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 2017

1 Important Notice

1.1 This announcement is extracted from the content of the 2017 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 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 2017 (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	:	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 2017	As at 31 December 2016 (restated)	As at 31 December 2015 (restated)	As at 31 December 2014	As at 31 December 2013	Changes from the end of 2016 (%)
Non-current assets	7,540,799	7,871,988	7,977,456	8,052,331	8,166,479	(4.2)
Current assets	51,864,822	51,016,799	50,490,979	44,032,264	39,198,790	1.7
Current liabilities	31,015,076	30,724,440	30,807,397	26,347,950	23,620,920	0.9
Non-current liabilities	2,799,540	2,899,238	2,967,341	2,864,071	2,764,008	(3.4)
Equity attributable to equity holders of the Company	25,586,839	25,201,201	24,689,960	22,869,116	20,976,714	1.3
Net assets per share of equity holders of the Company (RMB)	5.78	5.70	5.58	5.16	4.74	1.3

Note: "Restated" mentioned in the Annual Report is introduced based on note 2 to the financial statements contained herein since the acquisition of Sinopec Energy Saving Technology Service Co., Ltd. in August 2017 was regarded as business combination under common control.

Unit: RMB'000

Items	Year ended 31 December 2017	2016 (restated)	2015	2014	2013	Changes over the same period of 2016 (%)
Revenue	36,208,723	39,402,331	45,498,354	49,345,959	43,571,851	(8.1)
Gross profit	4,026,172	4,295,415	6,157,034	6,290,612	6,406,191	(6.3)
Operating profit	1,112,267	1,942,256	3,845,193	4,039,003	4,413,485	(42.7)
Profit before taxation	1,635,101	2,376,776	4,240,047	4,550,695	4,751,041	(31.2)
Profit attributable to equity holders of the Company	1,129,974	1,670,888	3,317,704	3,489,799	3,656,802	(32.4)
Basic earnings per share (RMB)	0.26	0.38	0.75	0.79	0.93	(32.4)
Net cash flow generated from/(used in) operating activities	4,240,508	4,670,772	5,793,143	333,312	(85,995)	(9.2)
Net cash flow generated from/(used in) operating activities per share (RMB)	0.96	1.05	1.31	0.08	(0.02)	(9.2)

Items	Year ended 31 December 2017	2016 (restated)	2015	2014	2013
Gross profit margin (%)	11.1	10.9	13.5	12.7	14.7
Net profit margin (%)	3.1	4.2	7.3	7.1	8.4
Return on assets (%)	1.9	2.8	6.0	7.0	8.7

Items	As at 31 December 2017	As at 31 December 2016 (restated)	As at 31 December 2015 (restated)	As at 31 December 2014	As at 31 December 2013
Asset-liability ratio (%)	56.9	57.1	57.8	56.1	55.7

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 RMB36.209 billion and RMB1.130 billion, respectively. As at the end of the Reporting Period, the Group's backlog was RMB91.028 billion. The value of new contracts entered into by the Group during the Reporting Period was RMB39.063 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				
	2017		2016		
	Revenue (RMB '000)	Percentage of total revenue (%)	Revenue (restated) (RMB '000)	Percentage of total revenue (%)	Change (%)
Engineering, consulting and licensing	2,843,657	7.3	2,638,411	6.2	7.8
EPC Contracting	21,056,256	53.9	20,641,233	48.5	2.0
Construction	14,601,399	37.4	18,831,222	44.3	(22.5)
Equipment manufacturing	533,657	1.4	439,885	1.0	21.3
Subtotal	39,034,969	100.00	42,550,751	100.0	(8.3)
Total (after inter-segment elimination) [1]	36,208,723	N/A	39,402,331	N/A	(8.1)

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 engineering construction and equipment manufacturing segments.

During the Reporting Period, the total revenue of the Group was RMB36.209 billion, representing a decrease of 8.1% from the same period of the previous year, which was mainly due to the year-on-year decrease of the workload of construction business and large drop of the income of the construction segment during the Reporting Period.

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				
	2017		2016		
	Revenue	**Percentage of total revenue**	Revenue (restated)	Percentage of total revenue	Change
	(RMB '000)	(%)	(RMB '000)	(%)	(%)
Oil refining	13,834,349	38.2	10,760,205	27.3	28.6
Petrochemicals	10,168,655	28.1	12,524,930	31.8	(18.8)
New coal chemicals	7,214,645	19.9	8,562,936	21.7	(15.7)
Other industries	4,991,074	13.8	7,554,260	19.2	(33.9)
Total	36,208,723	100.0	39,402,331	100.0	(8.1)

The Group derived its revenue mainly from services provided to clients in the oil refining, petrochemical, new coal chemical and other industries. During the Reporting Period, influenced by EPC contracting projects of the oil refining industry, including the Kuwait Oil Refining Project, Malaysia RAPID Oil Refining Project and etc, which entered into the peak season of procurement or construction, revenue generated from the oil refining industry was RMB13.834 billion, representing an increase of 28.6% on a year-on-year basis; influenced by the decreasing volume of business from new coal chemical industry, petrochemical industry and other industries, revenue generated from the petrochemical industry was RMB10.169 billion, representing a decrease of 18.8% on a year-on-year basis; revenue generated from the new coal chemical industry was RMB7.215 billion, representing a decrease of 15.7% on a year-on-year basis, revenue generated from other industries was RMB4.991 billion, representing a decrease of 33.9% 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				
	2017		**2016**		
	Revenue	**Percentage of total revenue**	**Revenue (restated)**	**Percentage of total revenue**	**Change**
	(RMB '000)	(%)	(RMB '000)	(%)	(%)
PRC	21,946,224	60.6	24,919,114	63.2	(11.9)
Overseas	14,262,499	39.4	14,483,217	36.8	(1.5)
Total	36,208,723	100.0	39,402,331	100.0	(8.1)

During the Reporting Period, the Group continued to expand its overseas business steadily, the proportion of the Group's overseas income increased period by period, and the revenue of the Group generated overseas was RMB14.262 billion, representing 39.4% of the total revenue, remaining broadly stable on a year-on-year basis; the revenue of the Group generated in the PRC was RMB21.946 billion, representing 60.6% of the total revenue and a decrease of 11.9% on a year-on-year basis, mainly because certain large EPC Contracting projects, such as Tianjin LNG and Zhongtian Hechuang Coal Chemical project, were almost completed and hence, the revenue decreased on a year-on-year basis.

As at the end of the Reporting Period, the backlog of the Group amounted to RMB9.1028 billion, representing an increase of 3.2% as compared with that as at 31 December 2016, and 2.5 times of the total revenue of RMB36.209 billion in 2017. During the Reporting Period, the value of new contracts amounted to RMB39.063 billion, representing a big increase of 41.7% on a year-on-year basis, completed about of the objectives of the contracts signed in 2017.

During the Reporting Period, representative domestic projects entered into by the Group included ethylene units and other relevant units project of Sinochem Quanzhou 1 Mtpa ethylene and oil refining renovation and expansion project of Sinochem Quanzhou Petrochemical Co., Ltd. ("**Sinochem Quanzhou Ethylene Project**"), Zhejiang Petrochemical Co., Ltd. signed 40 Mtpa refining-chemical integration project ("**Zhejiang Petrochemical and Refining-chemical Integration Project**"), Dalian 20 Mtpa refining-chemical integration project of Hengli Petrochemical (Dalian) Refining Co., Ltd. ("**Dalian Hengli Refining-chemical Integration Project**"), 2.6 Mtpa fluidised bed residue hydrogenation units EPC Contracting project of Sinopec Zhenhai Refining & Chemical Company ("**Zhenhai Bubbling Bed Residuum Hydrotreating Project**"), 100,000 tpa EVA Unit EPC Contracting Project of Sinopec Yangzi Petrochemical Company Ltd. ("**Yangzi Petrochemical 100,000 tpa EVA Unit Project**"), Jinan oil refining restructuring and quality upgrade for catalytic cracking unit EPC Contracting project of Sinopec Jinan Company ("**Jinan Catalytic Cracking Project**"), Ningxia synthetic gas debottlenecking and acetic acid gap-filling EPC Contracting project of Sinopec Great Wall Energy and Chemical (Ningxia) Co., Ltd. ("**Great Wall Energy and Chemical Ningxia Synthetic Gas Debottlenecking Project**"), etc.

During the Reporting Period, representative overseas projects entered into by the Group included the EPC contracting project in relation to Phase II of Abadan refinery upgrading project of National Iranian Oil Engineering and Construction Company ("**Iranian Abadan Refinery Upgrading Project Phase II EPC Contracting Project**"); the Package 3 of the project in relation to the 42 billion cubic meters per annum Amur Gas Processing Plant with Public Joint Stock Company Gazprom EPC Contracting project ("**AGPP-P3 Project**"), EPC Contracting projects of the 3rd newly-built Saudi Kayan petrochemical spare desalted water station system of ("**the 3rd Saudi Kayan Spare Desalted Water Station System Project**"), etc.

During the Reporting Period, our capital expenditure was RMB487 million, which was mainly for information system construction and constructional temporary equipment construction

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 Environmental, Social and Governance Report" from page 102 to page 105 of the Annual Report.

3.2 Business Highlights

3.2.1 Successful implementation of major projects

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, 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 end of the Reporting Period, the overall progress of the project is over half.

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, intermediate handover of the project has been implemented, in the start-up state of keeping conjunction with the owner.

Sinochem Quanzhou Ethylene Project: Please refer to the announcement dated 6 June 2017 published by the Company for further details. As at the end of the Reporting Period, the project has commenced, and the work is in orderly development.

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, about four tenths of the overall construction work of this project was completed, some tanks are being installed and overall progress is controlled.

Dalian Hengli Refining-chemical Integration Project: As at the end of the Reporting Period, the oil refining part of the project is in the overall construction stage of civil engineering, the design is finishing, some equipment has been at the scene in place, the installation of pile foundation and the first level of the construction was basically completed and the installation of the steel structure began, and the overall progress is controlled; The ethylene part of the project is in process design.

Zhejiang Petrochemical and Refining-chemical Integration Project: As at the end of the Reporting Period, the project is in the early stage of civil construction, more than half of the detailed design has been completed, the site is in the civil engineering stage, mainly pile foundation, a level of ground pipe and foundation construction, part of the Pipe Gallery steel installation began, the overall progress was controlled.

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 overall progress of the project is about 50%, of which: detailed design work is basically completed, procurement work is completed over six tenths, construction work is completed nearly three tenths.

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, about nine tenths of the overall progress of the project was completed, in which, design, procurement work has been completed, construction and installation is near the end and the commissioning work has started at the site.

FCC Project of Kazakhstan Atyrau Refinery: The scope of work under the contract for this project mainly includes Engineering, Procurement, Construction & Commissioning ("**EPCC**") of 13 process units including 2.43 Mtpa FCC units, and 47 utilities units. As at the end of the Reporting Period, the overall progress of the project is nearing completion and the final commissioning is underway.

Iranian Abadan Refinery Product Upgrading Project: As at the end of the Reporting Period, the first phase of the project is about three tenths and the field work has been started.

3.2.2 Continuous enhancement of project assurance capability being strengthened continuously

During the Reporting Period, to ensure a more efficient, orderly and safe implementation of projects, the Group largely promoted resource integration and strengthened design, subcontracting and settlement management so as to ensure projects in the PRC and foreign countries could be implemented successfully and production and operation objects could be realised successfully.

In order to strengthen the design management and establish the knowledge sharing mechanism, the Group summarises the experiences and lessons of the large-scale construction projects in recent years, compiles and publishes the Design FAQ Manual with engineering examples, and organises the design staff to exchange learning and further improve the design level of the Company.

In order to enhance the Company's project management level, adhere to the standard international first-class, the Group adopts the international general Engineering, Procurement, Construction & Commissioning (EPCC) Project organisation and role design, has a comprehensive coverage of EPCC business content, and write international project management guide.

In order to improve subcontracting management capacity, reduce costs and ensure project revenue, the Group has established and promulgated a unified construction subcontracting management system and management standards, implemented integrated management mode of subcontracting management, and further ensure the quality and safety of subcontracting works under control.

Continuously strengthen risk control, improve the Group's project settlement and inventory management work mechanism, set up a complete project inventory management data system, exert the Group's joint efforts, strengthen the project implementation process to confirm the timeliness of progress, standardize the project settlement, and improve project effectiveness.

3.2.3 Significant results in market development

During the Reporting Period, the Group exploited its overall advantages in its industry, business and technical chains, under the circumstance where domestic market environment was improved, increased home market development efforts; grasped the "Belt and Road" opportunities, strengthened financing project cultivation, and made progress in "Belt and Road" countries and regions. During the Reporting Period, the value of new contracts entered into by the Group was RMB39.063 billion, representing an increase of 41.7% on a year-on-year basis. Among which, the value of newly signed domestic contracts amounted to RMB29.070 billion, representing an increase of 69.1% on a year-on-year basis, and the value of newly signed overseas contracts amounted to approximately RMB9.993 billion, representing a decrease of 3.6% on a year-on-year basis.

In the PRC, during the Reporting Period, the Group entered into new contracts for a number of large projects, such as Sinochem Quanzhou Ethylene Project with a contract value of approximately RMB4.259 billion; Zhejiang Petrochemical and Refining-chemical Integration Project with a contract value of approximately RMB3.713 billion, Dalian Hengli Refining-chemical Integration Project with a contract value of approximately RMB2.201 billion; Zhenhai Bubbling Bed Residuum Hydrotreating Project with a contract value of approximately RMB1.376 billion; Yangzi Petrochemical 100,000 tpa EVA Unit Project with a contract value of approximately RMB996 million; Jinan Catalytic Cracking Project with a contract value of approximately RMB680 million; Great Wall Energy and Chemical Ningxia Syngas Debottleneck Project with a contract value of approximately RMB358 million.

Overseas, during the Reporting Period, the Group signed new contracts for a number of large projects, such as Iranian Abadan Refinery Upgrading Project Phase II EPC Contracting Project with a contract value of approximately RMB6.858 billion; AGPP-P3 Project, under which the Group has formed a consortium with Maire Tecnimont SpA (an Italian company) and has an equity interest of approximately 119 million euros in the contract; the 3rd Saudi Kayan Spare Desalted Water Station System Project with a total contract value of approximately USD 12.8 million, etc.

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.

3.2.4 Continuous promotion of scientific and technological innovation and technology advancement

All engineering technology R&D has been steadily promoted.

- Scientific and technological research has achieved significant results: comprehensive completion of 6 tasks of Hubei chemical fertiliser coal to ethylene glycol, Jinling boiling bed residue hydrogenation, high-voltage xlpe insulating materials, lco production of high octane gasoline, RS-2200 low-cost China V Diesel Fuel, Shanghai petrochemical PAN-carbon fibre, and achieved industrial production smoothly.

- Successful start-up or intermediate handover of 5 sets of equipment of Maoming ethylene oxide plant, Tianjin LNG, Shijiazhuang alkylation device with smooth operation of these research projects. The projects of Zhenhai coal water slurry gasification and second generation aromatic hydrocarbon energy efficiency promotion in Hainan have completed the stage goal.

- Multi-level new topics technology has great prospects: 200,000 tpa solid acid alkylation complete sets of technology, heavy raw materials to increase production of low-carbon olefins and BTX key technology, 2,000 tons of clean and efficient SE pulverised coal gasification technology industry demonstration, gas phase polypropylene products VOC removal process complete technology, Datong Plasma Treatment VOCs complete sets of technology and demonstration 5 projects finalists focus on tackling. Methane oxidation coupling to ethylene, alkylation of waste acid to sulfuric acid, sludge integrated treatment technology, large storage tanks outside the floating roof construction tooling, construction visualisation of the project and other aspects of technical improvement and innovation achieve the stage results.

The technical innovation work conducted by the R&D Centre made effective achievements.

- New situation of cooperation and innovation with each subsidiary company: At present, we have developed 65 projects with all the subsidiaries for Joint Research and Development, and have completed 24 projects, involving oil refining, chemical, new coal chemical industry, bioenergy, energy saving and environmental protection and related technologies of construction.

- Many technology development achievements were identified and approved: there were 7 projects that had passed the ministerial and provincial-level higher technical identification and assessment in 2017. Among them, 3 projects of "industrial application for reducing catalysing smoke NOX emission promoter", "normative research of on-site corrosion lacing film monitoring and data collection", and "three-mining promotor of oilfield's influence on corrosion towards oil refining device" had passed technical identification of Sinopec Group. 4 projects of "study on wastewater treatment and reuse of ethylene glycol by coal gasification and its industrial application", "A/O biochemical treatment system of ethylene glycol comprehensive wastewater by coal gasification process package", "catalytic cracking simulation optimisation software upgrade and multi-production gasoline technology" and "high standard steam pipe insulation technology development" passed the review of Sinopec Group.

- 16 key research projects made progress: "study on the second generation of catalytic diesel fuel conversion gasoline combination process", "high octane gasoline technology development of mobile bed naphtha coupled methanol production", "delayed Coking Unit reduction processing optimisation process" and other topics successfully completed the test investigation, and entered into the optimisation research stage.

Good momentum persisted in patent applications.

During the Reporting Period, the Group completed 466 new patent applications (including 224 invention patents) and licensing of 312 patents (including 134 invention patents). Highlight the focus, and continuously strengthen the field of new technology and the protection of core technical achievements and continue to improve the quality of patents.

Continuously achieving numerous fruitful results in technology innovation.

During the Reporting Period, the Group was awarded with 95 items (times) of various prizes for scientific and technological advancement above provincial/ministerial levels, including 2 projects of "coal-based oil/olefin large-scale modern coal chemical industry complete technology development and application" and "high efficiency methanol to olefins whole process technology" were awarded the first prize of national science and technology progress in 2017; "deep delayed coking technology to improve the yield of light oil" won second prize. 16 projects such as "continuous reforming new regeneration and supporting technology", "complete technology of gas-liquid fluidised bed polyethylene process" and etc obtained the annual Sinopec Technology Invention Award, Science and Technology Progress Award. 20 projects won the annual Outstanding Engineering Design Award of Sinopec Group, 11 projects won the award of quality engineering. 5 affiliated engineering companies have been named "an innovative enterprise of China Petrochemical Corporation". Science and Technology Innovation Awards fully affirmed the Group's innovative achievements, demonstrated the Company's innovative ability.

Enterprise reform continues to deepen

The Group continues to tap the advantages of integration, and promote the optimisation and integration of internal resources. During the Reporting Period, the Group formed the Soil Management Centre of SINOPEC SEG, build the Company's soil management professional team, set up the Company's soil management technology integration platform, market development platform and project co-ordination platform, and formed the Equipment Technology Centre of SINOPEC SEG, which will vigorously promote the Company's manufacturing business to achieve high-end transformation development.

The Group continues to promote innovation and development, aiming at incremental business, looking for new profit growth points. During the Reporting Period, the Group completed the first mergers and acquisitions since the IPO, successfully acquired 100% equity of Sinopec Energy Saving Technology Service Co., Ltd. held by Sinopec Consulting Company. The Group plans to make Sinopec Energy Saving Technology Service Co., Ltd. become the Group's energy saving engineering and technical resources platform, and its contract body to contract energy management project.

3.2.5 Continuous expansion of the energy saving and environmental protection business

Attaching great importance to the exploration of the energy saving and environmental protection 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, equipment process flow and heat exchange network optimisation, device-to-device system thermal integration optimisation, and key energy dissipation equipment advanced technology optimisation, low temperature utilisation, etc. The Group was actively involved in Sinopec's "Clear Water & Blue Sky Plan" and "Energy Efficiency Doubling Plan", and actively 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 into new environmental protection business contracts valued at RMB1.234 billion, which was mainly from flue gas desulfurisation and denitrification projects, and new energy saving business contracts valued at approximately RMB36.74 million, which was mainly from energy saving reform projects.

In terms of energy saving business development, the Group has focused on energy and chemical Industry contract energy management, energy saving engineering services, energy saving technical advice and services, energy saving investment, energy saving policy-related topics such as research, provide customers with one-stop, overall energy saving technology services. The Group actively promoted the contract energy management business, successfully implemented a number of contract energy management projects, had access to a number of financial incentives and greater tax relief, is promoting dozens of contracts for energy management, and some projects have been engaged in contract negotiations. The Group is actively engaged in energy saving technology exchanges and cooperation, and further enhance the overall advantages in the field of energy saving services, making efforts to green low-carbon, energy saving emission reduction embodied in the design of digital and intelligent factory, promote the deep integration of energy and modern information technology, and promote the change of energy production management and consumption patterns.

In terms of environmental protection business development, the Group has continued to promote the development of soil management business, and is developing a number of soil management projects, some have completed the pilot. Communicate with the United States, Germany, Czech and other countries, continue to improve soil management technology reserves; actively explore new energy market, carry out the construction of the industrial demonstration project for ten thousand tons of biomass gasoline and carry out the exchange and cooperation of bio-ethanol projects; carry out million-ton CO_2 capture and utilisation cooperation, conduct research of the plan of CO_2 electrochemical conversion and utilisation of industrialisation, lay the foundation for entering the market for carbon emission reduction and carbon trading.

3.2.6 Smooth construction and implementation of ERP system

During the Reporting Period, the Group completed all the on-line promotion of all domestic business ERP of the subsidiaries, basically built a core management platform with ERP as the core, and the innovation of the ERP construction mode of the Group filled the blank of the application of domestic engineering industry ERP system full business chain. The Group's ERP project covers a comprehensive range of engineering technology research, design, procurement, manufacture, construction of business applications, project-level profit centre management mechanism, achieves the implementation of the ERP system construction contract accounting, promotes the Project Master contract, Subcontract, procurement contract "connection", and promotes financial contracts, project contracts, and the market development contract "tight coupling", has promoted "strong link" of the project progress inspection and confirmation of the income and the cost, as well as has promoted the "hard correlation" of process project progress, subcontract, purchase and cost accounting. The result of ERP construction is remarkable, and it has precipitated technology, accumulated experience for other large system and large platforms, and laid a solid foundation for the Group's informatisation development.

3.2.7 Continuous promotion of production safety

During the Reporting Period, regarding QHSE (quality, health, safety and environment) management, with long-term mechanism construction as the leader, and tamping "three-base management" and strengthening risk prevention and control as the main line, adhere to people-oriented, pay attention to continuous improvement, focus on QHSE system management and quality safety main responsibility implementation, push forward quality and safety standardisation construction and essential security capacity building, pass multi-level training and deepen the design of the essence of safety management, strengthen supervision and inspection, carry out in-depth implementation of quality promotion activities and other measures, and constantly strengthen QHSE control, lay a more solid foundation for management, and control overall situation of quality, safety and external public security.

As at the end of the Reporting Period, no safety, quality, environment, occupational health and overseas public security accident had happened in the project under execution as a result of the conscientiousness and strict management of all employees of the Group, and 197.64 million safe man-hours had been realised in accumulation.

3.3 Business Prospects

Looking ahead to 2018, the world economy is expected to continue to grow, and China's economy will continue to develop steadily in a high degree of integration with the world economy. The international oil market is accelerating rebalancing in 2018, and the extension of the reduction agreement has injected more confidence into the recovery and rebalancing of the oil market, but oil demand and non-OPEC supply uncertainties have increased and international oil prices have remained volatile. In 2018, the global industry investment is expected to be difficult to achieve significant growth, some projects in the national seven petrochemical industry base and Sinopec Group's four world-class refining bases will have substantial progress, production and management situation in the domestic refining, chemical engineering industry will be significantly improved. As long as the Group seizes the opportunity to overcome the challenges, better and faster development can be achieved in the new phase.

In 2018, the Group will actively grasp the improvement of the domestic market situation, 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 2018, the target domestic new contract value of the Group is RMB38 billion, and the target overseas new contract value is USD1.5 billion.

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

The Group will further strengthen the top level design of the reform and development, promote the reform work; continue to carry out resource optimisation work, sum up the previous work experience and lessons, continue to rely on mature resources, according to specialisation, differentiation principle, the Group will build a unified, shared, efficient and coordinated Service Support Centre and Business Specialisation Development Centre, promote the healthy development of the Group's incremental business, enhance the overall effectiveness of the Group, promote regional resource optimisation, achieve complementary advantages of engineering companies and construction enterprises, create a total force, reduce marginal costs, and improve overall efficiency and competitiveness; stick to the standard of well-known engineering companies, position around the Company's function and according to the principle of flattening and streamlining, the Company will continue to optimise and adjust the Company's organisational structure.

3.3.2 Actively explore transformational development to expand new market scope and business modes

The Group will adhere to the green low-carbon development strategy, and vigorously expand new business areas and new business models. Actively develop biomass gasoline, bio-ethanol and other renewable energy fields, promote the development of new coal chemical market, accelerate into the field of carbon emission reduction and carbon trading with CO_2 capture and utilisation as an opportunity, seize the favourable opportunity of natural gas market, vigorously explore natural gas purification plant, pipeline, receiving station and other engineering markets. Try to help the market development through money-driven ways, try to participate in sewage treatment, industrial park, infrastructure construction, and other PPP projects, explore participation and investment of ancillary engineering companies, patent operators and suppliers in a variety of ways, and achieve efficient and accurate development.

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

The Group will take the benefit as the centre, while safety can be assured, and quality, progress can be controlled, highlight the benefit guidance. Continuously promote design optimization work, strengthen the design of the professional infrastructure, optimize the design process, improve the overall efficiency of the design, play the role of design leading, in ensuring the standard is not reduced, reduce the design margin, avoid quality excess, save project costs from the source; continuously promote the effective interface of design and procurement, as well as construction, strengthen the support of design for procurement and construction, and improve the EPC contracting capacity and returns on projects.

Strengthen process management, and control project inventory and receivable level. Strengthen progress confirmation and settlement management, strict visa and claim management, increase project revenue, have strict settlement and revenue recognition of the subcontractors during the process, control planning cost expenditure, control project cost, and improve project benefit.

Continue to deepen subcontracting management, strengthen supervision, and ensure the implementation of subcontracting management system in place. Complete the construction of subcontracting information platform and promote the operation, optimise the subcontract resources, enlarge the cultivation of A level subcontractor, strengthen subcontractors' appraisal, implement fittest appraisal mechanism, while guaranteeing safety and quality of the subcontract project controllable, diligently reduce subcontract cost.

3.3.4 Holding onto the strategic opportunity of the "Belt and Road" initiative to solidly advance global development.

The Group will hold fast to the opportunity of "Belt and Road" strategic initiative, give play to the internal integration advantages of the Group, 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. The Group will strengthen financing project cultivation, closely exchange with the state-related government departments, and actively expand to the high-end business areas, actively try to make Chinese refining technology and equipment "go out" and show the strength and level of the Group.

3.3.5 Focus on technology progression to protect and enhance the industry's leading position

The Group will be guided by the requirements of technology market, protect the Group's leading position through continuous access to technological progress, create business growth through technical innovation, strengthen technical control to support the Group's current situation. Improving and upgrading the ability to build world-class factory is the Group's general requirement. Technical work should firmly grasp two main lines-"technology management for project implementation services, technical innovation for market development services".

With the technical features of the Group in the petrochemical industry, new coal chemical industry, medicine, inorganic chemical industry and large scale construction technology as the turning point, around the Group's development strategy, actively carry out the source of technology, strengthen the work, improve the level and efficiency of research and development, especially the cooperation in the field of environmental engineering technology, and make use of external resources to create a win-win situation.

Utilise the innovative resources of the research and development centre, form a network of innovative technologies, enhance the sharing and application efficiency of innovative resources, talents and new technology achievements in the Group, and realise the leading role of technological innovation in the development of the Group.

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

The Group will take energy conservation and environmental protection as a breakthrough, play the synergies of energy saving companies and other subsidiaries, and actively use the energy saving enterprises to carry out the diagnosis, promote the work of contract energy management project; establish the platform of soil governance synergy work, bring the role of soil governance centre professional agency into play, actively keep trace of the project of soil governance, and do well in technical recommendation and market development. Continue to increase market development of VOCs management of refinery enterprises, flue gas ultra net discharge, sewage discharge, industrial solid waste treatment and so on, explore and establish energy conservation fund, drive the social capital with small investment, promote contract energy business jointly, enhance the contract environment management, contract energy management project's operational efficiency, strengthen the risk management, and make energy saving and environmental protection business quickly become the Company's new profit growth point.

3.3.7 Promote the establishment of modern human resource management system

The Group attaches importance to the integration of enterprise strategy, enterprise culture and human resource management, based on the target management, with key performance indicators as the core content, is gradually establishing a normative, adaptable to market economy, systematic strategic human resources management system.

The Group will optimise the allocation of human resources, further improve the labour management, combine with enterprise employment needs and business characteristics, and gradually establish its staff management mechanism of controllable staff scale and flexible employment management, which cannot only orderly control staff size, but also meet the Group project construction's needs of human resources.

The Group will improve the remuneration system, and stimulate the enterprise to create effective power, with optimising the Company's market-oriented compensation system as the goal, and further improve the pay distribution mechanism which can be increased and reduced, in accordance with benefit-oriented principle, establish the management measure of total pay adjustment with dynamic income, and increase payroll with the income of the enterprise and explore the possibility of carrying out the new plan of stock increment right.

3.3.8 Improve the application level of information management in an all-round way

The Group will proceed in accordance with "overall promotion, integration of development, integrated sharing, collaborative intelligence" information work policy, follow the "six unified" and "integration" information construction principles, with building a world-class engineering company as the target, "ERP" and "Digital Factory" as the main directions, make full use of cloud computing, Internet of Things, big data, artificial intelligence and other information technologies, build integrated and shared management platform, collaborative intelligent project execution platform, interconnected efficient digital factory platform, agile security technology support platform, establish a complete and effective information standardisation system and information security management system, form a scientific and efficient information-based control mechanism, and make efforts to greatly improve the Group's overall information capacity and the depth of integration, continue to keep the leading position of industry information, and some fields should be internationally leading.

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 below, unless otherwise stated, were extracted from the Group's audited financial statements prepared according to the IFRS.

4.1.1 Revenue

The revenue of the Group decreased by 8.1% from RMB39.402 billion for the year ended 31 December 2016 to RMB36.209 billion for the year ended 31 December 2017, which was mainly due to the year-on-year decrease of the workload of construction business and large drop of the income of the construction segment during the Reporting Period.

4.1.2 Cost of sales

The cost of sales of the Group decreased by 8.3% from RMB35.107 billion for the year ended 31 December 2016 to RMB32.183 billion for the year ended 31 December 2017, mainly due to the decrease in revenue as well as the decrease in the cost.

4.1.3 Gross profit

The gross profit of the Group decreased by 6.3% from RMB4.295 billion for the year ended 31 December 2016 to RMB4.026 billion for the year ended 31 December 2017, mainly due to falling incomes. Gross profit margin was 11.1%, and remaining broadly stable on a year-on-year basis.

4.1.4 Other income

The other income of the Group decreased by 79.0% from RMB878 million for the year ended 31 December 2016 to RMB185 million for the year ended 31 December 2017, mainly due to the exchange losses caused by the decline of the USD/RMB exchange rate during the Reporting Period, and the exchange gains achieved in the same period last year.

4.1.5 Selling and marketing expenses

The selling and marketing expenses of the Group increased from RMB107 million for the year ended 31 December 2016 to RMB115 million for the year ended 31 December 2017, remaining broadly stable on a year-on-year basis.

4.1.6 Administrative expenses

The administrative expenses of the Group increased from RMB1.161 billion for the year ended 31 December 2016 to RMB1.181 billion for the year ended 31 December 2017, 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 by 9.9% from RMB1.113 billion for the year ended 31 December 2016 to RMB1.003 billion for the year ended 31 December 2017, which was mainly due to the decrease in research and development projects.

4.1.8 Other operating expenses

The other operating expenses of the Group decreased by 6.0% from RMB849 million for the year ended 31 December 2016 to RMB798 million for the year ended 31 December 2017, which is mainly due to decrease in provision for impairment on year-on-year basis.

4.1.9 Other losses - net

The net other losses of the Group increased from loss of RMB0.001 billion for the year ended 31 December 2016 to loss of RMB0.002 billion for the year ended 31 December 2017, remaining broadly stable on a year-on-year basis.

4.1.10 Operating profit

Due to the foregoing reasons, the operating profit of the Group decreased by 42.7% from RMB1.942 billion for the year ended 31 December 2016 to RMB1.112 billion for the year ended 31 December 2017.

4.1.11 Financial income - net

The net finance income of the Group increased by 22.0% from RMB419 million for the year ended 31 December 2016 to RMB510 million for the year ended 31 December 2017, mainly due to the increase in interest income receivable from the final holding company over a year earlier.

4.1.12 Income tax expense

The Group's income tax expense decreased by 28.5% from RMB706 million for the year ended 31 December 2016 to RMB505 million for the year ended 31 December 2017, mainly due to year-on-year reduction of pre-tax profit of the Group. Effective income tax rate increased from 29.7% to 30.9% on a year-on-year basis. Change of effective income tax rate is mainly because of 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 32.4% from RMB1.671 billion for the year ended 31 December 2016 to RMB1.130 billion for the year ended 31 December 2017.

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 41.3% from RMB1.701 billion for the year ended 31 December 2016 to RMB998 million for the year ended 31 December 2017.

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 2017 (RMB '000)	As at 31 December 2016 (RMB '000)	Change (%)
Engineering, consulting and licensing	7,838,104	6,977,048	12.3
EPC Contracting	67,712,961	68,930,902	(1.8)
Construction	14,896,489	12,110,670	23.0
Equipment manufacturing	580,390	154,642	275.3
Total	91,027,944	88,173,262	3.2

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 2017 (RMB '000)	As at 31 December 2016 (RMB '000)	Change (%)
Oil refining	32,541,555	32,215,821	1.0
Petrochemicals	24,224,871	17,649,823	37.3
New coal chemicals	15,386,301	20,227,322	(23.9)
Other industries	18,875,217	18,080,296	4.4
Total	91,027,944	88,173,262	3.2

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

	As at 31 December 2017 (RMB '000)	As at 31 December 2016 (RMB '000)	Change (%)
PRC	62,728,624	55,604,482	12.8
Overseas	28,299,320	32,568,780	(13.1)
Total	91,027,944	88,173,262	3.2

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 2017 (RMB '000)	As at 31 December 2016 (RMB '000)	Change (%)
Sinopec Group and its associates	37,667,990	37,802,158	(0.4)
Non-Sinopec Group and its associates	53,359,954	50,371,104	5.9
Total	91,027,944	88,173,262	3.2

As at 31 December 2017, the Group's backlog was RMB91.028 billion, representing an increase of 3.2% from that as at 31 December 2016, and 2.5 times of the total revenue of RMB36.209 billion in 2017.

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		
	2017	**2016**	**Change**
	(RMB '000)	(RMB '000)	(%)
Engineering, consulting and licensing	3,704,714	2,652,723	39.7
EPC Contracting	19,838,314	10,911,030	81.8
Construction	14,685,028	13,801,475	6.4
Equipment manufacturing	835,348	198,585	320.7
Total	39,063,404	27,563,813	41.7

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		
	2017	**2016**	**Change**
	(RMB '000)	(RMB '000)	(%)
Oil refining	14,160,084	10,024,575	41.3
Petrochemicals	16,743,703	7,444,181	124.9
New coal chemicals	2,373,623	2,559,285	(7.3)
Other industries	5,785,994	7,535,772	(23.2)
Total	39,063,404	27,563,813	41.7

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		
	2017	2016	Change
	(RMB '000)	(RMB '000)	(%)
PRC	29,070,365	17,193,356	69.1
Overseas	9,993,039	10,370,457	(3.6)
Total	39,063,404	27,563,813	41.7

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		
	2017	2016	Change
	(RMB '000)	(RMB '000)	(%)
Sinopec Group and its associates	13,029,781	10,091,361	29.1
Non-Sinopec Group and its associates	26,033,623	17,472,452	49.0
Total	39,063,404	27,563,813	41.7

During the Reporting Period, the value of the new contracts was RMB39.063 billion, representing an increase of 41.7% 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 2017	As at 31 December 2016 (restated)	Changes
Total assets	59,405,621	58,888,787	516,834
Current assets	51,864,822	51,016,799	848,023
Non-current assets	7,540,799	7,871,988	(331,189)
Total liabilities	33,814,616	33,623,678	190,938
Current liabilities	31,015,076	30,724,440	290,636
Non-current liabilities	2,799,540	2,899,238	(99,698)
Non-controlling interests	4,166	3,908	258
Net assets	25,591,005	25,265,109	325,896
Equity attributable to equity holders of the Company	25,586,839	25,261,201	325,638
Share capital	4,428,000	4,428,000	0.00
Reserves	21,158,839	20,833,201	325,638

As at the end of the Reporting Period, the total assets of the Group were RMB59.406 billion, the total liabilities were RMB33.815 billion, the non-controlling interests were RMB4 million, and the equity attributable to the equity holders of the Company was RMB25.587 billion. The changes in the assets and liabilities as compared with those at the end of 2016 and the main reasons are as follows:

As at the end of the Reporting Period, the total assets were RMB59.406 billion, increased by RMB517 million as compared with that as at the end of 2016. In particular, the current assets were RMB51.865 billion, increased by RMB848 million as compared with that as at the end of 2016, mainly due to the fixed deposits with financial institutions increased by RMB2.184 billion, loans due from the ultimate holding company recorded a growth of RMB1.4 billion, an increase of RMB214 million for amounts due from customers for contract work, the advance payment and other receivables decreased by RMB1.779 billion, a decrease of RMB614 million for inventory, a decrease of RMB317 million for notes and trade receivables, the decrease in cash and cash equivalents was RMB239 million; the non-current assets were RMB7.541 billion, decreased by RMB331 million as compared with that as at the end of 2016, mainly due to a decrease of depreciation and amortisation for the non-current assets.

As at the end of the Reporting Period, the total liabilities were RMB33.815 billion, increased by RMB191 million as compared with that as at the end of 2016. In particular, the current liabilities were RMB31.015 billion, increased by RMB291 million as compared with that as at the end of 2016, mainly due to the other payable items increased by RMB927 million, the fellow subsidiary lendings payable increased by RMB431 million, amounts due to customers for contract work decreased by RMB726 million, the decrease of RMB204 million in notes and trade payables; the non-current liabilities were RMB2.800 billion, decreased by RMB100 million as compared with that as at the end of 2016, mainly due to the decrease of RMB101 million in retirement and other supplemental benefit obligations.

The total equity attributable to shareholders of the Company was RMB25.587 billion, increased by RMB326 million as compared with that as at the end of 2016, 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 RMB260 million and net cash generated from operating activities was RMB4.566 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 2017 and 2016, respectively.

Units: RMB'000

	Year ended 31December	
	2017	**2016**
Major items of cash flow		(restated)
Net cash generated from operating activities	4,240,508	4,670,772
Net cash used in investing activities	(3,801,257)	(3,449,715)
Net cash used in financing activities	(179,063)	(1,130,652)
Net increase in cash and cash equivalents	260,189	40,405

During the Reporting Period, the profit before taxation was RMB1.635 billion, and the profit was RMB2.508 billion after adjusting the items in expenses that did not affect the cash flow in operating activities. Major non-cash expense items are: depreciation, depletion and amortisation were RMB746 million, exchange losses amounted to RMB612 million, impairment of trade and other receivables was RMB96 million, net interest income and expenditure was RMB572 million, loss caused by sale of property, plants, and equipment was RMB2 million. The changes in working capital, which caused a cash inflow of RMB2.181 billion in operating activities, are mainly shown in: reduced inventory balance, causing the cash inflow from operating activities of RMB614 million; reduced trade and other receivables balance, causing the cash inflow from operating activities of RMB2.041 billion; trade and other payables balance was added, causing the cash inflow from operating activities of RMB465 million; the balance of contract work-in-progress was added, and thus resulted in the cash outflow generated from operating activities of RMB940 million.

After adjusting non-cash items, receivables and payables for the profit before taxation, and deducting the income tax paid amounting to RMB584 million, increasing received interests amounting to RMB136 million and the net cash generated from operating activities was RMB4.241 billion.

Net cash used in investing activities was RMB3.801 billion, mainly due to the fact that RMB2.415 billion in cash was used for the Group to handle fixed deposit investment of third-party financial institutions, and RMB1.4 billion in cash was used for lending money to the ultimate holding company.

Net cash used in financing activities was RMB179 million, mainly due to the fact that RMB431 million in cash was gained from fellow affiliated subsidiaries lendings and RMB595 million in cash was used for 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	
	2017	**2016**
Main financial ratios		(restated)
Net profit margin (%)	3.1	4.2
Return on assets (%) [(1)]	1.9	2.8
Return on equity (%) [(2)]	4.4	6.6
Return on invested capital (%) [(3)]	4.6	6.8

	As at 31 December 2017	As at 31 December 2016
Main financial ratios		(restated)
Gearing ratio (%) [(4)]	1.7	0.0
Net debt to equity ratio (%) [(5)]	net cash	net cash
Current ratio (%) [(6)]	1.7	1.7
Quick ratio (%) [(7)]	1.7	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 = $\dfrac{\text{Earnings before interest and tax (EBIT) for the year x (1 - effective income tax rate)}}{\text{Total interest bearing debt at the end of the year - Credit loans + Total equity at the end of the year}}$

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

(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

During the Reporting Period, the Group's return on assets decreased to 1.9% from 2.8% in the same period of the previous year, mainly due to the decrease in net profit during the Reporting Period and the increase in average total assets at the end of the Reporting Period.

Return on equity

The Group's return on equity decreased to 4.4% from 6.6% for the same period in 2016, mainly due to the decrease in net profit during the Reporting Period and the increase in equity at the end of the year.

Return on invested capital

The Group's return on invested capital decreased to 4.6% from 6.8% for the same period in 2016, mainly due to the decrease in net profit during the Reporting Period and the increase in equity and interest-payment due amounts at the end of the year.

Gearing ratio

The Group's gearing ratio is 1.7%, attributable to the Group's fellow affiliated subsidiary lendings as at the end of the Reporting Period.

Net debt to equity ratio

The Group maintained positive net cash as at 31 December 2016 and as at 31 December 2017.

Current ratio

The Group's current ratio was 1.7, remaining stable on a period-on-period basis.

Quick ratio

The Group's quick ratio was 1.7, remaining broadly stable on a period-on-period basis.

5 Significant Events

5.1 Dividends

At the annual general meeting for the year 2016 convened on 6 May 2017, an ordinary resolution was passed to approve the authorisation to the Board to determine the interim profit distribution plan for the year 2017. The dividend distribution plan of RMB0.056 per share (inclusive of applicable tax) for the six months ended 30 June 2017 was approved at the Tenth Meeting of the Second Session of the Board convened on 18 August 2017. The dividend distribution plan was implemented.

The final dividend distribution plan for the year ended 31 December 2017 was approved at the Twelfth 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 2018 (the "**Record Date**") and the final cash dividend distribution shall be based on RMB0.144 per Share (inclusive of applicable tax). That distribution plan will be implemented after being reviewed and approved at the annual general meeting on 8 May 2018 to be held by the Company. The final dividend for the year 2017 will be paid on or before Friday, 13 July, 2018 to all shareholders of the Company whose names appear on the register of members of the Company at the close of business on Tuesday, 29 May 2018. 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 Wednesday, 23 May 2018 for registration. For the purpose of ascertaining Shareholders who qualify for the dividend, the register of members for H Shares will be closed from Thursday, 24 May 2018 to Tuesday, 29 May 2018 (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, 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 (hereinafter referred to as 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. 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 (including enterprises and individuals) investing in the H Shares (the "**Southbound Trading**") of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange, 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) (《關於滬港通股票市場交易互聯互通機制試點關稅收政策的通知》(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

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.

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 22 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 2017, 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 financial statements for the year ended 31 December 2017 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 2017:

7.3.1 Consolidated Statement of Comprehensive Income

	For the year ended 31 December 2017	
	2017	**2016**
	RMB'000	RMB'000
		(Restated)
Revenue	36,208,723	39,402,331
Cost of sales	(32,182,551)	(35,106,916)
Gross profit	4,026,172	4,295,415
Other income	184,718	877,973
Selling and marketing expenses	(114,836)	(106,763)
Administrative expenses	(1,181,032)	(1,160,869)
Research and development costs	(1,002,907)	(1,113,083)
Other operating expenses	(797,788)	(849,099)
Other losses - net	(2,060)	(1,318)
Operating profit	1,112,267	1,942,256
Finance income	600,926	493,794
Finance expenses	(90,432)	(75,226)
Finance income - net	510,494	418,568
Share of (loss)/profit of joint arrangements	(1,372)	463
Share of profit of associates	13,712	15,489
Profit before taxation	1,635,101	2,376,776
Income tax expense	(504,869)	(705,717)
Profit for the year	1,130,232	1,671,059

	For the year ended 31 December 2017	
	2017	**2016**
	RMB'000	RMB'000
		(Restated)
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	(119,110)	70,441
Item that will not be reclassified subsequently to profit or loss:		
Losses on revaluation of retirement benefit plans obligations	(12,984)	(40,948)
Other comprehensive (expense)/income for the year, net of tax	(132,094)	29,493
Total comprehensive income for the year	998,138	1,700,552
Profit attributable to:		
Equity holders of the Company	1,129,974	1,670,888
Non-controlling interests	258	171
Profit for the year	1,130,232	1,671,059
Total comprehensive income attributable to:		
Equity holders of the Company	997,880	1,700,381
Non-controlling interests	258	171
Total comprehensive income for the year	998,138	1,700,552
	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	0.26	0.38

7.3.2 Consolidated Statement of Financial Position

	31 December 2017 RMB'000	31 December 2016 RMB'000 (Restated)	1 January 2016 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	3,855,852	4,000,459	4,051,881
Land use rights	2,580,781	2,679,021	2,740,597
Intangible assets	223,440	271,594	327,104
Investment in joint arrangements	3,221	4,593	8,131
Investment in associates	123,788	137,876	125,187
Available-for-sale financial assets	2,750	2,750	2,750
Deferred income tax assets	750,967	775,695	721,806
Total non-current assets	7,540,799	7,871,988	7,977,456
Current assets			
Inventories	582,257	1,196,537	1,829,647
Notes and trade receivables	9,676,444	9,993,241	11,870,863
Prepayments and other receivables	3,970,334	5,749,323	5,818,519
Amounts due from customers for contract work	6,053,340	5,839,435	6,660,306
Loans due from the ultimate holding company	15,500,000	14,100,000	11,100,000
Restricted cash	16,087	16,188	17,932
Time deposits	4,405,700	2,222,055	1,762,100
Cash and cash equivalents	11,660,660	11,900,020	11,431,612
Total current assets	51,864,822	51,016,799	50,490,979
Total assets	59,405,621	58,888,787	58,468,435

	31 December 2017 RMB'000	31 December 2016 RMB'000 (Restated)	1 January 2016 RMB'000 (Restated)
EQUITY			
Share capital	4,428,000	4,428,000	4,428,000
Reserves	21,158,839	20,833,201	20,261,960
Equity attributable to equity holders of the Company	25,586,839	25,261,201	24,689,960
Non-controlling interests	4,166	3,908	3,737
Total equity	25,591,005	25,265,109	24,693,697
LIABILITIES			
Non-current liabilities			
Retirement and other supplemental benefit obligations	2,536,615	2,637,484	2,696,264
Provision for litigation claims	262,925	261,754	239,013
Deferred income tax liabilities	—	—	32,064
Total non-current liabilities	2,799,540	2,899,238	2,967,341
Current liabilities			
Notes and trade payables	14,020,233	14,224,292	16,689,805
Other payables	6,860,590	5,933,158	6,916,440
Amounts due to customers for contract work	9,493,684	10,219,486	6,939,052
Loans due to a fellow subsidiary	431,257	—	—
Current income tax liabilities	209,312	347,504	262,100
Total current liabilities	31,015,076	30,724,440	30,807,397
Total liabilities	33,814,616	33,623,678	33,774,738
Total equity and liabilities	59,405,621	58,888,787	58,468,435
Net current assets	20,849,746	20,292,359	19,683,582
Total assets less current liabilities	28,390,545	28,164,347	27,661,038

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:

	2017	2016
	RMB'000	RMB'000
		(Restated)
Engineering, consulting and licensing	2,843,657	2,638,411
EPC Contracting	21,056,256	20,641,233
Construction	11,899,210	15,964,129
Equipment manufacturing	409,600	158,558
	36,208,723	39,402,331

7.4.2 Income Tax Expense

	2017	2016
	RMB'000	RMB'000
		(Restated)
Current tax		
PRC enterprise income tax	344,656	662,894
Overseas enterprise income tax	113,373	62,076
Under-provision for income tax in prior years	24,232	58,405
	482,261	783,375
Deferred tax		
Origination and reversal of temporary differences (Note 36)	22,608	(77,658)
Income tax expense	504,869	705,717

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 2017 and 2016 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 2017 and 2016, 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:

	2017	**2016**
	RMB'000	RMB'000 (Restated)
Profit before taxation	1,635,101	2,376,776
Taxation calculated at the statutory tax rate	408,775	594,194
Income tax effects of:		
Preferential income tax treatments of certain companies	(118,051)	(169,633)
Difference in overseas profits tax rates	(12,294)	(8,032)
Non-deductible expenses	218,797	242,719
Income not subject to tax	(25,517)	(31,586)
Unrecognised tax losses	13,327	19,650
Utilisation of previously unrecognised tax losses	(4,400)	—
Under provision for income tax in prior years	24,232	58,405
Income tax expense	504,869	705,717
Effective income tax rate	30.9%	29.7%

7.4.3 Earnings Per Share

(a) Basic

The basic earnings per share for each of the years ended 31 December 2017 and 2016 is calculated based on the profit attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue.

	2017	**2016** (Restated)
Profit attributable to equity holders of the Company (RMB'000)	1,129,974	1,670,888
Weighted average number of ordinary shares in issue	4,428,000,000	4,428,000,000
Basic earnings per share (RMB)	0.26	0.38

(b) Diluted

As the Company had no dilutive shares for the each of the years ended 31 December 2017 and 2016, dilutive earnings per share for the years ended 31 December 2017 and 2016 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 2017 and 2016.

	2017 RMB'000	**2016** RMB'000
Interim dividends of RMB0.056 per ordinary share (2016: RMB0.072) [(1)]	247,968	318,816
Proposed final dividends of RMB0.144 per ordinary share (2016: RMB0.078) [(2)]	637,632	345,384

(1) Pursuant to a resolution passed at the board of Directors' meeting on 28 August 2017, the Directors authorised to declare the interim dividends for the year ended 31 December 2017 of RMB0.056 (2016: RMB0.072) per share totalling RMB247,968,000 (2016: RMB318,816,000). Interim dividends have been paid in October 2017.

(2) Pursuant to the board of Directors' meeting on 16 March 2018, the Directors recommended to declare the final dividends for the year ended 31 December 2017 of RMB0.144 per share totalling RMB637,632,000 (2016: RMB345,384,000). 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
19 March 2018

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.