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中石化煉化工程(集團)股份有限公司
SINOPEC Engineering (Group) Co., Ltd.*

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

(Stock Code: 2386)

2018 Interim Results Announcement

1 Important Notice

- 1.1 This announcement is extracted from the content of the 2018 interim report (the “**Interim 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 SINOPEC SEG (www.segroup.cn). The investors should read the Interim Report for more details.
- 1.2 The interim financial statements for the six months ended 30 June 2018 (the “**Reporting Period**”) of SINOPEC SEG and its subsidiaries (the “**Group**”), prepared in accordance with the International Financial Reporting Standards (“**IFRS**”), were audited by Grant Thornton Hong Kong Limited, which has issued standard unqualified audit report.

* For identification purposes only.

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 Exchange
Legal Representative	:	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	:	Building 8, Shengujiayuan, Shenggu Middle Road, Chaoyang District, Beijing, the PRC (Postcode: 100029)
Telephone	:	+86 10 5673 0222
Website	:	www.segroup.cn
E-mail address	:	seg.ir@sinopec.com

2.2 Principal Financial Data and Indicators

Summary of Financial Data and Indicators Prepared in Accordance with IFRS

Unit: RMB'000

Items	As at 30 June 2018	As at 31 December 2017	Changes from the end of 2017 (%)
Total assets	61,155,035	59,405,621	2.9
Consolidated equity attributable to equity holders of the Company	25,936,402	25,586,839	1.4
Net assets per share of equity holders of the Company (RMB)	5.86	5.78	1.4

Unit: RMB'000

Items	Six-month periods ended 30 June		Changes over the same period of 2017 (%)
	2018	2017	
Revenue	18,335,880	13,764,426	33.2
Gross profit	1,921,486	2,213,384	(13.2)
Operating profit	997,847	843,605	18.3
Profit before taxation	1,335,904	1,063,567	25.6
Profit attributable to equity holders of the Company	1,107,565	834,875	32.7
Basic earnings per share (RMB)	0.25	0.19	32.7
Net cash flow used in operating activities	(1,032,823)	(736,076)	40.3
Net cash flow used in operating activities per share (RMB)	(0.23)	(0.17)	40.3

Items	Six-month periods ended 30 June	
	2018	2017
Gross profit margin (%)	10.5	16.1
Net profit margin (%)	6.0	6.1
Return on assets (%)	1.8	1.4
Return on equity (%)	4.3	3.2
Return on invested capital (%)	4.3	3.3

Items	As at 30 June 2018	As at 31 December 2017
	2018	2017
Asset-liability ratio (%)	57.6	56.9

3 Business Review and Prospects

In the first half of 2018, the Group has obtained better operation performance by making energetic efforts to develop domestic and foreign markets, strengthening its management and control of projects and improving the level of elaborate management. During the Reporting Period, the Group recognised a revenue of RMB18.336 billion, representing an increase of 33.2% on a period-on-period basis, with the Group's profits attributable to equity holders being RMB1.108 billion, representing an increase of 32.7% on a period-on-period basis. The ongoing projects of the Group have been implemented steadily, and the safety, quality and progress of such projects have been under full control. In the first half of 2018, a portion of the seven national major petrochemical industrial bases projects has started in succession; projects such as Zhongke Guangdong oil refining and chemical integrated complex project (hereinafter referred to as the "Zhongke Guangdong Integrated Project") which is one of "four world-class oil refining and chemical bases" of Sinopec Group have entered construction phase, and domestic market environment is taking a continuously favorable turn. During the Reporting Period, the total value of new contracts entered into by the Group was RMB35.484 billion, representing an increase of 99.7% on a period-on-period basis; and by the end of the Reporting Period, the Group's backlog was RMB108.176 billion, representing an increase of 18.8% as compared to the end of 2017.

In the second half of 2018, the Group will keep working on the overall solutions involving natural gas, new coal chemicals, environmental protection, energy saving and relevant industries on the basis of consolidating its conventionally advantaged businesses such as oil refining and petrochemical industries for the purpose of creating innovation system focusing on technology innovation by further deepening the reorganisation of specialised engineering, regulating internal transactions and optimising allocation of resources. The Group will consolidate the existing overseas markets, deploy the favorable policies associated with the "Belt and Road" construction, actively expand the markets in the countries along the "Belt and Road" and keep improving the Group's overall profitability and risk resistance ability in relation to overseas businesses.

3.1 Business Review

During the Reporting Period, the Group's total revenue and net profits attributable to the equity holders of the Company were RMB18.336 billion and RMB1.108 billion, respectively. As at the end of the Reporting Period, the Group's backlog was RMB108.176 billion. The value of new contracts entered into by the Group during the Reporting Period was RMB35.484 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:

	Six-month periods ended 30 June				Change (%)
	2018		2017		
	Revenue	Percentage of	Revenue	Percentage of	
	(RMB '000)	total revenue (%)	(RMB '000)	total revenue (%)	
Engineering, consulting and licensing	1,402,857	7.1	1,098,525	7.4	27.7
EPC Contracting	10,185,271	51.5	7,440,155	50.1	36.9
Construction	7,874,211	39.8	6,033,732	40.6	30.5
Equipment Manufacturing	307,259	1.6	283,991	1.9	8.2
Subtotal	19,769,598	100.0	14,856,403	100.0	33.1
Total (after inter-segment elimination) (1)	18,335,880	N/A	13,764,426	N/A	33.2

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 RMB18.336 billion, representing an increase of 33.2% on a period-on-period basis, mainly due to several large engineering, procurement and construction contracting ("EPC Contracting")

projects of such as Kuwait Oil Refining Project, Sinopec Group and Anhui Province Joint Codification Complex Project, and Zhongke Guangdong Integrated Project, the work volume completed in the Reporting Period is large.

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

	Six-month periods ended 30 June				Change (%)
	2018		2017		
	Revenue	Percentage of	Revenue	Percentage of	
	(RMB '000)	total revenue (%)	(RMB '000)	total revenue (%)	
Oil refining	6,931,713	37.8	5,666,804	41.2	22.3
Petrochemicals	5,202,464	28.4	3,745,907	27.2	38.9
New coal chemicals	4,159,805	22.7	2,243,797	16.3	85.4
Other industries	2,041,898	11.1	2,107,918	15.3	(3.1)
Subtotal	18,335,880	100.0	13,764,426	100.0	33.2

The Group derived its revenue mainly from services provided to clients in the oil refining, petrochemical, new coal chemicals and other industries. During the Reporting Period, large EPC Contracting projects such as Kuwait Oil Refining Project and Sinopec Group and Anhui Province Joint Coalification Complex Project have entered peak execution period, Zhongke Guangdong Integrated Project has been started, oil refining, chemical industry and coal chemical income has grown substantially, revenue generated from the oil refining industry was RMB6.932 billion, representing an increase of 22.3% on a period-on-period basis; revenue generated from the petrochemical industry was RMB5.202 billion, representing an increase of 38.9% on a period-on-period basis; revenue generated from the new coal chemicals industry was RMB4.160 billion, representing an increase of 85.4% on a period-on-period basis; revenue generated from other industries was RMB2.042 billion, remaining broadly stable on a period-on-period basis.

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

	Six-month periods ended 30 June				
	2018		2017		Change
	Revenue (RMB '000)	Percentage of total revenue (%)	Revenue (RMB '000)	Percentage of total revenue (%)	
PRC	12,101,546	66.0	7,760,921	56.4	55.9
Overseas	6,234,334	34.0	6,003,505	43.6	3.8
Subtotal	<u>18,335,880</u>	<u>100.0</u>	<u>13,764,426</u>	<u>100.0</u>	33.2

During the Reporting Period, the revenue of the Group generated in the PRC was RMB12.102 billion, representing an increase of 55.9% on a period-on-period basis, mainly because certain large EPC contracting projects, such as Sinopec Group and Anhui Province Joint Coalification Complex Project and Zhongke Guangdong Integrated Project, generated more revenue; the Group continued to expand its overseas business steadily, the revenue of the Group generated overseas was RMB6.234 billion, remaining broadly stable on a period-on-period basis.

As at the end of the Reporting Period, the backlog of the Group amounted to RMB108.176 billion, representing an increase of 18.8% as compared with that as at 31 December 2017, and 2.99 times of the total revenue of RMB36.209 billion in 2017. During the Reporting Period, the value of new contracts amounted to RMB35.484 billion, representing an increase of 99.7% on a period-on-period basis.

During the Reporting Period, representative domestic projects that the Group signed include: Zhongke Guangdong Integrated Project (oil refining, chemical industry and power station part), Sinopec-SABIC Petrochemical 260 Ktpa polycarbonate project (hereunder abbreviated as "Sinopec-SABIC Project") and Sinopec Group Yanshan Branch continuous reforming combination unit oil product upgrade and reconstruction project, etc.. Representative overseas projects that were signed by the Group include: Saudi SABIC GAS Phase-9 Air Separation Project, Kuwait New Collection Center (GC-32) Project, etc..

During the Reporting Period, our capital expenditure was RMB125 million, which was mainly for the Company information construction, construction equipment and machinery purchase.

3.2 Business Highlights

3.2.1 *Successful implementation of major projects*

Sinopec Group and Anhui Province 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. As at the end of the Reporting Period, the project has fully entered installation peak period, the general progress has exceeded 70%, and overall quality and safety are under control.

Zhongke Guangdong Integrated Project (oil refining, chemical industry and power station part): Please refer to the announcement dated 18 January 2018 and 19 March 2018 published by the Company for further details. As at the end of the Reporting Period, the project is at detailed design and onsite pile foundation construction phase, the general progress has exceeded 10%, and the overall progress is under control.

Sinopec-SABIC Project: Please refer to the announcement dated 11 June 2018 published by the Company for further details. As at the end of the Reporting Period, the project is at startup phase, detailed design is in the process and construction preparation is being made on site.

Sinochem Quanzhou Ethylene Project: Please refer to the announcement dated 06 June 2017 published by the Company for further details. As at the end of the Reporting Period, the project is at detailed design phase, underground pipe and civil work construction are in the process onsite, and the overall progress is under control.

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, the project is at installation phase onsite, the progress has exceeded 60%, overall quality and safety are under control.

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 general progress of project has exceeded 70%, in which: design work has been completed, and main equipment, material delivery to site and onsite construction have been completed by over 50%.

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, over nine tenths of the overall progress of the project was completed, in which, design, purchase and construction machinery installation works have been completed, onsite pre-commissioning and commissioning are being performed as per plan, and all contract works of the project will be completed in the second half of 2018.

FCC Project of Kazakhstan Atyrau Refinery: The scope of work under the contract for this project mainly covers the engineering, procurement, construction & commissioning of 13 processing units including 2.43 Mtpa FCC units and 47 utilities units. As at the end of the Reporting Period, the project successfully completed all aspects of project engineering, procurement and construction, and is now at the stage of commissioning.

3.2.2 Continuous enhancement of project assurance capability being strengthened continuously

During the Reporting Period, the Group has established “double early warning” mechanism, so as to give early warning and formulate correction measures for projects of which progress deviation and income confirmation deviation are large, make continuous improvement, promote project implementation progress and income confirmation progress, and ensure realization of efficiency target. The Group has also has issued a new version of the international project management manual and further optimized the project management method and procedure, so as to effectively guide implementation of overseas projects of the Group. During the Reporting Period, in order to ensure effective implementation of subcontracting management and system policy of the Group, the Group organizes relevant subcontractor managing personnel, main management personnel of the project department and key personnel of subcontractors to participate in introduction and implementation training level by level, and the accumulative number of trainees has exceeded 16,000 persons; establishes subcontractor resources database and continuously deepens management, establishes and continuously optimizes level A subcontractor resources status database, cultivates strategic subcontractors, and absorbs outstanding subcontractors to stably serve in the Company’s engineering construction in the long run.

3.2.3 Fruitful market development

During the Reporting Period, the Group grasped market recovery opportunity, exploited its overall advantages in its industry, business and technical chains, and increased market development efforts. During the Reporting Period, the value of new contracts entered into by the Group was RMB35.484 billion, among which, the value of newly signed domestic contracts amounted to RMB32.241 billion, and the value of newly signed overseas contracts amounted to approximately USD483 million.

In the PRC, during the Reporting Period, the Group entered into new contracts for a number of large projects, such as Zhongke Guangdong Integrated Project (oil refining, chemical industry and power station part) with a total contract value of approximately RMB19.644 billion; Sinopec Sabic Project with a total contract value of approximately RMB4.586 billion; Sinopec Group Yanshan Branch continuous reforming combination unit oil product upgrade and reconstruction project with a total contract value of approximately RMB640 million.

Overseas, during the Reporting Period, the Group entered into new contracts for a number of large projects, such as Saudi SABIC GAS Phase-9 Air Separation Project with a total contract value of approximately RMB1.756 billion; Kuwait New Collection Center (GC-32) Project with a total contract value of approximately RMB867 million, etc..

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

3.2.4 *Wide cooperation, pursue win-win*

In the Reporting Period, the Group has continued to carry out wide cooperation with research and development institutions and universities in China and foreign countries in fields such as new coal chemical, energy saving and environmental protection and new energy, in which the new generation of coal (synthetic gas) to glycol technology pilot plant carried out in cooperation with Chinese Academy of Sciences has been completed and full flow procedure has been initiated; has propelled demonstration of direct coal liquefaction technology in a company in Xingjiang; has signed agreement for implementation of industrial unit design on the basis of construction of demonstration unit for biomass raw material-to-gasoline/diesel technology developed by Henan Shenrun Group; in response to national policy for promotion of ethanol gasoline, has collaborated and carried out research of cellulose ethanol industrial pilot plant program research, and has communicated with potential investor; has cooperated with China University of Petroleum (Beijing) to participate in development of “beautiful countryside” in Beijing and provide initial engineering service.

3.2.5 *Continuous promotion of innovation and technology advancement*

Steady progress of the R&D of major technologies developed along with the key projects.

A batch of key development technologies have been completed, and have reached the development target: All 5 projects such as large size liquefied natural gas (LNG) receiving station engineering complete set technology, development of complete set technology of producing 100 Ktpa propyleneoxide by hydrogen peroxide solution, coal chemical sewage comprehensive treatment and near-zero emission technology development have been brought into industrial application; and key technical problem tackling projects such as new type sulfuric acid alkylation technology development and industrial application, the 2nd efficient environmental protection arene technology development and industrial application of Sinopec, 20 Ktpa slurry bed stredford process hydrogen peroxide production complete set technology and SE coal (coke) water slurry gasification complete set technology development have entered onsite construction phase.

Research and development work of a batch of key projects have been progressed stably. Key technical problem tackling targets of different phases have been completed for projects such as 200 Ktpa ZCA-1 solid acid alkylation complete set new technology development and industrial application, gas phase polypropylene product VOC deprivation technique complete set technology development, heavy feed stock for increasing production of low-carbon alkene and BTX key technology, solid super acid C5/C6 isomerization technology development and industrial test, 2,000t level SE coal gasification large-scale industrial demonstration and application, etc..

Technology licensing was conducted effectively. During the Reporting Period, the value of newly signed technology licensing contract amounted to RMB180.00 million.

Good momentum persisted in patent applications. During the Reporting Period, the Group completed 256 new patent applications, including 166 invention patents, accounting for 64.8%; licensing of 202 patents, of which 62 invention patents, accounting for 30.7%.

Continuing to Achieve Numerous Fruitful Results in Technology Innovation. During the Reporting Period, the Group was awarded with 65 prizes for scientific and technological advancement above provincial/ministerial levels, including two projects of the “coal-based oil/olefin large-scale modern coal chemical industry complete technology development and application” and the “high efficiency methanol to olefins whole process technology” that the Group has participated in research and development and taken the lead in design were awarded the first prize of national science and technology progress in 2017; and the “deep delayed coking technology to improve the yield of light oil” won second prize of national science and technology progress in 2017. 19 projects obtained the 2017 Sinopec Group Science and Technology Progress Award. 6 projects won the annual Outstanding Engineering Design Award of Sinopec Group, 21 projects won the award of quality engineering.

3.2.6 Environmental protection and energy saving business was promoted constantly

During the Reporting Period, the Group signed energy saving and environmental protection contracts with a value of RMB726 million, including joint sewage treatment plant and alkali waste incinerator EPC general contract of Sinopec Group and Anhui Province, boiler and combustion engine flue gas denitration reconstruction project of Fujian Refining & Petrochemical Company Limited and boiler flue gas denitration reconstruction project of Yangzi Petrochemical Company, etc..

In the field of energy saving, the Group has actively propelled the progress of 56 existing contract energy management projects of Sinopec Group and signed contract for 4 projects, and is performing contract negotiation for 11 projects, and the Group promoted progress of several contract energy management projects in Anqing, etc.. The Group is actively organizing and implementing communications on energy saving technology to enrich energy saving technology resources.

In the field of environmental protection, the Group has won the bid for EPC project for site pollution restoration, abatement and control project of Dongli plant of Polyether Department of Sinopec Tianjin Petrochemical, and is implementing contract negotiation at present; The Group has actively propelled the progress of a large size polluted soil abatement and control project of China. In collaboration with advanced technologies of China and foreign countries, has implemented CO₂ trap, conversion demonstration device program research and initial stage work of project.

3.2.7 Continuous promotion of digital factory construction

During the Reporting Period, the Group has comprehensively propelled integration design and digital delivery application and basically completed digital factory construction platform based on INTERGRAPH/AVEVA production line, innovation of engineering design mode of the Group has supported intelligent factory operation of owners of China and foreign countries. The Group has strengthened full range, full module, full process and full elements cost collectivized management and control of large scale engineering software, in-depth application of intelligent technique design, comprehensive promotion of integration engineering design, quality and efficiency enhancement of visualized 3D design, breakthrough in digital delivery pilot, concentrated management and control of standardized engineering master data, cloud resources sharing of virtual engineering, first-class platform, outstanding design and high quality service have effectively ensured high level, high quality and high efficiency completion of master contract of different owners of China and foreign countries, meanwhile, have enhanced enterprise engineering design capability and project implementation capability in an overall manner, and have injected new energy into creation of intelligent engineering company.

3.2.8 *Safe production remained stable*

During the Reporting Period, regarding QHSE (quality, health, safety and environment) management, with long-term mechanism construction as the aim, and tamping “three-base management” and strengthening risk prevention and control as the main line, The Group adhered to the spirit of people-oriented, paid attention to continuous improvement, focused on QHSE system management and the implementation of quality safety responsibility mechanism, pushed forward quality and safety standardization construction and essential security capacity building, initiated multi-level trainings to highlight the essence-safety management, strengthened supervision and inspection, carried out in-depth implementation of quality promotion activities and other measures, and constantly strengthened QHSE control, thus laid a more solid foundation for better governance and ensure the quality, safety and overseas public security generally under control.

As at the end of the Reporting Period, the Group achieved the goal of no reporting accidents in safety, quality, environment, occupational health and overseas public security for on-going projects as a result of all employees’ dedication and strict management. As a result, an aggregate of 108.3 million labour safe hours were realised during the Reporting Period.

3.3 Business Prospects

Looking forward to the second half of 2018, the uncertainty of the global economy increases, the uncertainty of international oil price trend increases, and the influence of trade friction requires further observation. Domestic oil refining industry will accelerate industrial park arrangement and product structure adjustment, the current international oil price will enable integrated energy company to realize full industrial chain benefit creation, the domestic natural gas demand is strong and is facing a tremendous development opportunity, the Group will correctly face the situations, sufficiently grasp opportunities, actively exert the advantages of collectivization, integration and large scale, continuously enhance core competition force of enterprise, propel sustainable and healthy development of enterprise, and make effort to create a “national name card” of oil refining and chemical engineering of China.

Regarding market development, the Group will exert one-stop overall solution advantages, strengthen overall development of large size energy chemical engineering project, solidify and enhance share of traditional engineering market, so as to ensure realization of the whole-year task target; accelerate promotion of market development in new field, take energy saving and environmental protection as breakthrough point, accelerate promotion of contract energy management and land restoration business as benefit growth point,

grasp market opportunities to drive development of engineering markets such as natural gas utilization, biomass new energy and CO₂ trap utilization, etc. Taking realization of sustainable development as target, actively integrate external advantageous resources, establish strategic cooperation partnership relation with leading enterprises in relevant industries such as electricity, shipping and capital construction, innovate cooperation mode, and enhance the competition force of entire factory EPC Contracting; exert overall advantages, propel development of strategic customers, focus on enhancement of customer value, make effort to cultivate strategic customer relation featuring long-term stability and recognition of high price for high quality.

Regarding project management, the Group will continue to focus on effectiveness, propel effectiveness-oriented project management mode, and give prominence to the principle of effectiveness first in large project coordination and resources configuration management under the precondition of assurance of safety, quality and progress. In terms of overseas project management, regarding the complicated international situations at present, strengthen research of overseas project risk, and formulate effective and feasible program, so as to ensure the Company benefit to the maximum degree. Pay attention to establishment of foundation of overseas project implementation management, sufficiently exert integration advantages, gradually realize resources sharing, and enhance the overall capability of company project implementation.

Regarding technology R&D, the Group will focus on overall development strategy, liberate the mind, actively implement technology source survey, especially actively look for technical cooperation in innovative looking and cutting edge technologies and certain common technologies, and expand technology sources. Regarding projects of which technical basis is good, conditions are goods and industrialization prospect is clear, it is necessary to further strengthen support, so as to speed out obtainment of achievement and benefit.

In terms of resources optimization, the Group will exert the existing mature resources advantages of subsidiary companies, utilize the Group integration management mechanism, enhance subsidiary companies resources configuration efficiency, and realize resources optimization configuration. In accordance with the principle of resources optimization and mutual compensation of advantages, strengthening of business cooperation as well as establishment and execution of mutual compensation mechanism of work, accelerate promotion of progress and depth of resources optimization integration work in regions where conditions are available, enhance regional resources configuration efficiency, enhance regional comprehensive competition force, enhance overall composition of forces, reduce marginal cost and enhance overall efficiency.

4 Management Discussion and Analysis

4.1 Analysis of the reasons of the significant changes in the revenue structure compared to the same period of the 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 Interim Report. Parts of the financial data below, unless otherwise stated, are extracted from the Group's audited financial statements prepared according to IFRS.

4.1.1 Revenue

The revenue of the Group increased by 33.2% from RMB13.764 billion for the six months ended 30 June 2017 to RMB18.336 billion for the six months ended 30 June 2018. This is mainly due to the increase of income as a result that large EPC Contracting projects such as Kuwait Oil Refining Project and Sinopec Group and Anhui Province Joint Coalification Complex Project have entered peak execution period and Zhongke Guangdong Integrated Project has entered startup period.

4.1.2 Cost of sales

The cost of sales of the Group increased by 42.1% from RMB11.551 billion for the six months ended 30 June 2017 to RMB16.414 billion for the six months ended 30 June 2018. This is mainly due to the increase 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 13.2% from RMB2.213 billion for the six months ended 30 June 2017 to RMB1.921 billion for the six months ended 30 June 2018, gross profit margin decreased from 16.1% for the six months ended 30 June 2017 to 10.5% for the six months ended 30 June 2018. This is mainly due to the fact that large EPC Contracting projects of the Reporting Period are mainly at startup phase or execution peak period, while there were more accounting period projects in the same period of the last year.

4.1.4 Other income

The other income of the Group increased by 45.5% from RMB93 million for the six months ended 30 June 2017 to RMB136 million for the six months ended 30 June 2018. This is mainly because of the exchange gain caused by the increase in the US dollar against RMB exchange rate during the Reporting Period.

4.1.5 Selling and marketing expenses

The selling and marketing expenses of the Group were RMB45 million, remaining broadly stable on a period-on-period basis.

4.1.6 Administrative expenses

The administrative expenses of the Group were RMB471 million, remaining broadly stable on a period-on-period basis.

4.1.7 Research and development costs

The research and development costs of the Group increased by 20.2% from RMB377 million for the six months ended 30 June 2017 to RMB453 million for the six months ended 30 June 2018. The increase was mainly due to the Group's intensified investment in research and development.

4.1.8 Other operating income/(expenses)

The other operating income of the Group increased from expenses of RMB562 million for the six months ended 30 June 2017 to income of RMB65 million for the six months ended 30 June 2018. This is mainly due to the facts that: First, the income was formed due to carry-back of withdrawal of reserve for depreciation in the Reporting Period. Second, the exchange loss was formed due to the depreciation of US dollar in the previous period.

4.1.9 Other (losses)/gains - net

The net other (losses)/gains of the Group decreased from a gain of RMB411,000 for the six months ended 30 June 2017 to a loss of RMB155 million for the six months ended 30 June 2018. This is mainly caused by fair value loss formed due to future settlement of exchange in the Reporting Period.

4.1.10 Operating profit

Due to the foregoing reasons, the operating profit of the Group increased by 18.3% from RMB844 million for the six months ended 30 June 2017 to RMB998 million for the six months ended 30 June 2018.

4.1.11 Financial income - net

The net finance income of the Group increased by 46.2% from RMB216 million for the six months ended 30 June 2017 to RMB316 million for the six months ended 30 June 2018. This is mainly due to the increase of deposits and interest rates on a period-to-period basis.

4.1.12 Income tax expense

The Group's income tax expense was RMB228 million, remaining broadly stable on a period-on-period basis. Effective income tax rate decreased from 21.5% to 17.1% on a period-on-period basis. Change of effective income tax rate is mainly due to the profit fluctuation of several domestic and overseas subsidiaries of the Company with different applicable effective income tax rates.

4.1.13 Profit for the period

As a result of the reasons above, the profit of the Group increased by 32.7% from RMB835 million for the six months ended 30 June 2017 to RMB1.108 billion for the six months ended 30 June 2018.

4.1.14 Total comprehensive income for the period

As a result of the reasons above and the impact of other comprehensive income of the Group, the total amount of the comprehensive income of the Group increased by 16.1% from RMB851 million for the six months ended 30 June 2017 to RMB987 million for the six months ended 30 June 2018.

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 various factors which are beyond the Group's control, projects may also remain in the Group's backlog for an extended period of time beyond what was initially anticipated.

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

	As at 30 June 2018 (RMB'000)	As at 31 December 2017 (RMB'000)	Change (%)
Engineering, consulting and licensing	8,463,133	7,838,104	8.0
EPC Contracting	85,012,968	67,712,961	25.5
Construction	13,950,198	14,896,489	(6.4)
Equipment manufacturing	749,583	580,390	29.2
Total	108,175,882	91,027,944	18.8

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 30 June 2018 (RMB'000)	As at 31 December 2017 (RMB'000)	Change (%)
Oil refining	37,170,527	32,541,555	14.2
Petrochemicals	35,447,897	24,224,871	46.3
New coal chemicals	14,865,092	15,386,301	(3.4)
Other industries	20,692,366	18,875,217	9.6
Total	108,175,882	91,027,944	18.8

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

	As at 30 June 2018 (RMB'000)	As at 31 December 2017 (RMB'000)	Change (%)
PRC	82,867,861	62,728,624	32.1
Overseas	25,308,021	28,299,320	(10.6)
Total	108,175,882	91,027,944	18.8

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 30 June 2018 (RMB'000)	As at 31 December 2017 (RMB'000)	Change (%)
Sinopec Group and its associates	56,990,460	37,667,990	51.3
Non-Sinopec Group and its associates	<u>51,185,422</u>	<u>53,359,954</u>	(4.1)
Total	<u><u>108,175,882</u></u>	<u><u>91,027,944</u></u>	18.8

As at the end of the Reporting Period, the Group's backlog was RMB108.176 billion, representing an increase of 18.8% from that as at 31 December 2017, and 2.99 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:

	Six-month periods ended 30 June 2018 (RMB'000)	2017 (RMB'000)	Change (%)
Engineering, consulting and licensing	2,027,886	2,554,893	(20.6)
EPC Contracting	27,485,278	8,979,109	206.1
Construction	5,511,131	5,938,842	(7.2)
Equipment manufacturing	<u>459,523</u>	<u>296,495</u>	55.0
Total	<u><u>35,483,818</u></u>	<u><u>17,769,339</u></u>	99.7

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:

	Six-month periods ended 30 June		Change (%)
	2018	2017	
	(RMB'000)	(RMB'000)	
Oil refining	11,560,684	3,977,285	190.7
Petrochemicals	16,425,490	9,901,618	65.9
New coal chemicals	3,638,597	988,737	268.0
Other industries	3,859,047	2,901,699	33.0
Total	<u>35,483,818</u>	<u>17,769,339</u>	99.7

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

	Six-month periods ended 30 June		Change (%)
	2018	2017	
	(RMB'000)	(RMB'000)	
PRC	32,240,784	16,486,397	95.6
Overseas	3,243,034	1,282,942	152.8
Total	<u>35,483,818</u>	<u>17,769,339</u>	99.7

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:

	Six-month periods ended 30 June		Change (%)
	2018	2017	
	(RMB'000)	(RMB'000)	
Sinopec Group and its associates	25,729,283	6,453,711	298.7
Non-Sinopec Group and its associates	9,754,535	11,315,628	(13.8)
Total	<u>35,483,818</u>	<u>17,769,339</u>	99.7

During the Reporting Period, the value of the Group's new contracts was RMB35.484 billion, representing an increase of 99.7% from RMB17.769 billion in the same period in 2017, mainly because Sinopec Group started to build "four world-class refining bases" and the signing of Zhongke Guangdong Integrated Project and Sinopec Sabic Project during the Reporting Period.

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

Unit: RMB'000

	As at 30 June 2018	As at 31 December 2017	Changes
Total assets	61,155,035	59,405,621	1,749,414
Current assets	53,859,793	51,864,822	1,994,971
Non-current assets	7,295,242	7,540,799	(245,557)
Total liabilities	35,214,322	33,814,616	1,399,706
Current liabilities	32,384,591	31,015,076	1,369,515
Non-current liabilities	2,829,731	2,799,540	30,191
Net assets	25,940,713	25,591,005	349,708
Consolidated equity attributable to equity holders of the Company	25,936,402	25,586,839	349,563
Share capital	4,428,000	4,428,000	0
Reserves	21,508,402	21,158,839	349,563
Non-controlling interests	4,311	4,166	145

As at the end of the Reporting Period, the total assets of the Group were RMB61.155 billion, the total liabilities were RMB35.214 billion, the minority interests were RMB4 million, and the equity attributable to the equity holders of the Company was RMB25.936 billion. The changes in the assets and liabilities as compared with those as at the end of 2017 and the main reasons are as follows:

As at the end of the Reporting Period, the total assets were RMB61.155 billion, increased by RMB1.749 billion as compared with that as at the end of 2017. In particular, the current assets were RMB53.860 billion, increased by RMB1.995 billion as compared with that as at the end of 2017, mainly attributable to an increase of RMB1.655 billion for prepayments and other receivables, an increase of RMB1.000 billion for loans due from the ultimate holding company receivables, an increase of RMB455 million for contractual assets, an increase of RMB394 million for notes and trade receivables, and a decrease of RMB311 million for cash and cash equivalents, the fixed deposits with financial institutions decreased by RMB1.294 billion; the non-current assets were RMB7.295 billion, decreased by RMB246 million as compared with that as at the end of 2017, mainly due to a decrease in depreciation and amortisation for the non-current assets.

As at the end of the Reporting Period, the total liabilities were RMB35.214 billion, increased by RMB1.400 billion as compared with that as at the end of 2017. In particular, the current liabilities were RMB32.385 billion, increased by RMB1.370 billion as compared with that as at the end of 2017, mainly due to the contractual liabilities and other payables increased by RMB1.506 billion, dividends payable increased by RMB638 million, loans due to the fellow subsidiaries increased by RMB138 million, derivative financial liabilities increased by RMB157 million, notes and trade payables decreased by RMB1.002 billion. The non-current liabilities were RMB2.830 billion, increased by RMB30 million as compared with that as at the end of 2017, mainly due to the increase of RMB41 million in retirement and other supplemental benefit obligations.

The total equity attributable to equity holders of the Company was RMB25.936 billion, increased by RMB350 million as compared with that as at the end of 2017, primarily as the result of the increase in the retained earnings.

4.3.2 Cash Flows

During the Reporting Period, the net decrease in cash and cash equivalents was RMB435 million and net cash used in operating activities was RMB1.033 billion. The following table sets forth the main items and their changes in the Group's consolidated cash flow statements for the six months ended 30 June 2018 and for the six months ended 30 June 2017.

Units: RMB'000

Major items of cash flow	Six-month periods ended 30 June	
	2018	2017
Net cash used in operating activities	(1,032,823)	(736,076)
Net cash generated from/(used in) investing activities	470,865	(1,739,874)
Net cash generated from financing activities	127,235	243,641
Net decrease in cash and cash equivalents	(434,723)	(2,232,309)

During the Reporting Period, the profit before taxation was RMB1.336 billion, and the profit was RMB1.276 billion after adjusting the items in expenses that did not affect the cash flow in operating activities, major non-cash expense items were: depreciation and amortisation were RMB365 million, exchange gains amounted to RMB156 million, carry-back of withdrawal of reserve for depreciation of trade and other receivables was RMB85 million, net interest income and expenditure was RMB316 million, loss from fair value changes of RMB157 million. The changes in working capital, which caused a cash outflow of RMB2.153 billion in operating activities, were mainly shown in: increased inventory balance, causing the cash outflow from operating activities of RMB97 million; increased trade and other receivables balance, causing the cash outflow from operating activities of RMB1.943 million; trade and other payables balance was decreased, causing the cash outflow from operating activities of RMB1.437 billion; contractual assets was increased, causing the cash outflow from operating activities of RMB455 million; and contractual liabilities was increased, causing cash inflow to operating activities of RMB1.777 billion.

After adjusting non-cash items, receivables and payables for the profit before taxation, and decrease in outflow of paid income tax by RMB274 million in cash, increase in inflow of received interest by RMB118 million in cash, the net cash used in operating activities was RMB1.033 billion.

Net cash generated from investing activities was RMB471 million, mainly because the fixed deposits collected from the holding company increased by RMB1.294 billion, the borrowings to the holding company decreased by RMB1.000 billion, and the interests generated from the borrowings from the Company increased by RMB265 million.

Net cash generated from financing activities was RMB127 million, mainly attributable to the increase in borrowing.

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 control the use of working capital in operating activities; the Group will also continue to effectively manage the investment risk, expand the scale of investment and increase the return on investment.

4.3.3 Summary of Financial Ratios

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

Main financial ratios	Six-month periods ended 30 June	
	2018	2017
Net profit margin (%)	6.0	6.1
Return on assets (%) ⁽¹⁾	1.8	1.4
Return on equity (%) ⁽²⁾	4.3	3.2
Return on invested capital (%) ⁽³⁾	4.3	3.3
Main financial ratios	As at 30 June 2018	As at 31 December 2017
	2018	2017
Gearing ratio (%) ⁽⁴⁾	2.1	1.7
Net debt to equity ratio (%) ⁽⁵⁾	Net cash	Net cash
Current ratio (%) ⁽⁶⁾	1.7	1.7
Quick ratio (%) ⁽⁷⁾	1.6	1.7

- (1) Return on assets =
$$\frac{\text{Profit for the period}}{(\text{Opening balance of total assets} + \text{Closing balance of total assets})/2}$$
- (2) Return on equity =
$$\frac{\text{Profit for the period}}{\text{Total equity at the end of the period}}$$
- (3) Return on invested capital =
$$\frac{\text{Earnings before interest and tax (EBIT) for the period} \times (1 - \text{effective income tax rate})}{\text{Total interest bearing debt at the end of the period} - \text{Credit loans} + \text{Total equity at the end of the period}}$$
- (4) Gearing ratio =
$$\frac{\text{Interest bearing debt at the end of the period}}{\text{Total interest bearing debt at the end of the period} + \text{Total equity at the end of the period}}$$
- (5) Net debt to equity ratio =
$$\frac{\text{Net debt at the end of the period}}{\text{Total equity at the end of the period}}$$
- (6) Current ratio =
$$\frac{\text{Current assets}}{\text{Current liabilities}}$$
- (7) Quick ratio =
$$\frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$$

Return on assets

During the Reporting Period, the Group's return on assets increased from 1.4% to 1.8% in the same period of the previous year, mainly due to the increase in net profit during the Reporting Period.

Return on equity

The Group's return on equity increased from 3.2% to 4.3% for the same period in 2017, mainly due to the increase in net profit during the Reporting Period.

Return on invested capital

The Group's return on invested capital decreased to 4.3% from 3.3% for the same period in 2017 for the same reasons as the increase in return on equity.

Gearing ratio

The Group's gearing ratio increased from 1.7% at the end of 2017 to 2.1%, mainly due to the increase in interest-bearing borrowings at the end of the Reporting Period.

Net debt to equity ratio

The Group maintained positive net cash as at 30 June 2018 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 1.6, remaining stable on a period-on-period basis.

5 Significant Events

5.1 Corporate governance

During the Reporting Period, the Company complied with all code provisions in the Code on Corporate Governance Practices set out in Appendix 14 to the Hong Kong Listing Rules and did not conduct any acts which deviated from such code provisions.

5.2 H Shares appreciation rights incentive scheme

For the details of H Shares appreciation rights scheme of the Company, please refer to the announcement entitled “The Proposed Initial Terms of H Share Appreciation Rights Scheme” published by the Company on 21 August 2017, the circular of the second extraordinary general meeting of the Company for the year 2017 published on 3 November 2017, the “Announcement in Relation to the Approval of the Proposed Initial Terms of H-Share Appreciation Rights Scheme by State-owned Assets Supervision and Administration Commission of the State Council (“SASAC”)” published on 12 December 2017, and the “Announcement of Resolutions Passed at the Second Extraordinary General Meeting for the Year 2017” and the announcement entitled “Grant of H Share Appreciation Rights” published on 20 December 2017.

On 20 December 2017, the Company granted 13,143,000 units H Shares appreciation rights (representing 0.30% of the total issued shares of the Company and 0.90% of the total issued H shares of the Company as at the date of the announcement) to 89 incentive recipients, accounting for approximately 0.5% of the total number of contracted employees as at the date of the announcement, including the Directors (other than the independent non-executive Directors), the Company’s senior management members (including presidents, vice presidents and chief financial officer) and the core management, technical and highly skilled personnel of the Company’s subsidiaries. The exercise price of each H Shares appreciation right granted under the initial grant is HK\$6.35.

As reviewed and approved at the 2017 annual general meeting convened on 8 May 2018, the final cash dividend of RMB0.144 (inclusive of applicable tax) per share was paid by the Company. As of the date of this interim report, the distribution of the final dividends of 2017 has been completed. According to Article 28 of “The H Share Appreciation Rights Scheme and the Initial Grant” in Appendix 1 to the circular of the second extraordinary general meeting of the Company for the year 2017 published on 3 November 2017, the Company may adjust the exercise price of the stock appreciate rights in the event of distribution of dividends, then the exercise price of after adjustment will be equal to the exercise price before adjustment minus the amount of dividends distributed per share. In this regard, the exercise price of each stock appreciation rights granted by the Company for the first time will be adjusted to HKD6.178 per share.

During the Reporting Period, save as the above adjustment to the exercise price, there is no other cases that involve the adjustments to the effectiveness, number of shares and the exercise price of the H Shares appreciation rights scheme. For the details of the Company's H Shares appreciation rights scheme, please refer to Note 38 of the consolidated financial statements in this interim report.

5.3 The dividend distribution plan for the six-month period ended 30 June 2018

The tenth meeting of the second session of the Board approved the dividend distribution plan for the six months ended 30 June 2018. An interim cash dividend of RMB0.100 (inclusive of applicable taxes) per share would be distributed based on 4,428,000,000 shares, being the total share capital of the Company as at 30 June 2018. Since shareholders of the Company have authorised the Board to decide the interim profit distribution plan of 2018 by ordinary resolution in 2017 annual general meeting held on 8 May 2018, it is unnecessary to submit the above dividend distribution plan to the general meeting of shareholders for review and approval.

The dividend will be denominated and declared in Renminbi. The holders of Domestic Shares will be paid in RMB 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 (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 information 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 obtaining 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 the PRC, or which have not entered into any tax agreement with the 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 and Shenzhen 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 China Securities Depository and Clearing Corporation Limited, pursuant to which, China Securities Depository and Clearing Corporation Limited, as the nominee of the holders of H Shares for Southbound Trading, will receive all cash dividends distributed by the Company and distribute the cash dividends to the relevant investors of H Shares of Southbound Trading through its depository and clearing system. The cash dividends for the investors of H Shares of Southbound Trading will be paid in Renminbi.

Pursuant to the relevant requirements under the “Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect” (Caishui [2014] No. 81) (《關於滬港通股票市場交易互聯互通機制試點有關稅收政策的通知》([2014]81號)) and the “Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect” (Caishui [2016] No. 127) (《關於深港通股票市場交易互聯互通機制試點有關稅收政策的通知》([2016]127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 and Shenzhen-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 and Shenzhen-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.

5.4 Material litigation or arbitration events

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 in the evidence exchange and cross-examination phase.

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

5.5 Repurchase, sale and redemption of shares

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

5.6 Review of the Interim Report

The audit committee of the Company (the “Audit Committee”) has reviewed this interim report. The Audit Committee has not expressed any dissent concerning the financial statements in this interim 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 Corporate Governance

During the Reporting Period, the Company complied with all code provisions in the Code on Corporate Governance Practices set out in Appendix 14 to the Hong Kong Listing Rules and did not conduct any acts which deviated from such code provisions.

7 Financial Statements

7.1 Auditor’s opinion

The interim financial statements for the six months ended 30 June 2018 of the Company, prepared in accordance with IFRS, were audited by Grant Thornton Hong Kong Limited, which has issued a standard unqualified audit report.

7.2 Accounting policies

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

7.3 Financial Statements

The interim financial statements prepared in accordance with IFRS for the six months ended 30 June 2018:

7.3.1 Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Six months ended 30 June	
	2018	2017
	(RMB'000)	(RMB'000)
Revenue	18,335,880	13,764,426
Cost of sales	<u>(16,414,394)</u>	<u>(11,551,042)</u>
Gross profit	1,921,486	2,213,384
Other income	135,723	93,270
Selling and marketing expenses	(44,658)	(48,061)
Administrative expenses	(471,455)	(476,569)
Research and development costs	(452,868)	(376,819)
Other operating income/(expenses)	64,691	(562,011)
Other (losses)/gains - net	<u>(155,072)</u>	<u>411</u>
Operating profit	<u>997,847</u>	<u>843,605</u>
Finance income	368,009	254,210
Finance expenses	<u>(51,758)</u>	<u>(37,914)</u>
Finance income - net	316,251	216,296
Share of losses of joint arrangements	(215)	(446)
Share of profits of associates	<u>22,021</u>	<u>4,112</u>
Profit before taxation	1,335,904	1,063,567
Income tax expense	<u>(228,194)</u>	<u>(228,691)</u>
Profit for the period	<u>1,107,710</u>	<u>834,876</u>
Other comprehensive (expense)/income for the period, net of tax:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	(29,680)	(79,661)
Item that will not be reclassified subsequently to profit or loss:		
(Loss)/profits on revaluation of retirement benefit plans obligations	<u>(90,690)</u>	<u>95,350</u>

	Six months ended 30 June	
	2018	2017
	(RMB'000)	(RMB'000)
Other comprehensive income for the period, net of tax	<u>(120,370)</u>	<u>15,689</u>
Total comprehensive (expense)/income for the period	<u>987,340</u>	<u>850,565</u>
Profit attributable to:		
Equity holders of the Company	1,107,565	834,875
Non-controlling interests	<u>145</u>	<u>1</u>
Profit for the period	<u><u>1,107,710</u></u>	<u><u>834,876</u></u>
Total comprehensive income attributable to:		
Equity holders of the Company	987,195	850,564
Non-controlling interests	<u>145</u>	<u>1</u>
Total comprehensive income for the period	<u><u>987,340</u></u>	<u><u>850,565</u></u>
	RMB	RMB
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share)		
- Basic and diluted	<u><u>0.25</u></u>	<u><u>0.19</u></u>

7.3.2 Consolidated Statement of Financial Position

	As at 30 June 2018 (RMB'000)	As at 31 December 2017 (RMB'000)
ASSETS		
Non-current assets		
Property, plant and equipment	3,661,733	3,855,852
Land use rights	2,550,167	2,580,781
Intangible assets	187,710	223,440
Investment in joint arrangements	1,697	3,221
Investment in associates	145,809	123,788
Available-for-sale financial assets	—	2,750
Financial assets at fair value through other comprehensive income	680	—
Deferred income tax assets	747,446	750,967
Total non-current assets	7,295,242	7,540,799
Current assets		
Inventories	679,346	582,257
Notes and trade receivables	10,070,855	9,676,444
Prepayments and other receivables	5,625,668	3,970,334
Amount due from customers for contract work	—	6,053,340
Contract assets	6,508,226	—
Loans due from the ultimate holding company	16,500,000	15,500,000
Restricted cash	14,860	16,087
Time deposits	3,111,470	4,405,700
Cash and cash equivalents	11,349,368	11,660,660
Total current assets	53,859,793	51,864,822
Total assets	<u>61,155,035</u>	<u>59,405,621</u>
EQUITY		
Share capital	4,428,000	4,428,000
Reserves	21,508,402	21,158,839
Consolidated equity attributable to equity holders of the Company	25,936,402	25,586,839
Non-controlling interests	4,311	4,166
Total equity	<u>25,940,713</u>	<u>25,591,005</u>

	As at 30 June 2018 (RMB'000)	As at 31 December 2017 (RMB'000)
LIABILITIES		
Non-current liabilities		
Retirement and other supplemental benefit obligations	2,577,604	2,536,615
Provision for litigation claims	252,127	262,925
Total non-current liabilities	<u>2,829,731</u>	<u>2,799,540</u>
Current liabilities		
Notes and trade payables	13,018,264	14,020,233
Other payables	937,791	6,860,590
Dividend payables	637,632	—
Amount due to customers for contract work	—	9,493,684
Contract liabilities	16,922,984	—
Loans due to a fellow subsidiary	569,028	431,257
Derivative financial liabilities	157,195	—
Current income tax liabilities	141,769	209,312
Total current liabilities	<u>32,384,591</u>	<u>31,015,076</u>
Total liabilities	<u>35,214,322</u>	<u>33,814,616</u>
Total equity and liabilities	<u>61,155,035</u>	<u>59,405,621</u>
Net current assets	<u>21,475,202</u>	<u>20,849,746</u>
Total assets less current liabilities	<u>28,770,444</u>	<u>28,390,545</u>

7.4 Notes to the Interim Financial Statements Prepared in Accordance with IFRS

7.4.1 Revenue

The Group's revenue is set out below:

	Six months ended 30 June	
	2018	2017
	(RMB'000)	(RMB'000)
Engineering, consulting and licensing	1,402,857	1,098,525
EPC Contracting	10,185,271	7,440,155
Construction	7,874,211	6,033,732
Equipment manufacturing	307,259	283,991
	<u>18,335,880</u>	<u>13,764,426</u>

7.4.2 Income Tax Expense

	Six months ended 30 June	
	2018	2017
	(RMB'000)	(RMB'000)
Current tax		
PRC enterprise income tax	180,718	209,090
Overseas enterprise income tax	31,823	7,835
(Over)/Under-provision for income tax in prior years	(5,784)	32,358
	<u>206,757</u>	<u>249,283</u>
Deferred tax		
Origination and reversal of temporary differences	<u>21,437</u>	<u>(20,592)</u>
Income tax expense	<u>228,194</u>	<u>228,691</u>

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the six months ended 30 June 2018 and 2017 is 25%.

According to the normal statutory PRC corporate income tax and relevant rules, for the six month ended 30 June 2018 and 2017, certain subsidiaries of the Company have been qualified as new high-tech enterprises which can enjoy 15% preferential tax rate in the related period. Other members of the Group is 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 profit or loss and other comprehensive income and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Six months ended 30 June	
	2018	2017
	(RMB'000)	(RMB'000)
Profit before taxation	<u>1,335,904</u>	<u>1,063,567</u>
Taxation calculated at the statutory tax rate	333,976	265,892
Income tax effects of:		
Preferential income tax treatments of certain companies	(126,567)	(100,917)
Difference in overseas profits tax rates	111	(1,966)
Non-deductible expenses	31,890	34,436
Income not subject to tax	(3,270)	(707)
Unrecognised tax losses	1,948	66
Utilisation of previously unrecognised tax losses	(4,109)	(471)
(Over)/under provision for income tax in prior years	<u>(5,785)</u>	<u>32,358</u>
Income tax expense	<u>228,194</u>	<u>228,691</u>
Effective income tax rate	<u>17.1%</u>	<u>21.5%</u>

7.4.3 Earnings Per Share

(a) Basic

The basic earnings per share for each of the six months ended 30 June 2018 and 2017 is calculated based on the profit attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue.

	Six months ended 30 June	
	2018	2017
Profit attributable to equity holders of the Company (RMB'000)	1,107,565	834,875
Weighted average number of ordinary shares in issue	4,428,000,000	4,428,000,000
Basic earnings per share (RMB)	<u>0.25</u>	<u>0.19</u>

(b) Diluted

As the Company had no dilutive shares for the each of the six months ended 30 June 2018 and 2017, diluted earnings per share for the six months ended 30 June 2018 and 2017 are the same as basic earnings per share.

7.4.4 Dividends

Dividends represented dividends declared by the Company during each of six months ended 30 June 2018 and 2017.

	Six months ended 30 June	
	2018	2017
	(RMB'000)	(RMB'000)
Proposed interim dividends of RMB0.1 per ordinary share (2017: RMB0.056) ⁽¹⁾	<u>442,800</u>	<u>247,968</u>

- ⁽¹⁾ Pursuant to the Directors' meeting on 21 August 2018, the Directors recommended to declare the interim dividends for the year ending 30 June 2018 of RMB0.1 (2017: RMB0.056) per share totalling RMB442,800,000 (2017: RMB247,968,000). Dividend proposed to be declared by the Directors' meeting after the end of the reporting period are not recognised as a liability at the end of the reporting period.

8 Miscellaneous

Copies of the Interim Report will be despatched to the Shareholders before 30 September 2018.

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.

Yours faithfully,
By the Order of the Board
SINOPEC Engineering (Group) Co., Ltd
LING Yiqun
Chairman

Beijing, the PRC
21 August 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.

This announcement is available on the website of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and on the website of the Company (www.segroup.cn).