indicated:

	As at 31 December 2015 (RMB '000)	As at 31 December 2014 (RMB '000)	Change (%)
Sinopec Group and its associates	42,242,637	41,346,352	2.2
Non-Sinopec Group and its associates	68,857,247	62,575,931	10.0
Total	111,099,884	103,922,283	6.9

As at 31 December 2015, the value of the Group's backlog totaled RMB111.100 billion, an increase of 6.9% from that as at 31 December 2014, representing 2.44 times of the total revenue of RMB45.498 billion in 2015.

The following table details the total value of new contracts entered into categorised by the Group's each business segment in the periods indicated:

	Year ended 31 December		Change
	2015	2014	
	(RMB '000)	(RMB '000)	(%)
Engineering, consulting and licensing	3,046,766	4,109,902	(25.9)
EPC Contracting	35,535,159	38,172,858	(6.9)
Construction	13,995,579	18,299,071	(23.5)
Equipment manufacturing	98,450	118,059	(16.6)
Total	<u>52,675,954</u>	<u>60,699,890</u>	(13.2)

The following table sets forth the total value of new contracts entered into by the Group categorised by the industries in which the Group's clients operate in the periods indicated:

	Year ended 31 December		Change
	2015	2014	
	(RMB '000)	(RMB '000)	(%)
Oil refining	13,994,772	17,894,394	(21.8)
Petrochemicals	11,112,479	12,336,104	(9.9)
New coal chemicals	7,516,119	23,040,511	(67.4)
Other industries	20,052,584	7,428,881	169.9
Total	<u>52,675,954</u>	<u>60,699,890</u>	(13.2)

The following table sets forth the total value of new contracts entered into by the Group by regions in the periods indicated:

	Year ended 31 December		Change
	2015	2014	
	(RMB '000)	(RMB '000)	(%)
PRC	33,536,769	49,249,344	(31.9)
Overseas	19,139,185	11,450,546	67.1
Total	<u>52,675,954</u>	<u>60,699,890</u>	(13.2)

The following table sets forth the total value of new contracts entered into by the Group with the clients of each of (i) Sinopec Group and its associates, and (ii) non-Sinopec Group and its associates in the periods indicated:

	Year ended 31 December		Change
	2015	2014	
	(RMB '000)	(RMB '000)	(%)
Sinopec Group and its associates	20,964,222	24,234,279	(13.5)
Non-Sinopec Group and its associates	31,711,732	36,465,611	(13.0)
Total	<u>52,675,954</u>	<u>60,699,890</u>	(13.2)

During the Reporting Period, the value of the new contracts was RMB52.676 billion, representing a decrease of 13.2% on a year-on-year basis.

4.3 Assets, Liabilities, Equity and Cash Flows

The Group's funds mainly came from operating activities and were primarily used for working capital, capital expenditure and dividend distribution.

4.3.1 Assets, Liabilities and Equity

Units: RMB'000

	As at	As at	Change
	31 December	31 December	
	2015	2014	
Total assets	58,404,370	52,084,595	6,319,775
Current assets	50,464,917	44,032,264	6,432,653
Non-current assets	7,939,453	8,052,331	(112,878)
Total liabilities	33,765,858	29,212,021	4,553,837
Current liabilities	30,798,517	26,347,950	4,450,567
Non-current liabilities	2,967,341	2,864,071	103,270
Non-controlling interests	3,737	3,458	279
Net assets	24,638,512	22,872,574	1,765,938
Consolidated equity			
attributable to equity holders			
of the Company	24,634,775	22,869,116	1,765,659
Share capital	4,428,000	4,428,000	0
Reserves	20,206,775	18,441,116	1,765,659

As at the end of the Reporting Period, the total assets of the Group were RMB58.404 billion, the total liabilities were RMB33.766 billion, the non-controlling interests were RMB4 million, and the equity attributable to the shareholders of the Company was RMB24.635 billion. The changes in the assets and liabilities as compared with those at the end of 2014 and the main reasons are as follows:

As at the end of the Reporting Period, the total assets were RMB58.404 billion, increased by RMB6.320 billion as compared with that at the end of 2014. In particular, the current assets were RMB50.465 billion, increased by RMB6.433 billion as compared with that at the end of 2014, mainly due to the increase of RMB2.224 billion of cash and cash equivalents, the receivable loans from the ultimate holding company recorded a growth of RMB1.500 billion, whilst the fixed deposits with financial institutions increased by RMB1.262 billion; the non-current assets were RMB7.939 billion, which is similar to that of the same period of the previous year.

As at the end of the Reporting Period, the total liabilities were RMB33.766 billion, increased by RMB4.554 billion as compared with that at the end of 2014. In particular, the current liabilities were RMB30.799 billion, increased by RMB4.451 billion as compared with that at the end of 2014, mainly due to the increase of RMB4.392 billion in notes and trade payables. The non-current liabilities were RMB2.967 billion, increased by RMB103 million as compared with that at the end of 2014, mainly due to the increase of RMB166 million in retirement and other supplemental benefit obligations.

The total equity attributable to shareholders of the Company was RMB24.635 billion, increased by RMB1.766 billion as compared with that at the end of 2014, primarily as the result of the increase in the profit during the Reporting Period.

4.3.2 Cash Flows

During the Reporting Period, the net increase in cash and cash equivalents was RMB1.857 billion and net cash generated from operating activities was RMB5.793 billion. The following table sets forth the main items and their changes in the Group's consolidated statements of cash flows for the years ended 31 December 2015 and 2014, respectively.

Major items of cash flow	Year ended 31 December	
	2015	2014
Net cash generated from operating activities	5,793,143	333,312
Net cash (used in)/generated from investing activities	(2,601,554)	4,725,026
Net cash generated from financing activities	(1,334,867)	(1,396,551)
Net increase in cash and cash equivalents	<u>1,856,722</u>	<u>3,661,787</u>

During the Reporting Period, the profit before taxation was RMB4.240 billion, and the profit was RMB4.493 billion after adjusting the items in expenses that did not affect the cash flow in operating activities which was mainly reflected in: an increase of RMB619 million for depreciation and amortisation, an increase of RMB287 million for impairment of trade and other receivables, a decrease of by RMB466 million for interest income, an increase of RMB92 million for interest expense and a decrease of RMB227 million for net foreign exchange gains. The changes in working capital, which caused a cash inflow of RMB2.132 billion in operating activities, are mainly shown in: the increase in trade payables, causing the net cash inflow from operating activities of RMB2.874 billion; through the increase in the settlement of projects, the balance of contract work-in-progress was reduced, and thus resulted in the cash inflow generated from operating activities of RMB921 million; the increase in inventories and trade receivables balance, causing the net cash outflow from operating activities of RMB1.672 billion.

After adjusting for non-cash items, receivables and payables for the profit before taxation, and after deducting the income tax paid amounting to RMB916 million, the net cash generated from operating activities was RMB5.793 billion.

Net cash generated from investing activities was RMB2.602 billion, mainly due to the increase of the Group's entrusted loans to the ultimately holding company and time deposit investments with a third-party financial institution, causing the cashflow from investing activities of RMB2.717 billion.

Net cash used in financing activities was RMB1.335 billion, mainly due to the dividend distribution.

Based on the cash flows during the Reporting Period, the Group has adequate working capital. The Group will continue to strengthen the settlement of trade debts and reduce the use of working capital in operating activities. The Group will also continue to effectively manage the investment risk, as well as expand the scale of investment and increase the return on capital.

4.3.3 Summary of Financial Ratios

The following table sets forth the Group's key financial ratios for the periods indicated.

Main financial ratios	Year ended 31 December	
	2015	2014
Net profit margin (%)	7.3	7.1
Return on assets (%) ⁽¹⁾	6.0	7.0
Return on equity (%) ⁽²⁾	13.5	15.3
Return on invested capital (%) ⁽³⁾	13.5	15.3

Main financial ratios	As at 31 December 2015	As at 31 December 2014
	2015	2014
Gearing ratio (%) ⁽⁴⁾	0.0	0.0
Net debt to equity ratio (%) ⁽⁵⁾	net cash	net cash
Current ratio (%) ⁽⁶⁾	1.6	1.7
Quick ratio (%) ⁽⁷⁾	1.6	1.6

$$(1) \text{ Return on assets} = \frac{\text{Profit for the year}}{(\text{Opening balance of total assets} + \text{Closing balance of total assets}) / 2}$$

$$(2) \text{ Return on equity} = \frac{\text{Profit for the year}}{\text{Total equity at the end of the year}}$$

$$(3) \text{ Return on invested capital} = \frac{\text{Earnings before interest and tax (EBIT)} \times (1 - \text{Effective tax rate})}{\text{Total interest bearing debt} - \text{Credit loans} + \text{Total equity at the end of year}}$$

$$(4) \text{ Gearing ratio} = \frac{\text{Total interest bearing debt}}{\text{Total interest bearing debt} + \text{Total equity at the end of year}}$$

$$(5) \text{ Net debt to equity ratio} = \frac{\text{Net debt at the end of year}}{\text{Total equity at the end of year}}$$

$$(6) \text{ Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$(7) \text{ Quick ratio} = \frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$$

Return on assets

During the Reporting Period, the Group's return on assets decreased to 6.0% from 7.0% in the same period of the previous year, mainly due to the decrease in net profit during the Reporting Period and the increase in assets at the end of the Reporting Period.

Return on equity

The Group's return on equity decreased from 15.3% for the same period in 2014 to 13.5%, mainly due to decrease in net profit during the Reporting Period and equity increase at the end of the Reporting Period.

Return on invested capital

The Group's return on invested capital decreased from 15.3% for the same period in 2014 to 13.5% for the same reasons as the decrease in return on equity.

Gearing ratio

As at the end of the Reporting Period, the Group's gearing ratio is 0, which remained stable as compared with that as at 31 December 2014, since the Group did not have any borrowings as at the end of the Reporting Period.

Net debt to equity ratio

The Group maintained positive net cash as at 31 December 2015 and 31 December 2014.

Current ratio

The Group's current ratio fell to 1.6 from 1.7 at the end of previous year, mainly due to the increase in current debts such as amounts payable and notes payable.

Quick ratio

As at the end of the Reporting Period, the Group's quick ratio is 1.6, which remained the same as that as at the beginning of the Reporting Period.

5 Significant Events

5.1 Dividends

At the 2014 annual general meeting convened on 18 May 2015, an ordinary resolution was passed to approve the authorisation to the Board to determine the interim profit distribution plan for the year 2015. The dividend distribution plan of RMB0.114 per share (inclusive of applicable tax) for the six months ended 30 June 2015 was approved at the sixteenth meeting of the First Session of the Board convened on 28 August 2015. The dividend distribution plan was implemented.

The final dividend distribution plan for the year ended 31 December 2015 was approved at the third meeting of the Second Session of the Board. The final dividend distribution shall be calculated based on the total number of Shares on 29 May 2016 (the “Record Date”) and the final cash dividend distribution shall be based on RMB0.183 per Share (inclusive of applicable tax). That distribution scheme will be implemented after review and approval at the annual general meeting to be held on 6 May 2016. The final dividend of 2015 will be paid on or before Thursday, 30 June 2016 to all the shareholders of the Company whose names appear on the register of members of the Company at the close of business on Sunday, 29 May 2016. In order to qualify for the final dividend, the holders of H Shares must lodge all share certificates accompanied by the transfer documents with Computershare Hong Kong Investor Services Ltd. (address: Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong) before 4:30 p.m. on Monday, 23 May 2016 for registration. For the purpose of ascertaining Shareholders who qualify for the dividend, the register of members for H Shares will be closed from Tuesday, 24 May 2016 to Sunday, 29 May 2016 (both days inclusive).

The dividend will be denominated and declared in Renminbi. The holders of Domestic Shares will be paid in Renminbi and the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to Renminbi as announced by the People’s Bank of China during the week prior to the date of declaration of the dividend.

In accordance with the Enterprise Income Tax Law of the People’s Republic of China (中華人民共和國企業所得稅法) and its implementation regulations which came into effect on 1 January 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of members for H shares when distributing the cash dividends. Any H shares not registered under the name of an individual Shareholder, including HKSCC Nominees Limited, other nominees, agents or trustees, or other organisations or groups, shall be deemed as shares held by non-resident enterprise shareholders. Therefore, enterprise income tax shall be withheld from dividends payable to such shareholders. If holders of H Shares intend to change its shareholder status, please enquire about the relevant procedures with your agents or trustees. The Company will strictly comply with the law or the requirements of the relevant government authority and withhold and pay enterprise income tax on behalf of the relevant Shareholders based on the register of members for H shares as at the Record Date.

If the individual holders of H Shares are Hong Kong or Macau residents or residents of the countries which had an agreed tax rate of 10% for the cash dividends to them with the PRC under the relevant tax agreement, the Company should withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of less than 10% with the PRC under the relevant tax agreement, the Company shall withhold and pay individual income tax on behalf of the relevant shareholders at a rate of 10%. In that case, if the relevant individual holders of H Shares wish to reclaim the extra amount withheld due to the application of 10% tax rate, the Company can apply for the relevant agreed preferential tax treatment provided that the relevant shareholders submit the evidence required by the notice of the tax agreement to the H share register of the Company within the timeline set out below. The Company will assist with the tax refund after the approval of the competent tax authority. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of over 10% but less than 20% with the PRC under the tax agreement, the Company shall withhold and pay the individual income tax at the agreed actual rate in accordance with the relevant tax agreement. In the case that the individual holders of H Shares are residents of the countries which had an agreed tax rate of 20% with PRC, or which has not entered into any tax agreement with PRC, or otherwise, the Company shall withhold and pay the individual income tax at a rate of 20%.

For investors investing in the H Shares of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange (including enterprises and individuals) (the “Southbound Trading”), the Company has entered into the Agreement on Appropriation of Cash Dividends of H Shares for Southbound Trading (《港股通H股股票現金紅利派發協議》) with the Shanghai Branch of China Securities Depository and Clearing Corporation Limited, pursuant to which, the Shanghai Branch of China Securities Depository and Clearing Corporation Limited, as the nominee of the holders of H Shares for Southbound Trading, will receive all cash dividends distributed by the Company and distribute the cash dividends to the relevant investors of H Shares of Southbound Trading through its depository and clearing system. The cash dividends for the investors of H Shares of Southbound Trading will be paid in Renminbi.

Pursuant to the relevant requirements under the “Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect” (Caishui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)), for dividends received by domestic investors from investing in H shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, the company of such H shares shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in H shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The company of such H shares will not withhold and pay the income tax of dividends for domestic enterprise investors and those domestic enterprise investors shall report and pay the relevant tax themselves.

5.2 Material litigation or arbitration events

The Company is currently litigating claims which arose in connection with the collapse of a partially completed oil storage tank of the oil and gas storage tank project in Alberta, Canada on 24 April 2007, which resulted in the deaths of two workers and injuries of four others. The case is currently in the evidence exchange and cross-examination phase.

The arbitration case between Sinopec Ningbo Engineering Company Limited, a wholly-owned subsidiary of the Company, and INEOS USA LLC filed by INEOS USA LCC at the Arbitration Institute of the Stockholm Chamber of Commerce has been suspended and the two parties are negotiating settlement.

There were no other material litigation or arbitration events during the Reporting Period.

5.3 Repurchase, sale and redemption of shares

During the Reporting Period, the Group did not repurchase, sell or redeem any listed securities of the Company.

5.4 Reserves

During the Reporting Period, movements in the reserves of the Group were set out in the Consolidated Statement of Changes in Equity of the financial report, which was prepared in accordance with IFRS in the Annual Report.

5.5 Review of Annual Results

The audit committee of the Company (the “Audit Committee”) has reviewed the Annual Report. The Audit Committee has not expressed any dissent concerning the financial statements in the Annual Report.

The Audit Committee is comprised of all independent non-executive Directors, namely, Mr. YE Zheng, Mr. HUI Chiu Chung, Stephen and Mr. JIN Yong. Among them, Mr. YE Zheng has the appropriate professional qualifications (including being a member of the Hong Kong Institute of Certified Public Accountants) and more than 20 years of experience in auditing, internal control and consultancy.

6 Compliance with Corporate Governance Code

From the listing date of the Company to 31 December 2015, the Company abided by the provisions in the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and did not conduct any acts which deviated from such provisions.

7 Financial Report

7.1 Auditor's opinion

The financial statements for the year ended 31 December 2015 of the Group, prepared in accordance with the IFRS and contained in the Annual Report, have been audited by Grant Thornton Hong Kong Limited, which has issued standard unqualified opinions on the financial statements.

7.2 Accounting policies

Compared to the last audited financial statements of the Group, there are no significant changes to accounting policies.

7.3 Financial Statements

The financial statements prepared in accordance with the IFRS for the year ended 31 December 2015:

7.3.1 Consolidated Statement of Comprehensive Income

The following table sets forth the consolidated statement of comprehensive income of the Company for the indicated years:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Revenue	45,498,354	49,345,959
Cost of sales	(39,341,320)	(43,055,347)
Gross profit	6,157,034	6,290,612
Other income	367,916	173,788
Selling and marketing expenses	(100,863)	(121,828)
Administrative expenses	(1,116,024)	(1,124,985)
Research and development costs	(1,184,956)	(934,253)
Other operating expenses	(280,384)	(261,808)
Other gains - net	2,470	17,477
Operating profit	3,845,193	4,039,003
Finance income	466,243	605,803
Finance expenses	(91,678)	(109,108)
Finance income - net	374,565	496,695
Share of profits of joint arrangements	315	844
Share of profits of associates	19,974	14,153
Profit before taxation	4,240,047	4,550,695
Income tax expense	(922,064)	(1,060,746)
Profit for the year	3,317,983	3,489,949
Other comprehensive income for the year, net of tax		
Items that may be reclassified subsequently to profit or loss:		
Accumulated fair value change of available-for-sale financial assets reclassified to profit or loss upon disposal	—	(11,484)
Exchange differences arising on translation of foreign operations	(2,534)	3,566
	(2,534)	(7,918)

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Item that will not be reclassified subsequently to profit or loss:		
Losses on revaluation of retirement benefit plans obligations	(216,683)	(195,573)
Other comprehensive income for the year, net of tax	(219,217)	(203,491)
Total comprehensive income for the year	<u>3,098,766</u>	<u>3,286,458</u>
Profit attributable to:		
Equity holders of the Company	3,317,704	3,489,799
Non-controlling interests	<u>279</u>	<u>150</u>
Profit for the year	<u>3,317,983</u>	<u>3,489,949</u>
Total comprehensive income attributable to:		
Equity holders of the Company	3,098,487	3,286,308
Non-controlling interests	<u>279</u>	<u>150</u>
Total comprehensive income for the year	<u>3,098,766</u>	<u>3,286,458</u>
	RMB	RMB
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)		
– Basic and diluted	<u>0.75</u>	<u>0.79</u>

7.3.2 Consolidated Statement of Financial Position

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	4,013,878	4,089,588
Land use rights	2,740,597	2,807,632
Intangible assets	327,104	384,847
Investment in joint arrangements	8,131	7,812
Investment in associates	125,187	105,213
Available-for-sale financial assets	2,750	2,750
Deferred income tax assets	721,806	654,489
Total non-current assets	7,939,453	8,052,331
Current assets		
Inventories	1,829,647	1,623,654
Notes and trade receivables	11,870,863	11,076,064
Prepayments and other receivables	5,818,509	5,368,153
Amounts due from customers for contract work	6,660,306	6,656,897
Loans due from the ultimate holding company	11,100,000	9,600,000
Restricted cash	17,932	25,644
Time deposits	1,762,100	500,000
Cash and cash equivalents	11,405,560	9,181,852
Total current assets	50,464,917	44,032,264
Total assets	58,404,370	52,084,595

	As at 31 December 2015	
	2015	2014
	RMB'000	RMB'000
EQUITY		
Share capital	4,428,000	4,428,000
Reserves	20,206,775	18,441,116
Consolidated equity attributable to equity holders of the Company	24,634,775	22,869,116
Non-controlling interests	3,737	3,458
Total equity	24,638,512	22,872,574
LIABILITIES		
Non-current liabilities		
Retirement and other supplemental benefit obligations	2,696,264	2,529,913
Provision for litigation claims	239,013	302,094
Deferred income tax liabilities	32,064	32,064
Total non-current liabilities	2,967,341	2,864,071
Current liabilities		
Notes and trade payables	16,679,058	12,287,138
Other payables	6,918,895	7,827,395
Amounts due to customers for contract work	6,939,052	6,014,636
Current income tax liabilities	261,512	218,781
Total current liabilities	30,798,517	26,347,950
Total liabilities	33,765,858	29,212,021
Total equity and liabilities	58,404,370	52,084,595
Net current assets	19,666,400	17,684,314
Total assets less current liabilities	27,605,853	25,736,645

7.4 Notes to the Financial Statements prepared in accordance with the IFRS

7.4.1 Revenue

The Group's revenue is set out below:

	2015	2014
	RMB'000	RMB'000
Engineering, consulting and licensing	2,625,673	3,645,174
EPC Contracting	27,838,722	30,132,251
Construction	14,913,615	15,324,529
Equipment manufacturing	120,344	244,005
	<u>45,498,354</u>	<u>49,345,959</u>

7.4.2 Income tax expense

	2015	2014
	RMB'000	RMB'000
Current tax		
PRC enterprise income tax	871,164	874,188
Overseas enterprise income tax	23,402	39,078
Under-provision for income tax in prior years	45,178	68,141
	<u>939,744</u>	<u>981,407</u>
Deferred tax		
Origination and reversal of temporary differences	<u>(17,680)</u>	<u>79,339</u>
Income tax expense	<u>922,064</u>	<u>1,060,746</u>

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 2015 and 2014 is 25%.

According to the normal statutory PRC corporate income tax and relevant rules, apart from certain subsidiaries of the Company have been qualified as new high-tech enterprises which can enjoy 15% preferential tax rate in the related period, for the years ended 31 December 2015 and 2014, the majority of the members of the Group are subject to 25% income tax rate.

The tax of other countries is based on the nation's tax laws, where the relevant subsidiary of the Group operates in.

The difference between the actual income tax charge in the consolidated statement of comprehensive income and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	2015	2014
	RMB'000	RMB'000
Profit before taxation	<u>4,240,047</u>	<u>4,550,695</u>
Taxation calculated at the statutory tax rate	1,060,012	1,137,674
Income tax effects of:		
Preferential income tax treatments of certain companies	(321,900)	(336,476)
Difference in overseas profits tax rates	(6,557)	(9,770)
Non-deductible expenses	164,025	156,654
Income not subject to tax	(4,382)	(199)
Unrecognised tax losses	10,661	48,480
Utilisation of previously unrecognised tax losses	(24,973)	(3,758)
Under provision for income tax in prior years	<u>45,178</u>	<u>68,141</u>
Income tax expense	<u>922,064</u>	<u>1,060,746</u>
Effective income tax rate	22%	23%

7.4.3 Earnings per share

(a) Basic

The basic earnings per share for each of the years ended 31 December 2015 and 2014 is calculated based on the profit attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue.

	2015	2014
Profit attributable to equity holders of the Company (RMB'000)	3,317,704	3,489,799
Weighted average number of ordinary shares in issue	4,428,000,000	4,428,000,000
Basic earnings per share (RMB)	0.75	0.79

(b) Diluted

As the Company had no dilutive shares for the each of the years ended 31 December 2015 and 2014, dilutive earnings per share for the years ended 31 December 2015 and 2014 are the same as basic earnings per share.

7.4.4 Dividends

Dividends represented dividends declared by the Company during each of years ended 31 December 2015 and 2014.

	2015 RMB'000	2014 RMB'000
Interim dividends of RMB0.114 per ordinary share (2014: RMB0.125) ⁽¹⁾	504,792	553,023
Proposed final dividends of RMB0.183 per ordinary share (2014: RMB0.187) ⁽²⁾	810,324	828,036

- (1) Pursuant to a resolution passed at the Directors' meeting on 28 August 2015, the Directors authorised to declare the interim dividends for the year ended 31 December 2015 of RMB0.114 per share totalling RMB504,792,000 (2014: RMB553,023,000). Interim dividends have been paid in October 2015.
- (2) Pursuant to the Directors' meeting on 18 March 2016, the Directors recommended to declare the final dividends for the year ended 31 December 2015 of RMB0.183 per share totalling RMB810,324,000 (2014: RMB828,036,000). Such recommendation is to be approved by the shareholders at the Annual General Meeting. Dividends declared after the end of the reporting period are not recognised as a liability at the end of the reporting period.

8 Language

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

By the Order of the Board
SINOPEC Engineering (Group) Co., Ltd
ZHANG Jianhua
Chairman

Beijing, the PRC
21 March 2016

As at the date of this announcement, the executive Directors are LU Dong, YAN Shaochun, SUN Lili (employee representative Director) and WU Derong (employee representative Director); the non-executive Directors are ZHANG Jianhua and LI Guoqing; and the independent non-executive Directors are HUI Chiu Chung, Stephen, JIN Yong and YE Zheng.