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 2016

1 Important Notice

1.1 This announcement is extracted from the content of the 2016 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 consolidated financial statements for the year ended 31 December 2016 (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 consolidated 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	:	Hong Kong Stock Exchanges
Legal Representatives	:	Mr. LING Yiqun
Authorised Representatives	:	Mr. XIANG Wenwu, Mr. SANG Jinghua
Secretary to the Board of Directors	:	Mr. SANG Jinghua
Place of Business and Correspondence Address	:	Tower B, No. 19, Anyuan, Anhui Beili, Chaoyang District, Beijing, the PRC (Postcode: 100101)
Telephone	:	+86 10 6499 8054
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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 December 2016	As at 31 December 2015	As at 31 December 2014	As at 31 December 2013	As at 31 December 2012	Changes from the end of 2015 (%)
Non-current assets	7,846,172	7,939,453	8,052,331	8,166,479	8,078,778	(1.2)
Current assets	50,972,148	50,464,917	44,032,264	39,198,790	29,051,247	1.0
Current liabilities	30,717,166	30,798,517	26,347,950	23,620,920	26,762,416	(0.3)
Non-current liabilities	2,899,238	2,967,341	2,864,071	2,764,008	3,286,359	(2.3)
Consolidated equity attributable to equity holders of the Company	25,198,008	24,634,775	22,869,116	20,976,714	7,077,985	2.3
Net assets per share of equity holders of the Company (RMB)	5.69	5.56	5.16	4.74	2.28	2.3

Unit: RMB '000

Items	Year ended 31 December 2016	2015	2014	2013	2012	Changes over the same period of 2015 (%)
Revenue	39,375,434	45,498,354	49,345,959	43,571,851	38,526,489	(13.5)
Gross profit	4,290,682	6,157,034	6,290,612	6,406,191	5,528,106	(30.3)
Operating profit	1,934,740	3,845,193	4,039,003	4,413,485	3,832,023	(49.7)
Profit before taxation	2,369,260	4,240,047	4,550,695	4,751,041	4,252,067	(44.1)
Profit attributable to equity holders of the Company	1,662,880	3,317,704	3,489,799	3,656,802	3,316,970	(49.9)
Basic earnings per share (RMB)	0.38	0.75	0.79	0.93	1.07	(49.9)
Net cash flow generated from/ (used in) operating activities	4,522,395	5,793,143	333,312	(85,995)	1,556,489	(21.9)
Net cash flow generated from/ (used in) operating activities per share (RMB)	1.02	1.31	0.08	(0.02)	0.50	(21.9)

Items	Year ended 31 December 2016	2015	2014	2013	2012
Gross profit margin (%)	10.9	13.5	12.7	14.7	14.3
Net profit margin (%)	4.2	7.3	7.1	8.4	8.6
Return on assets (%)	2.8	6.0	7.0	8.7	8.1

Items	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014	As at 31 December 2013	As at 31 December 2012
Asset-liability ratio (%)	57.2	57.8	56.1	55.7	80.9

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 RMB39.375 billion and RMB1.663 billion, respectively. As at the end of the Reporting Period, the Group's backlog was RMB88.173 billion. The value of new contracts entered into by the Group during the Reporting Period was RMB27.564 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 2016		2015		
	Revenue (RMB '000)	Percentage of total revenue (%)	Revenue (RMB '000)	Percentage of total revenue (%)	Change (%)
Engineering, consulting and licensing	2,611,514	6.1	2,625,673	5.3	(0.5)
EPC Contracting	20,641,233	48.5	27,838,722	56.5	(25.9)
Construction	18,831,222	44.4	18,123,282	36.8	3.9
Equipment manufacturing	439,885	1.0	679,517	1.4	(35.3)
Subtotal	42,523,854	100.0	49,267,194	100.0	(13.7)
Total after inter-segment elimination[(1)]	39,375,434	N/A	45,498,354	N/A	(13.5)

Note:

(1) 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 RMB39.375 billion, representing a decrease of 13.5% from the same period of the previous year. The main reasons of such decrease include: 1) large-scale EPC contracting projects at the peak stage of implementation decreased on a year-on-year basis; 2) the revenues generated from new coal chemical industry took a nosedive on a year-on-year basis. During the Reporting Period, a large part of the revenue was contributed by RAPID oil refining project of Malaysian National Company ("**Malaysia RAPID Oil Refining Project**"), Coal Chemical Complex of Zhongtian Hechuang Energy Co., Ltd. ("**Zhongtian Hechuang Coal Chemical Project**") and the phosphate public project in Saudi Arabia.

In January 2017, the Group received a notice from the owner of Zhong'An Lianhe Coal Chemical complex project for resumption of work. In March 2017, the Group received a notice from the owner of Qinghai Damei Coal Chemical project for resumption of work.

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				
	2016		2015		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB '000)	(%)	(RMB '000)	(%)	(%)
Oil refining	10,760,205	27.3	7,683,275	16.9	40.0
Petrochemicals	12,524,930	31.8	11,982,650	26.3	4.5
New coal chemicals	8,562,936	21.7	17,431,865	38.3	(50.9)
Other industries	7,527,363	19.2	8,400,564	18.5	(10.4)
Total	39,375,434	100.0	45,498,354	100.0	(13.5)

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, influenced by EPC contracting projects of the oil refining industry, including the Malaysia RAPID Oil Refining Project and the FCC Project of Kazakhstan Atyrau Refinery, which entered into the peak season of procurement or construction, revenue generated from the oil refining industry was RMB10.760 billion, representing an increase of 40.0% on a year-on-year basis; revenue generated from the petrochemical industry was RMB12.525 billion, which is basically equivalent on a year-on-year basis; influenced by the decreasing volume of business from new coal industry and other industries, revenue generated from the new coal chemical industry was RMB8.563 billion, representing a big decrease of 50.9% on a year-on-year basis, revenue generated from other industries was RMB7.527 billion, representing a decrease of 10.4% on a year-on-year basis.

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

	Year ended 31 December				
	2016		**2015**		
	Revenue	**Percentage of total revenue**	**Revenue**	**Percentage of total revenue**	**Change**
	(RMB '000)	(%)	(RMB '000)	(%)	(%)
PRC	24,892,217	63.2	36,407,242	80.0	(31.6)
Overseas	14,483,217	36.8	9,091,112	20.0	59.3
Total	39,375,434	100.0	45,498,354	100.0	(13.5)

The Group continues to expand its overseas business steadily. During the Reporting Period, the revenue of the Group generated overseas was RMB14.483 billion, representing an increase of 59.3% on a year-on-year basis. This was mainly attributable to the fact that the Group's overseas projects, such as Malaysia RAPID Oil Refining Project, phosphate public project in Saudi Arabia and the FCC Project of Kazakhstan Atyrau Refinery, have reached the peak stage of implementation.

As at the end of the Reporting Period, the backlog of the Group amounted to RMB8.8173 billion, representing a decrease of 11.8% as compared with that as at 31 December 2015, and 2.2 times of the total revenue of RMB39.375 billion in 2016. During the Reporting Period, the value of new contracts amounted to RMB27.564 billion, representing a decrease of 47.7% on a year-on-year basis.

During the Reporting Period, the Group entered into the following representative domestic projects: the engineering, procurement and construction (EPC) contracting project of Dongjiakou crude oil commercial reservation base of SINOPEC Pipeline Storage & Transportation Company ("**Dongjiakou Crude Oil Commercial Reservation Base Project**"), the construction project of SP Chemicals (Taixing) Co., Ltd. in relation to its light hydrocarbon comprehensive utilisation project with a capacity of 1.1 Mtpa ("**SP ChemicalsComprehensive Utilization Project of Light Hydrocarbon**"), EPC contracting project of Anqing 1 Mtpa catalytic diesel hydrogenation transformation (RLG) of China Petroleum & Chemical Corporation ("**Sinopec Corp.**") ("**Anqing Catalytic Diesel Hydrogenation Transformation Project**"), EPC contracting project of 300 Ktpa alkylation unit of Tianjin gasoline quality upgrade project of Sinopec Corp. Tianjin Company ("**Tianjin Gasoline Quality Upgrade Project**").

During the Reporting Period, representative overseas projects entered into by the Group included the EPC contracting project in relation to Phase I of Abadan refinery upgrading project of National Iranian Oil Engineering and Construction Company ("**Iranian Abadan Refinery Upgrading Project Phase I EPC Contracting Project**"); the contruction project of Package 1 consortium in relation to the new AL-Zour refinery project of Kuwait National Petroleum Company in Kuwait ("**Kuwait AL-Zour New Refinery Project Package 1 Consortium Construction Project**"); the installation project in relation to the mechanical, electrical and instrument equipment for Fadhili natural gas processing project of Saudi Aramco ("**Saudi Fadhili Natural Gas Processing Project's Mechanical, Electrical and Instrument Equipement Installation Project**") and the contracting project of engineering, procurement, construction and commissioning ("**EPCC**") in relation to the RAPID automated stereo warehouse project of Petroliam Nasional Berhad (PETRONAS) in Malaysia ("**Malaysian RAPID Automated Stereo Warehouse 'EPCC' Project**").

During the Reporting Period, the Group's capital expenditure was approximately RMB580 million, which was mainly used for the construction of technical R&D facilities, provisional facilities for the project and information system and the purchase of construction equipment and professional engineering software.

The discussions on the Group's environmental policies, relationships with its major stakeholders and compliance with applicable laws and regulations which have a significant influence on the Group are set out in the "Corporate Environment, Social and Governance Report" from Page 88 to Page 91 of the Annual Report.

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, the major devices of the projects were delivered for use.

Zhong'An Joint Coalification complex project: Please refer to the announcement dated 24 November 2014 published by the Company for further details. In its 2015 Annual Report issued on 21 March 2016, the Company disclosed that the project had been suspended as requested by the owner. In January 2017, the Group received a notice from the owner for resumption of work. As at the date of publication of the Annual Report, the project was conducted smoothly in every aspect.

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, intermediate handover of the project was 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 eight tenths of the overall progress of the project was completed, design and procurement work was completed and the construction was conducted smoothly.

Dongjiakou Crude Oil Commercial Reservation Base Project: Please refer to the announcement dated 15 April 2016 published by the Company for further details. As at the end of the Reporting Period, overall design work of the project was carried out.

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, more than half of the project design work process, purchase of key equipments and materials was completed, and the project was carried out in sequence as planned.

Malaysia RAPID 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, six tenths of the overall progress of the project was completed, design work was basically completed, approximately seven tenths of the purchase work was completed and onsite construction entered the peak period.

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, design work of the project was completed, over nine tenths of the purchase work was completed, over six tenths of the construction was completed, and approximately eight tenths of the overall progress was completed.

3.2.2 Continuous enhancement of project assurance capability being strengthened continuously

During the Reporting Period, to ensure the more efficient, orderly and safe implementation of projects, the Group has improved the project coordination management mechanism at the group level, established a unified work subcontracting management system to standardise subcontracting activities and enhance subcontracting management capability; established and released the Group's subcontractor resources database, thus laying a solid foundation for the affiliates of the Group to select high-quality subcontractors and lower subcontracting cost; improved the project settlement and inventory management mechanisim, thus achieving remarkable results in reducing stocks; took initiative in establishing the project management system which is benchmarked against the world-class systems taking into account of both domestic and overseas projects, unified project management process and improved the operation efficiency of projects based on EPC project management mode.

3.2.3 Market development in defiance of difficulties

In 2016, faced with extremely difficult market condition, the Group exploited its overall advantage of its industry, business and technical chains, transformed challenges into momentum; sought opportunities in difficult situations; proactively explored domestic and overseas markets with full efforts. During the Reporting Period, the value of new contracts entered into by the Group was RMB27.564 billion. Newly signed domestic contracts amounted to RMB17.193 billion, and overseas contracts amounted to approximately USD1.492 billion.

In the PRC, during the Reporting Period, the Group entered into new contracts for a number of large projects, such as Dongjiakou Crude Oil Commercial Reservation Base Project with a contract value of approximately RMB1.100 billion; SP Chemicals Comprehensive Utilisation Project of Light Hydrocarbon with a contract value of approximately RMB666 million; Anqing Catalytic Diesel Hydrogenation Transformation Project with a contract value of approximately RMB540 million; Tianjin Gasoline Quality Upgrade Project with a contract value of approximately RMB523 million.

Overseas, during the Reporting Period, the Group signed new contracts for a number of large projects, such as Iranian Abadan Refinery Product Upgrade Project Phase I EPC Contracting Project with the Group's share of approximately RMB4.081 billion in total contract value; Kuwait AL-Zour New Refinery Project P1 Package Construction Project with a net contract value of approximately RMB2.095 billion; Saudi Fadhili Natural Gas Treatment Project's Machinery and Electrical Instrument Package Construction Works Project with a total contract value of approximately RMB1.738 billion; Malaysian RAPID 3D Automatic Warehouse "EPCC" EPC Contracting Project with a total contract value of approximately RMB1.237 billion.

In addition to the 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.

In 2016, the Group strengthened communication and exchange with international large-scale energy companies and established multi-level cooperation and exchange mechanism. In 2016, the Group signed memorandum of cooperation with SHELL, and both parties will cooperate in patent technology application and engineering construction based on the principle of mutual benefit. In February 2017, the Group passed the qualification pre-review of EXXON MOBIL and is officially short listed on the list of global EPC strategic contractors of EXXOn MOBIL. The Group has obtained the opptunities to participate in the global EPC projects of EXXON MOBIL.

3.2.4 Continuous promotions of innovation and technology advancement

Steady progress in the research and development of major technologies developed along with the key projects

- Technological development for natural gas purification project in Yuanba finally passed appraisal after operation inspection. Since the project was launched in December 2011, important breakthroughs have been made in various aspects, e.g. the production of new desulfuriser of high efficiency and the development of heterogeneous separation process and equipment. The project processed 2.6 billion m^3 of raw gas in the year of 2016, all being class-A gas under national standard GB 17820-2012. In December 2016, the project passed the appraisal by the Department of Science and Technology of the Group. As an important clean energy, natural gas has special significance for the country in improving its energy structure and protecting environment. The successful development of natural gas purification technology has important significance for the use of clean energy and the green development of China.

- The packaged technology of syngas to ethylene has got into the calibration stage. In the second half of 2016, the project entered the final stage of correction, with satisfactory results being achieved in units such as glycol absorption rate and dust absorption effect. Syngas to glycol technology is one of the hot technologies used for the efficient and clean utilisation of coals. The effective research of the technology is of great significance for promoting clean utilisation of coals.

- In the development and industrial testing of solid superacid C5, C6 isomerisation technology, the transformation and initial calibration of phase 1 were completed. The technology is one of the important means for producing quality gasoline blending components and has great significance for improving the quality of China's automobile gas products.

- For purpose of the packaged technology of making propylene oxide with hydrogen peroxide solution, an industrial testing device was completed in August 2016, which is now undergoing rectification of problems and trial production.

- Engineering design for the development of the packaged technology of ethylene oxide was completed and the project entered full-scale construction in 2016.

Significant progess in the research and development of environmental protection and energy saving technologies

- In the construction of soil repair platform and optimisation of thermal desorption integration technology, the tasks that have been fulfilled by now include the election of a testing platform and construction of test devices. The platform set up for the analysis and testing of polluted soils includes ultrasonic extraction method, gas chromatography-mass spectrometry method, gas chromatography method, UV-Vis spectrophotometry, moisture content and organic matter analysis method for the analysis of organic pollutants in soils. The TPD-MS test device uses the quick-simulation method of thermal desorption process to simulate the effect of different process parameters (i.e. temperature, dwell time, atmosphere and gas velocity) on the efficiency of removing the PAHs in polluted soils.

- Relevant researches for a number of environmental protection projects, e.g. development of boiler flue gas – CO_2 trapping system – DEA chemical absorption process package, researches on the process of using the ammonia obtained through urea hydrolysis for denitration of flue gas, which have got into the stage of result review, were completed.

- In the development of the technology and process package for treatment of 1,3-propylene glycol wastewater through biological method, small-scale tests for the improvement test of replacing calcium process with sodium process to address the problem of the difficult treatment of wastewater and large quantity, were completed. The tasks to be fulfilled at the next stage will include the analysis of the quality of sewage and small-scale laboratory tests based on the wastewater of sodium process.

- Developed pilot plant test devices and process package for the catalytic treatment of wastewater with high ammonia nitrogen; completed the small-scale testing of catalyst wastewater; design of the plan of pilot plant test devices is underway.

Innovation synergy of the research and development center of the Group (the "R&D Center") opened a new horizon

During the Reporting Period, under the orientation of "becoming an engine for the sustained enhancement of the engineering technology of the Group", the R&D Center focused on technology R&D, commercialisation of technology and R&D collaboration with the Group's affiliates by "going out and bringing in". In response to the technical needs of the Group's affiliates, the R&D Center launched 34 new R&D projects, preliminarily forming collaborative innovations with the affiliates and achieving marked results.

Good momentum persisted in patent applications

During the Reporting Period, the Group completed 453 new patent applications (including 236 invention patents) and licensing of 429 patents (including 219 invention patents which accounted for 51.0%).

Continuously achieving numerous fruitful results in technology innovation

During the Reporting Period, the Group was awarded with 114 items (times) of various prizes for scientific and technological advancement above provincial/ministerial levels, including one special prize for scientific and technological advancement at each of national level and provincial/ministerial level, six first-class prizes for scientific and technological advancement at provincial/ministerial level, one gold prize for national outstanding engineering design, one special prize and five first-class prizes for outstanding engineering design at provincial/ministerial level, and six gold prizes for national outstanding engineering design.

3.2.5 Continuous expansion of the environmental protection and energy saving business

Attaching great importance to the exploration of the environmental protection and energy saving market, the Group has integrated its own technological advantages and cooperated with well-known domestic and international technology patent licensors. The scope of the Group's business now covers multiple fields such as flue gas desulfurisation and denitration, VOCs control, sewage treatment, slurry reduction and drying, soil remediation, CO_2 recovery and low temperature waste heat power generation, etc. The Group was actively involved in Sinopec's "Clear Water & Blue Sky Plan" and "Energy Efficiency Doubling Plan", and explored to implement new business models for contractual energy management and contractual environmental protection management, providing energy saving diagnosis and optimisation services for enterprises, which further develop the Group's environmental protection and energy saving business. During the Reporting Period, the Group entered new environmental protection business contracts valued at approximately RMB162 million, which was mainly from flue gas desulfurisation and denitrification projects, and new energy saving business contracts valued at approximately RMB44.00 million, which was mainly from energy saving reform projects.

Putting great emphasis on the development of its energy saving and environmental protection business, the Group has continuously promoted the application of low temperature waste heat power generation in refinery and chemical fields in collaboration with business partners. Leveraging on its abundant experience in refinery and chemical units design and construction, the Group explored to cooperate with various domestic enterprises with capital and technological advantages, so as to promote the implementation of energy saving projects of refinery and chemical enterprises in accordance with the contractual energy management to expand the Group's business scope. The Group actively explores the soil remediation market, and is conducting research and planning for soil remediation projects after relocation of several refineries. Meanwhile, paying great attention to cooperative development of CO_2 utilisation technology, the Group has discussed technology cooperation with multiple foreign companies, so as to optimise the technology chain of the Group and grasp decisive opportunities in the future market.

3.2.6 Smooth construction and implementation of ERP system

During the Reporting Period, the Group built and successfully implemented its ERP system together with an integrated management information system that matches with the ERP system. The Group's ERP system is an integrated management information system that covers the entire industrial chain of design, procurement construction and manufacturing. It is designed to intensify the synergy of the Group's own business and sharing of services by establishing a new mode of production and operation that is digital, internet-based and intelligent as well as a new way of intensified, integrated and refined operation and management. The Group's ERP system improves the informatisation of management and the integration of the information system. Such efforts have led to the overall enhancement of application of the Group's informationisation, promoting innovations in management and technologies, fully ensuring the fulfillment of the indicators for production, operation, reform and development, providing support for building the ecosphere of technology-based, innovative and service-oriented engineering industry.

3.2.7 Continuous promotion of production safety

During the Reporting Period, the Group further optimised the QHSE management system and continuously improved its QHSE management and control capability. Guided by the quality safety culture, the Group promoted safe development, scientific development and harmonious development. The Group implemented overall accountability for quality and production safety, and made efforts to establish long-term management mechanisms of production safety. The Group propelled HSE standardisation management, strengthened intrinsic safety management of engineering design, and continuously focused on the construction of the core capability of HSE management, so as to build engineering projects featuring intrinsic safety. The Group regularly conducted risk identification, investigation and elimination work, made full use of the two-level supervision team, implemented overall and full-coverage supervision, inspection and observation actions, and optimised QHSE supervision in direct operation procedures, so as to promote quality and safety of projects under construction and overseas public safety. As at the end of the Reporting Period, the Group realised 232.9 million safe man hours in accumulation domestically and overseas.

3.3 Business Prospects

Looking to 2017, the world economic environment is still complicated and changing. The economic recovery will continue facing severe challenges and is subject to the influence of numerous uncertain factors. The development of the Chinese economy has entered the “New Normal”, and the economic growth rate will be maintained within a reasonable range. In 2017, it is estimated that as a result of the influence of adverse factors such as international crude oil price staying low and global industrial investment being sluggish in achieving significant growth, the production and operation situations of the refinery and chemical engineering industry will remain severe, the market competition will become fiercer, and engineering companies will continue facing higher downward performance pressure.

In 2017, the Group will proactively deal with adverse situations, make full use of its advantages such as collectivisation, integration and economies of scale, continuously enhance its core competition edge, propel its sustainable and healthy development and make efforts to become a “national business card” of the Chinese oil refinery and chemical engineering industry. In 2017, the target domestic new contract value of the Group is RMB28 billion, and the target overseas new contract value is USD1.5 billion.

3.3.1 Continuously deepen enterprise reform and accelerate the optimisation of internal resources

In 2017, the Group will follow the development trend of the industry and the principle of marketisation, and promote the reform and innovation of its operating system and mechanisms; continuously push forward the optimized configuration of internal resources; become a more successful and advanced engineering company, continue to drive the transformation and development of construction enterprises, strengthen integrated coordination, create synergistic advantages and expand its business in a balanced way.

3.3.2 Explore transformational development to expand new market scope and business modes

In 2017, 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 famous technology patent licensors in the world to explore transformational development, open up new business fields and models, and enhance its overall competitiveness. The Group will continue to study new business models, including the management of energy and environment through contract, assistance in financing, summarise and promote the experience in contract-based environmental management, and launch new pilot projects on the condition that the risks are under control. Several such projects and the projects for utilisation of low-temperature heat are currently making steady progress.

3.3.3 Strengthen process management and project control, take multiple measures simultaneously, and increase cost efficiency

In 2017, the Group will make every effort to ensure the smooth implementation of the in-progress projects; improve process control over newly launched large projects, diligently review the commencement report and major plans for the projects, pay more attention to risk assessment of the projects, make quantitative analysis of their overall progress, take corrective measures promptly and conduct dynamic analysis of project cost; further propel the building of project management system, closely monitor the Company's project management and make necessary improvements; further improve design management, optimise design plan, enhance design precision and strengthen the EPC capability through design optimisation; strengthen the management of man hours, optimise the balance of the human resources of projects and provide more accurate basis for subsequent bidding and quotations.

3.3.4 Seize the opportunity of the "Belt and Road" strategic initiative and endeavor to create the third "national business card"

In 2017, the Group will hold fast to the opportunity of "Belt and Road" strategic initiative, give play to the internal integration advantages of the Group, unify strategies and brands, set up a market development system that features the joint actions taken by its headquarters, subsidiaries and overseas institutions, step up the analysis and studies of the international market, consolidate the traditional markets in the Middle East, Southeast Asia and Central Asia, implement the strategy of opening up the markets in Russia, South Asia and Africa, pursue global development in a steady manner, expand the export of SINOPEC technology, engineering and equipment in a bid to create the "third national business card".

3.3.5 Focus on technology progression to maintain and enhance technology leading advantages

In 2017, the Group will establish an innovation platform that fits into its own features by focusing on market orientation, building innovation teams, promoting innovative culture and establishing learning organisations; attach more importance to intellectual property protection, intensify protection awareness, improve protection mechanism and enhance technology protection capability; implement technical source searching under the development strategy and the development requirements for building a company that is oriented toward technology, innovation and services; increase its efforts in seeking technical cooperation in the technologies used extensively in the petrochemical industry, the technologies for environmental protection and energy conservation, strategic, forward-looking and cutting-edge technologies to create conditions for opening up market via technology. At the same time, the Group will strengthen its cooperation with scientific research institutes and make good use of external resources to create a win-win situation.

3.3.6 Vigorously exploit environmental protection and energy saving sectors to create new business growth

In 2017, the Group will continue to give play to the advantages of the platform, maintain and intensify the cooperation and exchanges with some famous licensors in the world in the fields of energy conservation and environmental protection; establish the necessary incentive mechanism for the model projects already launched in fields such as energy conservation, environmental protection, soil repair and disposal of garbage to provide support for the quick formation of competitiveness in these fields; excel in the collaborative market development for alkylation technology, promotion of energy saving contracts and energy management projects, construction of the demonstration devices for CO_2 utilisation technology, development of the commercialised projects in treatment of polluted soils; continue to intensify the market exploitation in relation to the control of the VOCs of enterprises, ultra-clean emission of flue gas, up-to-standard discharge of sewage, gasification fermentation of garbage and disposal of solid industrial wastes to form new growth points for business.

3.3.7 Promote the establishment of modern human resource management system

In 2017, the Group will continue to optimise its employment position management system and set up a position-based passage for the growth of talents in light of the business features of engineering construction enterprises and, taking into consideration the capability and competence of talents; implement market-oriented optimisation of the staff salary structure, establish all-member performance examination system, intensify management by objectives (MBO) and incentive constrain so that the income of employees is closely linked to their personal performance and the performance of the enterprise; set up mechanism under which cost of labour is determined based on the market trends, performance and value to enhance the sustainable development capability of the enterprise.

3.3.8 Comprehensively develop the application effects of EPR system

In 2017, the Group will focus on "ERP" and "digitalised delivery" as its primary orientation for the overall enhancement of the application and results; accelerate the construction of operation management platform that has ERP at the center, fully draw on and rapidly spread trial experience. The Group will carry out the application of the pilot project of digitalised delivery, revolve around the construction of digitalised factories and implementation of key projects to deepen 3D multi-professional collaborative design and the management and application of integrated projects, strengthen the promotion of modular design, integrated procurement, visualised construction and standardised coding. The Group will endeavor to create digitalised engineering production lines that meet the needs of different owners and improve the quality and level of engineering design.

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 consolidated financial statements and the accompanying notes contained in the Annual Report. Parts of the financial data below, unless otherwise stated, were extracted from the Group's audited consolidated financial statements prepared according to the IFRS.

4.1.1 Revenue

The revenue of the Group decreased by 13.5% from RMB45.498 billion for the year ended 31 December 2015 to RMB39.375 billion for the year ended 31 December 2016, mainly because of reducing in EPC contracting business of new coal chemical industry.

4.1.2 Cost of sales

The cost of sales of the Group decreased by 10.8% from RMB39.341 billion for the year ended 31 December 2015 to RMB35.085 billion for the year ended 31 December 2016, mainly due to the decrease in revenue as well as the decrease in the sub-contracting cost and outsourcing costs of equipment and materials.

4.1.3 Gross profit

The gross profit of the Group decreased by 30.3% from RMB6.157 billion for the year ended 31 December 2015 to RMB4.291 billion for the year ended 31 December 2016, mainly because of year-on-year decrease in income from EPC with higher gross profit margin, and year-on-year increase in the proportion of income from construction segment with lower gross profit margin in the total income.

4.1.4 Other income

The other income of the Group increased by 137.7% from RMB368 million for the year ended 31 December 2015 to RMB875 million for the year ended 31 December 2016, mainly due to the increase in exchange gain.

4.1.5 Selling and marketing expenses

The selling and marketing expenses of the Group increased from RMB101 million for the year ended 31 December 2015 to RMB107 million for the year ended 31 December 2016, remaining broadly stable on a year-on-year basis.

4.1.6 Administrative expenses

The administrative expenses of the Group increased from RMB1.116 billion for the year ended 31 December 2015 to RMB1.160 billion for the year ended 31 December 2016, remaining broadly stable on a year-on-year basis.

4.1.7 Research and development costs

The research and development costs of the Group decreased from RMB1.185 billion for the year ended 31 December 2015 to RMB1.113 billion for the year ended 31 December 2016, remaining broadly stable on a year-on-year basis.

4.1.8 Other operating expenses

The other operating expenses of the Group increased by 202.8% from RMB280 million for the year ended 31 December 2015 to RMB849 million for the year ended 31 December 2016, which is mainly due to the increase in provision for impairment of receivables.

4.1.9 Other (losses)/gains - net

The net other losses of the Group decreased from gain of RMB0.002 billion for the year ended 31 December 2015 to loss of RMB0.001 billion for the year ended 31 December 2016.

4.1.10 Operating profit

Due to the foregoing reasons, the operating profit of the Group decreased by 49.7% from RMB3.845 billion for the year ended 31 December 2015 to RMB1.935 billion for the year ended 31 December 2016.

4.1.11 Finance income - net

The net finance income of the Group increased by 11.7% from RMB375 million for the year ended 31 December 2015 to RMB419 million for the year ended 31 December 2016, mainly due to year-on-year increase in interest income and year-on-year expenditure decrease in actuarial interest on liability.

4.1.12 Income tax expense

The Group's income tax expense decreased by 23.4% from RMB922 billion for the year ended 31 December 2015 to RMB706 million for the year ended 31 December 2016, mainly due to year-on-year reduction of pre-tax profit of the Group. Effective income tax rate increased from 21.7% to 29.8% on a year-on-year basis. Change of effective income tax rate is mainly because of higher exchange gains the Group received and profit fluctuation of several subsidiary companies of the Company.

4.1.13 Profit for the year

Due to the above reasons, the profit in the Reporting Period decreased by 49.9% from RMB3.318 billion for the year ended 31 December 2015 to RMB1.663 billion for the year ended 31 December 2016.

4.1.14 Total comprehensive income for the year

As a combined result of the reasons above and the contribution from other comprehensive income of the Group, the total amount of the comprehensive income of the Group decreased by 45.4% from RMB3.099 billion for the year ended 31 December 2015 to RMB1.693 billion for the year ended 31 December 2016.

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 calculated 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. Due to factors which are beyond the Group's control, projects may also remain in the Group's backlog for a longer period of time than what was initially anticipated.

In January 2017, the Group received a notice from the owner of Zhong'An Joint Coalification complex project for resumption of work. In March 2017, the Group received a notice from the owner of Qinghai Damei Coalification project for resumption of work.

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 2016 (RMB '000)	**As at 31 December 2015** (RMB '000)	**Change** (%)
Engineering, consulting and licensing	6,977,048	6,935,838	0.6
EPC Contracting	68,930,902	78,661,105	(12.4)
Construction	12,110,670	14,273,326	(15.2)
Equipment manufacturing	154,642	114,615	34.9
Total	88,173,262	99,984,884	(11.8)

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 2016 (RMB '000)	**As at 31 December 2015** (RMB '000)	**Change** (%)
Oil refining	32,215,821	32,951,451	(2.2)
Petrochemicals	17,649,823	22,730,572	(22.4)
New coal chemicals	20,227,322	26,230,973	(22.9)
Other industries	18,080,296	18,071,888	0.0
Total	88,173,262	99,984,884	(11.8)

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

	As at 31 December 2016 (RMB '000)	**As at 31 December 2015** (RMB '000)	**Change** (%)
PRC	55,604,482	63,303,344	(12.2)
Overseas	32,568,780	36,681,540	(11.2)
Total	88,173,262	99,984,884	(11.8)

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 2016 (RMB '000)	**As at 31 December 2015** (RMB '000)	**Change** (%)
Sinopec Group and its associates	37,802,158	42,242,637	(10.5)
Non-Sinopec Group and its associates	50,371,104	57,742,247	(12.8)
Total	88,173,262	99,984,884	(11.8)

As at the end of the Reporting Period, the value of the Group's backlog was RMB88.173 billion, representing a decrease of 11.8% from that as at 31 December 2015, and 2.2 times of the total revenue of RMB39.375 billion in 2016.

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		
	2016	**2015**	**Change**
	(RMB '000)	(RMB '000)	(%)
Engineering, consulting and licensing	2,652,723	3,046,766	(12.9)
EPC Contracting	10,911,030	35,535,159	(69.3)
Construction	13,801,475	13,995,579	(1.4)
Equipment manufacturing	198,585	98,450	101.7
Total	27,563,813	52,675,954	(47.7)

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		
	2016	**2015**	**Change**
	(RMB '000)	(RMB '000)	(%)
Oil refining	10,024,575	13,994,772	(28.4)
Petrochemicals	7,444,181	11,112,479	(33.0)
New coal chemicals	2,559,285	7,516,119	(65.9)
Other industries	7,535,772	20,052,584	(62.4)
Total	27,563,813	52,675,954	(47.7)

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		
	2016	**2015**	**Change**
	(RMB '000)	(RMB '000)	(%)
PRC	17,193,356	33,536,769	(48.7)
Overseas	10,370,457	19,139,185	(45.8)
Total	27,563,813	52,675,954	(47.7)

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		
	2016	**2015**	**Change**
	(RMB '000)	(RMB '000)	(%)
Sinopec Group and its associates	10,091,361	20,964,222	(51.9)
Non-Sinopec Group and its associates	17,472,452	31,711,732	(44.9)
Total	27,563,813	52,675,954	(47.7)

During the Reporting Period, the value of the new contracts was RMB27.564 billion, representing a decrease of 47.7% 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 31 December 2016	**As at 31 December 2015**	**Change**
Total assets	58,818,320	58,404,370	413,950
Current assets	50,972,148	50,464,917	507,231
Non-current assets	7,846,172	7,939,453	(93,281)
Total liabilities	33,616,404	33,765,858	(149,454)
Current liabilities	30,717,166	30,798,517	(81,351)
Non-current liabilities	2,899,238	2,967,341	(68,103)
Non-controlling interests	3,908	3,737	171
Net assets	25,201,916	24,638,512	563,404
Consolidated equity attributable to equity holders of the Company	25,198,008	24,634,775	563,233
Share capital	4,428,000	4,428,000	0
Reserves	20,770,008	20,206,775	563,233

As at the end of the Reporting Period, the total assets of the Group were RMB58.818 billion, the total liabilities were RMB33.616 billion, the non-controlling interests were RMB4 million, and the equity attributable to the shareholders of the Company was RMB25.198 billion. The changes in the assets and liabilities as compared with those at the end of 2015 and the main reasons are as follows:

As at the end of the Reporting Period, the total assets were RMB58.818 billion, increased by RMB414 million as compared with that at the end of 2015. In particular, the current assets were RMB50.972 billion, increased by RMB507 million as compared with that at the end of 2015, mainly due to the loans due from the ultimate holding company recorded a growth of RMB3 billion, the fixed deposits with financial institutions increased by RMB0.46 billion, an increase of RMB1.881 billion for notes and trade receivables, a decrease of RMB821 million for amounts due from customers for contract work, a decrease of RMB633 million for inventory; the non-current assets were RMB7.846 billion, decreased by RMB93 million as compared with that at the end of 2015, mainly due to a decrease of depreciation and amortization for the non-current assets.

As at the end of the Reporting Period, the total liabilities were RMB33.616 billion, decreased by RMB149 million as compared with that as at the end of 2015. In particular, the current liabilities were RMB30.717 billion, decreased by RMB81 million as compared with that as at the end of 2015, mainly due to the decrease of RMB2.462 billion in notes and trade payables; other payable items decreased by RMB985 million, amounts due to customers for contract work increased by RMB3.280 billion. The non-current liabilities were RMB2.899 billion, decreased by RMB68 million as compared with that as at the end of 2015, mainly due to the decrease of RMB59 million in retirement and other supplemental benefit obligations.

The total equity attributable to shareholders of the Company was RMB25.198 billion, increased by RMB563 million as compared with that as at the end of 2015, primarily as the result of the increase in the retained earnings.

4.3.2 Cash Flows

During the Reporting Period, the net increase in cash and cash equivalents was RMB28 million and net cash generated from operating activities was RMB4.522 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 2016 and 2015, respectively.

Units: RMB'000

Major items of cash flow	Year ended 31 December 2016	2015
Net cash generated from operating activities	4,522,395	5,793,143
Net cash used in investing activities	(3,363,360)	(2,601,554)
Net cash used in financing activities	(1,130,652)	(1,334,867)
Net increase in cash and cash equivalents	28,383	1,856,722

During the Reporting Period, the profit before taxation was RMB2.369 billion, and the profit was RMB2.773 billion after adjusting the items (non-cash expense items) in expenses that did not affect the cash flow in operating activities. Major non-cash expense items are: depreciation and amortisation were RMB723 million, exchange gains amounted to RMB474 million, impairment of trade and other receivables was RMB589 million, net interest income was RMB419 million. The changes in working capital, which caused a cash inflow of RMB2.377 billion in operating activities, are mainly shown in: strengthened inventory management, reduced inventory balance, causing the cash inflow from operating activities of RMB633 million; 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 RMB4.101 billion; strengthened the settlement of exchanges debts, reduced trade and other receivables balance, causing the cash inflow from operating activities of RMB1.365 billion; trade and other payables balance was reduced, causing the cash outflow from operating activities of RMB3.724 billion.

After adjusting non-cash items, receivables and payables for the profit before taxation, and adjusting the income tax paid amounting to RMB754 million, received interest cash inflow of RMB126 million, the net cash generated from operating activities was RMB4.522 billion.

Net cash generated from investing activities was RMB3.363 billion, mainly because net outflow of funds borrowed by the ultimate holding company increased.

Net cash used in financing activities was RMB1.131 billion, mainly attributable 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:

	Year ended 31 December	
Main financial ratios	**2016**	**2015**
Net profit margin (%)	4.2	7.3
Return on assets (%) (1)	2.8	6.0
Return on equity (%) (2)	6.6	13.5
Return on invested capital (%) (3)	6.8	13.5

Main financial ratios	**As at 31 December 2016**	**As at 31 December 2015**
Gearing ratio (%) (4)	0.0	0.0
Net debt to equity ratio (%) (5)	net cash	net cash
Current ratio (%) (6)	1.7	1.6
Quick ratio (%) (7)	1.6	1.6

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

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

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

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

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

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

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

Return on assets

The Group's return on assets decreased to 2.8% from 6.0% 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 to 6.6% from 13.5% for the same period in 2015, mainly due to the decrease in net profit during the Reporting Period and the increase in equity at the end of the Reporting Period.

Return on invested capital

The Group's return on invested capital decreased to 6.8% from 13.5% for the same period in 2015 for the same reasons as the decrease in return on equity.

Gearing ratio

The Group's gearing ratio is 0, which remained stable as compared with that as at 31 December 2015, 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 as at 31 December 2016.

Current ratio

The Group's current ratio increased to 1.7 from 1.6 at the end of previous year, mainly due to the increase in current assets within the Reporting Period.

Quick ratio

The Group's quick ratio is 1.6, which remained stable as compared with that as at 31 December 2015.

5 Significant Events

5.1 Dividends

At the annual general meeting for the year 2016 convened on 6 May 2016, an ordinary resolution was passed to approve the authorisation to the Board to determine the interim profit distribution plan for the year 2016. The dividend distribution plan of RMB0.072 per share (inclusive of applicable tax) for the six months ended 30 June 2016 was approved at the Fifth Meeting of the Second Session of the Board convened on 19 August 2016. The dividend distribution plan was implemented.

The final dividend distribution plan for the year ended 31 December 2016 was approved at the Eighth Meeting of the Second Session of the Board. The final dividend distribution shall be calculated based on the total number of Shares as at 29 May 2017 (the "Record Date") and the final cash dividend distribution shall be based on RMB0.078 per Share (inclusive of applicable tax). That distribution plan will be implemented after being reviewed and approved at the annual general meeting for the year 2016 to be held by the Company. The final dividend for the year 2016 will be paid on or before Friday, 14 July 2017 to all shareholders of the Company whose names appear on the register of members of the Company at the close of business on Monday, 29 May 2017. 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 Tuesday, 23 May 2017 for registration. For the purpose of ascertaining Shareholders who qualify for the dividend, the register of members for H Shares will be closed from Wednesday, 24 May 2017 to Monday, 29 May 2017 (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 five business days 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, on this basis, enterprise income tax shall be withheld from dividends payable to such Shareholders. If holders of H Shares intend to change their shareholder status, please enquire about the relevant procedures with their 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 (the "Extra Amount") 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 have 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 depositary 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 enterprises shall report and pay the relevant tax themselves.

5.2 Material litigation or arbitration events

During the Reporting Period, the Company is still 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 still in the evidence exchange and cross-examination phase.

During the Reporting Period, Sinopec Ningbo Engineering Company Limited, a wholly-owned subsidiary of the Company, and INEOS USA LLC ("INEOS") reached a comprehensive and final settlement in connection with the request for arbitration submitted by INEOS to Arbitration Institute of Stockholm Chamber of Commerce (the "Arbitration Request"), and INEOS has withdrawn the Arbitration Request.

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 21 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 2016, the Company abided by the provisions in the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and did not conduct any acts which deviated from such provisions.

7 Financial Report

7.1 Auditor's opinion

The consolidated financial statements for the year ended 31 December 2016 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 consolidated financial statements.

7.2 Accounting policies

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

7.3 Consolidated Financial Statements

The consolidated financial statements prepared in accordance with the IFRS for the year ended 31 December 2016:

7.3.1 Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2016	**2015**
	RMB'000	RMB'000
Revenue	39,375,434	45,498,354
Cost of sales	(35,084,752)	(39,341,320)
Gross profit	4,290,682	6,157,034
Other income	874,696	367,916
Selling and marketing expenses	(106,763)	(100,863)
Administrative expenses	(1,160,375)	(1,116,024)
Research and development costs	(1,113,083)	(1,184,956)
Other operating expenses	(849,099)	(280,384)
Other (losses)/gains - net	(1,318)	2,470
Operating profit	1,934,740	3,845,193
Finance income	493,794	466,243
Finance expenses	(75,226)	(91,678)
Finance income - net	418,568	374,565
Share of profits of joint arrangements	463	315
Share of profits of associates	15,489	19,974
Profit before taxation	2,369,260	4,240,047
Income tax expense	(706,209)	(922,064)
Profit for the year	1,663,051	3,317,983

	Year ended 31 December	
	2016	**2015**
	RMB'000	RMB'000
Other comprehensive income for the year, net of tax		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	70,441	(2,534)
Item that will not be reclassified subsequently to profit or loss:		
Losses on revaluation of retirement benefit plans obligations	(40,948)	(216,683)
Other comprehensive income/(expense) for the year, net of tax	29,493	(219,217)
Total comprehensive income for the year	1,692,544	3,098,766
Profit attributable to:		
Equity holders of the Company	1,662,880	3,317,704
Non-controlling interests	171	279
Profit for the year	1,663,051	3,317,983
Total comprehensive income attributable to:		
Equity holders of the Company	1,692,373	3,098,487
Non-controlling interests	171	279
Total comprehensive income for the year	1,692,544	3,098,766
	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	0.38	0.75

7.3.2 Consolidated Statement of Financial Position

	As at 31 December	
	2016	**2015**
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	3,974,643	4,013,878
Land use rights	2,679,021	2,740,597
Intangible assets	271,594	327,104
Investment in joint arrangements	4,593	8,131
Investment in associates	137,876	125,187
Available-for-sale financial assets	2,750	2,750
Deferred income tax assets	775,695	721,806
Total non-current assets	7,846,172	7,939,453
Current assets		
Inventories	1,196,537	1,829,647
Notes and trade receivables	9,989,626	11,870,863
Prepayments and other receivables	5,746,361	5,818,509
Amounts due from customers for contract work	5,839,435	6,660,306
Loans due from the ultimate holding company	14,100,000	11,100,000
Restricted cash	16,188	17,932
Time deposits	2,222,055	1,762,100
Cash and cash equivalents	11,861,946	11,405,560
Total current assets	50,972,148	50,464,917
Total assets	58,818,320	58,404,370

	As at 31 December	
	2016	**2015**
	RMB'000	RMB'000
EQUITY		
Share capital	4,428,000	4,428,000
Reserves	20,770,008	20,206,775
Consolidated equity attributable to equity holders of the Company	25,198,008	24,634,775
Non-controlling interests	3,908	3,737
Total equity	25,201,916	24,638,512
LIABILITIES		
Non-current liabilities		
Retirement and other supplemental benefit obligations	2,637,484	2,696,264
Provision for litigation claims	261,754	239,013
Deferred income tax liabilities	—	32,064
Total non-current liabilities	2,899,238	2,967,341
Current liabilities		
Notes and trade payables	14,217,183	16,679,058
Other payables	5,933,648	6,918,895
Amounts due to customers for contract work	10,219,486	6,939,052
Current income tax liabilities	346,849	261,512
Total current liabilities	30,717,166	30,798,517
Total liabilities	33,616,404	33,765,858
Total equity and liabilities	58,818,320	58,404,370
Net current assets	20,254,982	19,666,400
Total assets less current liabilities	28,101,154	27,605,853

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

7.4.1 Revenue

The Group's revenue is set out below:

	2016	**2015**
	RMB'000	RMB'000
Engineering, consulting and licensing	2,611,514	2,625,673
EPC Contracting	20,641,233	27,838,722
Construction	15,964,129	14,913,615
Equipment manufacturing	158,558	120,344
	39,375,434	45,498,354

7.4.2 Income Tax Expense

	2016	**2015**
	RMB'000	RMB'000
Current tax		
PRC enterprise income tax	662,894	871,164
Overseas enterprise income tax	62,076	23,402
Under-provision for income tax in prior years	58,897	45,178
	783,867	939,744
Deferred tax		
Origination and reversal of temporary differences	(77,658)	(17,680)
Income tax expense	706,209	922,064

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 2016 and 2015 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 2016 and 2015, 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:

	2016	**2015**
	RMB'000	RMB'000
Profit before taxation	2,369,260	4,240,047
Taxation calculated at the statutory tax rate	592,315	1,060,012
Income tax effects of:		
Preferential income tax treatments of certain companies	(169,633)	(321,900)
Difference in overseas profits tax rates	(8,032)	(6,557)
Non-deductible expenses	242,719	164,025
Income not subject to tax	(31,586)	(4,382)
Unrecognised tax losses	21,529	10,661
Utilisation of previously unrecognised tax losses	—	(24,973)
Under provision for income tax in prior years	58,897	45,178
Income tax expense	706,209	922,064
Effective income tax rate	29.8%	21.7%

7.4.3 Earnings Per Share

(a) Basic

The basic earnings per share for each of the years ended 31 December 2016 and 2015 is calculated based on the profit attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue.

	2016	2015
Profit attributable to equity holders of the Company (RMB'000)	1,662,880	3,317,704
Weighted average number of ordinary shares in issue	4,428,000,000	4,428,000,000
Basic earnings per share (RMB)	0.38	0.75

(b) Diluted

As the Company had no dilutive shares for the each of the years ended 31 December 2016 and 2015, dilutive earnings per share for the years ended 31 December 2016 and 2015 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 2016 and 2015.

	2016 RMB'000	2015 RMB'000
Interim dividends of RMB0.072 per ordinary share (2015: RMB0.114) [(1)]	318,816	504,792
Proposed final dividends of RMB0.078 per ordinary share (2015: RMB0.183) [(2)]	345,384	810,324

(1) Pursuant to a resolution passed at the board of Directors' meeting on 28 August 2016, the Directors authorised to declare the interim dividends for the year ended 31 December 2016 of RMB0.072 (2015: RMB0.114) per share totalling RMB318,816,000 (2015: RMB504,792,000). Interim dividends have been paid in October 2016.

(2) Pursuant to the board of Directors' meeting on 17 March 2017, the Directors recommended to declare the final dividends for the year ended 31 December 2016 of RMB0.078 per share totalling RMB345,384,000 (2015: RMB810,324,000). 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
LING Yiqun
Chairman

Beijing, the PRC
20 March 2017

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