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

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

(Stock Code: 2386)

Annual Results Announcement for the Year ended 31 December 2018

1 Important Notice

1.1 This announcement is extracted from the content of the 2018 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 2018 (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. YU Baocai
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, Shenggu Jiayuan Shenggu Middle Road, Chaoyang District, Beijing, the PRC (Postcode: 100029)
Telephone	:	+86 10 5673 0522
Website	:	www.segroup.cn
E-mail address	:	seg.ir@sinopec.com

* *For identification purposes only.*

2.2 Principal Financial Data and Indicators

Summary of Financial Data and Indicators Prepared in Accordance with IFRS

Unit: RMB'000

Items	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014	Changes from the end of 2017 (%)
Non-current assets	7,034,787	7,540,799	7,871,988	7,977,456	8,052,331	(6.7)
Current assets	63,837,953	51,864,822	51,016,799	50,490,979	44,032,264	23.1
Current liabilities	41,998,840	31,015,076	30,724,440	30,807,397	26,347,950	35.4
Non-current liabilities	2,890,751	2,799,540	2,899,238	2,967,341	2,864,071	3.3
Equity attributable to equity holders of the Company	25,978,646	25,586,839	25,261,201	24,689,960	22,869,116	1.5
Net assets per share of equity holders of the Company (RMB)	5.87	5.78	5.70	5.58	5.16	1.5

Unit: RMB'000

Items	Year ended 31 December 2018	2017	2016	2015	2014	Changes over the same period of 2017 (%)
Revenue	47,019,024	36,208,723	39,402,331	45,498,354	49,345,959	29.9
Gross profit	5,195,574	4,026,172	4,295,415	6,157,034	6,290,612	29.0
Operating profit	1,435,534	1,112,267	1,942,256	3,845,193	4,039,003	29.1
Profit before taxation	2,121,515	1,635,101	2,376,776	4,240,047	4,550,695	29.7
Profit attributable to equity holders of the Company	1,679,472	1,129,974	1,670,888	3,317,704	3,489,799	48.6
Basic earnings per share (RMB)	0.38	0.26	0.38	0.75	0.79	48.6
Net cash flow generated from/(used in) operating activities	6,104,192	4,240,508	4,670,772	5,793,143	333,312	43.9
Net cash flow generated from operating activities per share (RMB)	1.38	0.96	1.05	1.31	0.08	43.9

Items	Year ended 31 December 2018	2017	2016	2015	2014
Gross profit margin (%)	11.0	11.1	10.9	13.5	12.7
Net profit margin (%)	3.6	3.1	4.2	7.3	7.1
Return on assets (%)	2.6	1.9	2.8	6.0	7.0

Items	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Asset-liability ratio (%)	63.3	56.9	57.1	57.8	56.1

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 RMB47.019 billion and RMB1.680 billion, respectively. As at the end of the Reporting Period, the Group's backlog was RMB94.935 billion. The value of new contracts entered into by the Group during the Reporting Period was RMB50.927 billion.

The business of the Group mainly comprises four segments: (1) engineering, consulting and licensing; (2) engineeering, procurement and construction contracting ("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				
	2018		2017		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB'000)	(%)	(RMB'000)	(%)	(%)
Engineering, consulting and licensing	2,924,408	5.8	2,843,657	7.3	2.8
EPC Contracting	29,135,814	57.3	21,056,256	53.9	38.4
Construction	18,120,864	35.7	14,601,399	37.4	24.1
Equipment manufacturing	630,598	1.2	533,657	1.4	18.2
Subtotal	50,811,684	100.0	39,034,969	100.0	30.2
Total (after inter-segment elimination) (1)	47,019,024	N/A	36,208,723	N/A	29.9

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 RMB47.019 billion, representing an increase of 29.9% on a period-on-period basis, mainly because several large EPC Contracting projects such as Zhongke Project, Zhong'An Project, and Kuwait Oil Refining Project, had a higher percentage of completion.

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				
	2018		2017		
	Revenue	**Percentage of total revenue**	**Revenue**	**Percentage of total revenue**	**Change**
	(RMB'000)	(%)	(RMB'000)	(%)	(%)
Oil refining	17,749,091	37.7	13,834,349	38.2	28.3
Petrochemicals	17,133,941	36.4	10,168,655	28.1	68.5
New coal chemicals	8,841,627	18.8	7,214,645	19.9	22.6
Other industries	3,294,365	7.0	4,991,074	13.8	(34.0)
Total	47,019,024	100.0	36,208,723	100.0	29.9

The Group derived its revenue mainly from services provided to clients in the oil refining, petrochemicals, new coal chemicals and other industries. During the Reporting Period, large EPC contracting projects such as Zhong'An Project and Kuwait Oil Refining Project have entered peak execution periods. Among which, Zhongke Project has been started, oil refining, chemical industry and coal chemical income has grown substantially, revenue generated from the oil refining industry was RMB17.749 billion, representing an increase of 28.3% on a period-on-period basis. The Group's revenue generated from the petrochemical industry was RMB17.134 billion, representing an increase of 68.5% on a period-on-period basis. The Group's revenue generated from the new coal chemicals industry was RMB8.842 billion, representing an increase of 22.6% on a period-on-period basis. The Group's revenue generated from other industries was RMB3.294 billion, representing a decrease of 34.0% on a period-on-period basis, as a result of the settlement of large projects such as Tianjin LNG Project and Malaysia RAPID Oil Refining Project, etc.

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

	Year ended 31 December				
	2018		2017		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB'000)	(%)	(RMB'000)	(%)	(%)
PRC	36,932,325	78.5	21,946,224	60.6	68.3
Overseas	10,086,699	21.5	14,262,499	39.4	(29.3)
Total	47,019,024	100.0	36,208,723	100.0	29.9

During the Reporting Period, the revenue of the Group generated in the PRC was RMB36.932 billion, representing an increase of 68.3% on a period-on-period basis, mainly because certain large EPC Contracting projects, such as Zhong'An Project and Zhongke Project, generated more revenues. The revenues of the Group generated from overseas was RMB10.087 billion, representing a decrease of 29.3% on a period-on-period basis, mainly because large overseas projects such as the Malaysia RAPID Oil Refining Project and FCC Project of Kazakhstan Atyrau Refinery entered into the final settlement stages, and thus decreased overseas backlog.

As at the end of the Reporting Period, the backlog of the Group amounted to RMB94.935 billion, representing an increase of 4.3% as compared with that as at 31 December 2017, and 2 times of the total revenue of RMB47.019 billion in 2018. During the Reporting Period, the value of new contracts amounted to RMB50.927 billion, representing an increase of 30.4% on a period-on-period basis.

During the Reporting Period, representative domestic projects that the Group signed include: Zhongke Project (oil refining, chemical industry and power station part), Sinopec-SABIC Petrochemical 260 Ktpa polycarbonate project (hereunder abbreviated as "Sinopec-SABIC Project") and Sinopec Luoyang Company EPC Contracting project for residue hydrotreating upgrade project (hereunder abbreviated as "Luoyang Residue Hydrogenation Project"), Sinochem Quanzhou Petrochemical Co., Ltd. 800 Ktpa paraxylene unit EPC Contracting project (hereunder abbreviated as "Sinochem Quanzhou Project"), etc.

Representative overseas projects that were signed by the Group include: Saudi SABIC GAS Phase-9 Air Separation Project (hereunder abbreviated as "SABIC Air Separation Project"), Kuwait New Collection Center (GC-32) Project (hereunder abbreviated as "Kuwait Air Collection Center Project"), Saudi Basic Industries Corporation (SABIC) affiliated national fertilizer company IBN AL-BAYTAR (IBB) ammonia reliability retrofit EPC Contracting project (hereinafter referred to as "Saudi IBB Ammonia Project"), Kuwait National Petroleum Corporation (KNPC) Kuwait MAA refinery UNIFLUX heating furnace replacement EPC Contracting project (hereinafter referred to as "Kuwait Heating Furnace Renovation Project), etc.

During the Reporting Period, our capital expenditure was RMB402 million, which was mainly used for the production base improvement, information system construction, construction machinery and engineering professional software purchase. The discussions on the Group's environmental policies, relationships with its major stakeholders and compliance with applicable laws and regulations which have significant influence on the Group are set out in the "Report on Corporate Environmental, Social and Governance" from page 108 to page 111 of 2018 annual report of the Company.

3.2 Business Highlights

3.2.1 Successful implementation of major projects

Zhongke 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 overall completion percentage of this project was more than 40%. The design development was almost completed, the civil works were completed and equipment installation has comprehensively started.

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 currently at the stage of design development. The workers are working on pile foundation and underground pipeline on site. The overall completion percentage of this project was more than 20%.

Zhong'An 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 was at the interim-handover and communicating preparation stage. The completion percentage of this project has exceeded 90%, and overall quality and safety are under control.

Sinochem Quanzhou 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 is at implementation stage and the completion percentage of this project is approximately 30%, and underground pipe and civil work construction were in the process onsite.

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 end phase onsite, the overall progress has exceeded 90%, the detailed design is fully completed and the procurement and construction is approaching the end.

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 completion percentage of this project has exceeded 80%, ranking 1st among all EPC projects while the HSE, quality, progress, expense and other items related to this project were under control.

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, the project was nearly completed. All mechanical work on site has been completed and the devices were about to enter in the start-up and delivery stage.

FCC Project of Kazakhstan Atyrau Refinery: The scope of work under the contract for this project mainly covers the engineering, procurement, construction and 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 has completed all aspects of project engineering, procurement, construction and commissioning, and all devices were successfully ramped up and delivered to owners successively.

3.2.2 Continuous enhancement of project assurance capability being strengthened continuously

Leveraging the organizational support from the Group, we have established a number of key project work coordination groups based on project characteristics and construction needs. We gave a full play to the overall synergy of the Group and strengthened organizational coordination. We tightened our project monitoring system and established a triple warning mechanism to promote project efficiency and progress, and correct error in a timely manner so as to guarantee the smooth implementation of the project. We established a class-specific management mechanism for projects and published, the list of key projects of the Group yearly. We fully monitored the progress of key projects, ensured early planning, overall coordination, internal resource integration and optimization so as to ensure the quality and safety of projects. The Company's subsidiaries also made full use of their professional management advantages in project execution, proactively provided services to owners and participated in the construction of the Group and the owners. They acted as guarantees for smooth progress of projects.

We established a unified subcontracting database of projects, in order to reduce subcontracting costs and fully opitimize project management. We increased our input in cultivating Level A subcontractors, as a way to maintain our market shares. We also established long-term cooperation with subcontractors and took steps to increase their stickiness to us. In addition, we also helped them to improve their familiarity with the management system of the Group, so as to ensure smooth progress of projects.

We closely monitored the implementation of settlement plans, analyzed problems existing in project settlement and followed up with the project pipeline management. On such basis, we carried out various corresponding policies and measures to strengthen our ability in process management so as to confirm the progress of the projects and make necessary adjustments to the contracts in a timely manner.

3.2.3 Significant results in market development

During the Reporting Period, the Group seized the opportunity of market recovery, made full use of its overall advantages in its industry, business and technical chains, and expanded its presence in the market in a proactive manner. During the Reporting Period, the value of new contracts entered into by the Group was RMB50.927 billion, among which, the value of newly signed domestic contracts amounted to RMB45.925 billion, and the value of newly signed overseas contracts amounted to approximately RMB5.002 billion.

In the PRC, during the Reporting Period, the Group entered into new contracts for a number of large projects, such as Zhongke 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, Luoyang Residual Oil Hydrotreating Project with a total contract value of approximately RMB1.842 billion, Sinochem Quanzhou Project with a total contract value of approximately RMB1.506 billion. In overseas markets, during the Reporting Period, the Group entered into new contracts for a number of large projects, such as Saudi SABIC Air Separation Project with a total contract value of approximately RMB1.756 billion, Kuwait Air Collection Center Project with a total contract value of approximately RMB867 million, Saudi IBB Ammonia Project with a total contract value of approximately RMB666 million, and Kuwait heating furnace renovation project with a total contract value of approximately RMB206 million.

In addition to the above projects, the Group also followed up with several projects in oil refining, petrochemical engineering, new coal chemical, energy saving and environmental protection fields, and the Company is expected to sign the contracts with the relevant parties regarding such projects in the future.

3.2.4 Continuous promotion of scientific and technological innovation and technology advancement

All engineering technology R&D activities has been steadily promoted

- We carried out various researches and development activities focusing our main businesses. During the Reporting Period, we carried out 201 key scientific research projects, in fields where we have comparative advantages such as petroleum refining, petrochemical, inorganic chemical, construction and manufacturing businesses and environment-friendly technologies such as CO_2 utilization, solid waste recycling, and fiber bio-catalytic preparation of bio-based aviation fuel. These researches reflected the increasing demands of the technical market and embodied the overall guiding ideas of “taking energy and chemical as our basis and seeking innovation driving, global development and value focusing”.

- Key scientific research projects saw major progresses: Our research tasks and a series of key research projects, such as large size liquefied natural gas (LNG) receiving station engineering complete set technology are completed during the Reporting Period. Meanwhile, seven key research projects such as complete set of technology for production of premium hydroisomerization dewax base oil and new complete set of sulfuric acid alkylation technology were successfully applied. Several projects, such as coal chemical sewage comprehensive treatment and near-zero emission technology are now at the practical application stage. Finally, the application of the second-generation of aromatics technology and water-coal slurry gasification technology has entered the site construction stage.

- A number of scientific research findings were applied in practice and promoted in engineering projects. The technical certification concerning ethylene and relevant technologies for Gulei refining-chemical integration was completed. A series of scientific research results, including the fixed weld seam automatic welding technology, were applied in Zhong'An Project and Zhongke Project and substantially improved the efficiency and guaranteed engineering quality.

The Luoyang Technology Research and Development Center supported and spearheaded research and development effort

Key projects such as "Comprehensive Processing of Ebullated Bed Residual Hydrotreating and Relevant Technical Researches" are progressing in an orderly manner. The industrial tests for six projects including "technological development for heating furnace condensation-type ceramic air preheater" are completed. Jointly-developed technologies including "Standardized Research on Collection of Corrosive Data at the Site" have been applied in industrial projects.

The special national key project "A Study on Technologies concerning Chemical Site Pollution Governance along the Yangtze River Delta and Integration Demonstration" was reviewed and approved.

The project "Industrial Application of the Aid Reducing the Emission of Catalytic Cracking Gas NOx" was rewarded with the Annual Sinopec Science Advancement Award (third prize). The "Regenerable Absorption Process for SOx Cleanup (RASOC) Technology and LAS Absorbent" was granted with the key support technical certificate for environment protection and clean production in petroleum and petrochemical industries recognized by China Petroleum and Chemical Industry Federation and China Chemical Industry Environmental Protection Association.

Increasing number of patent applications

During the Reporting Period, the Group completed 532 new patent applications, among which, 327 or 61.5% of such patent applications are invention patents applications. 332 of them are licensed patents and 115 of such licensed patents are invention patents.

We continued to achieve numerous fruitful results in technological innovation

During the Reporting Period, the Group was awarded with various awards in scientific innovation and engineering construction fields at the provincial and above level. Among these awards, there were 3 national scientific advancement awards. Among these three awards, 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" were awarded the first prize of national science and technology progress. The Group was also awarded with the Sinopec Science and Technology Progress Award for 19 projects. Among these 19 awarded projects, 6 of them were awarded with the first prize, 4 of them were awarded with second prize and 9 of them were awarded with third prize. The Group was also awarded with 15 provincial and ministerial scientific advancement awards (8 awards of first prize, 3 awards of second prize and 4 awards of third prize) and 8 excellent design awards (1 national award and 7 provincial and ministerial awards). The Group was also awarded with 30 quality engineering awards, including 2 national gold awards and 5 silver awards and 23 other provincial and ministerial awards.

3.2.5 Completion of the Seperation and Transfer of "Water/Electricity/Gas Supply and Property Management"

For legacy reasons, the production and operation auxiliary facilities of certain subsidiaries of the Company have undertaken part of the water supply, electricity supply, heat supply (gas supply) and property management services (the "Water/Electricity/Gas Supply and Property Management") in their employee living areas. According to the "Notice of the Office of the State Council on the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance Regarding the Guidelines Related to the Separation and Transfer of "Water/Electricity/Gas Supply and Property Management" in the Employee Living Areas of the State-owned Enterprises" (Guobanfa [2016] No. 45) (《國務院辦公廳轉發國務院國資委、財政部關於國有企業職工家屬區「三供一業」分離移交工作指導意見的通知》 (國辦發[2016]45號)), the "Measures for Administration of Subsidies from the Central Treasury for the Separation and Transfer of "Water/Electricity/Gas Supply and Property Management" in the Employee Living Areas of the State-owned Enterprises Supervised by the Central Government" (Cai Zi [2016] No. 38) (《中央企業職工家屬區「三供一業」分離移交中央財政補助資金管理辦法》 (財資[2016]38號)) and other relevant documents, the separation and transfer of the "Water/Electricity/Gas Supply and Property Management" in their employee living areas (the "Separation and Transfer") shall be implemented by the state-owned-enterprises nationwide comprehensively. For details relating to the Separation and Transfer, please refer to the Company's announcement dated 10 January 2019.

The Separation and Transfer of "Water/Electricity/Gas Supply and Property Management" is a major initiative to streamlining the social functions undertaken by state-owned enterprises. It allows the state-owned enterprises such as the Group to reduce their liabilities, focus on their major businesses, and promote their long-term development. As such, the directors of the Company were of the view that the Separation and Transfer is fair and reasonable, and is of the interests of the Company and its shareholders as a whole.

Following the requirements of the Ministry of the Finance, the State-owned Assets Supervision and Administration Commission of the State Council and other relevant authorities (the "Relevant Authorities of the State"), the Group implemented the Separation and Transfer comprehensively in 2018. The Separation and Transfer mainly require necessary maintenance and renovation on the related equipment and facilities, in order to reach the average level of urban infrastructures. Household units will be established, electric meters will be set up, and charges will be imposed on each household unit, and such equipment and facilities will be then transferred to professional enterprises or institutions (the "Transfer"). The transfer was substantially completed by the end of 2018 pursuant to the requirements of the Relevant Authorities of the State.

As at the end of the Reporting Period, pursuant to the relevant policies of the State, the total value of the assets (including lands) transferred by relevant subsidiaries of the Company to the relevant receiving parties on a free-of-charge basis amounted to approximately RMB189 million. The total maintenance and renovation expenses approved by the institutions authorized by the State amounted to approximately RMB632 million. The other maintenance and renovation expenses amounted to approximately RMB179 million. The total government subsidies received in 2018 amounted to approximately RMB123 million. The total net expenses incurred by the Group in 2018 amounted to approximately RMB877 million. Pursuant to the International Financial Reporting Standards, the above expenses and government subsidies shall be categorized as "non-recurring profits or losses". If not taking into account such effects, the net profit as at the end of the Reporting Period was RMB2.557 billion, with an increase of 126.2% on a year-to-year basis. Pursuant to the China Accounting Standards for Business Enterprises, the assets (including lands) transferred to the receiving parties on a free-of-charge basis and the renovation expenses approved by the authorized institutions will offset against equity attributable to equity holders (For certain financial data under the China Accounting Standards for Business Enterprises, please refer to section "SIGNIFICANT EVENTS - 1. H Shares appreciation rights scheme" in the Company's 2018 Annual Report).

3.2.6 Continuous expansion of the environmental protection business and energy saving

During the Reporting Period, the Group signed energy saving and environmental protection contracts with a value of RMB2.169 billion. These contracts are mainly related to 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, environmental protection control project of sulphur recovery in Sinopec Guangzhou Branch and boiler flue gas denitration reconstruction project of Yangzi Petrochemical Company and etc.

To save energy, the Group has actively propelled the progress of 46 existing contract energy management projects of Sinopec Group and signed contract for 14 projects, contract negotiation, preparation of feasibility reports or plans for remaining projects are under way. The Group is actively organizing and implementing communications on energy saving technology to enrich energy saving technological resources.

In the field of environmental protection, the Group has signed the EPC project for site pollution restoration, abatement and control project of Dongli plant of Polyether Department of Sinopec Tianjin Petrochemical. 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 the Company, has implemented CO_2 trap, conversion demonstration device program research and the initial stage work of project.

3.2.7 Smooth progress in digital engineering application

During the Reporting Period, the Group has been stably promoting the construction of digital factories. In this regard, the Group published the national standard, the Standard of Digital Delivery for Oil Refining and Petrochemical Project. Our digital archives was listed as a national pilot project. Further application of engineering design and production line were used overseas projects, such as Malaysia RAPID Oil Refining Project, Kuwait Oil Refining Project, and US Formosa Plastics Project. We promoted the intelligent P&ID application for key projects, such as Zhongke Project, Sinopec-SABIC Project and Zhenhai Project. We also improved the digital delivery platform, the independent innovation in professional 3D design for equipment and structures, the integrated application of standardized design, electronic archiving, digitalized publishing and reform in the modes of digitalized, networked and intelligent engineering design. All of them promoted the engineering service ability and providing powerful support for the construction of intelligent factories.

3.2.8 Continuous promotion of production safety

The Group always adheres to a people-oriented QHSSE (quality, occupational health, safety, public security and environment) core value. The Group positions the QHSSE management system as the main thread, and focuses on the construction of a long-term mechanism and aims to implement the accountability system comprehensively. The Group strives to thoroughly identify security risks and major latent risks, strengthen its risk control and cement its "three foundation" management. The Group spares no efforts to promote the construction of quality safety standardization and construction of intrinsic safety ability. The Group also constantly improves its QHSSE management by organizing multi-level training, deepening the design of intrinsic safety management, enhancing supervision and inspection, and further promotion of quality elevation activities and other measure alike. In line with its management philosophy of "all staffs, entire process, all around and all weather", The Group keeps improving its QHSSE management of overseas projects, so as to ensure successful progress of overseas projects.

As at the end of the Reporting Period, no major safety, quality, environmental, occupational health or overseas public safety accidents occurred in the Group thanks to all employees' dedication and strict management. As a result, an aggregate of 221.88 million labour safe hours were realised during the Reporting Period.

3.3 Business Prospects

Looking ahead to 2019, it is expected that as the global industrial production will slow down and the tension of the trade environment will heighten, there will be more uncertain factors affecting the recovery of the world economy. At the same time, China's economy will grow steadily with increasing uncertainties and challenges. It faces both complex and severe external environment and domestic downward pressure, As such, the economic growth rate is expected to maintain in reasonable interval. The international oil market is accelerating rebalancing in 2019, 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 2019, it is expected that the global industrial investment will continue to grow, and some projects in the national seven petrochemical industry bases and Sinopec Group's four world-class refining bases will have substantial progresses. It is also expected that the production and management in China's refining, chemical engineering industry will be significantly improved, while resource competition will be more intense, and engineering companies still face great cost control pressure.

In 2019, the Group will actively grasp the improvement of the domestic market environment, make full use of its advantages such as collectivisation, integration and economies of scale, continuously enhance its core competitive 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 2019, the target domestic new contract value of the Group is RMB45.0 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

In 2019, the Group will systematically promote the reform and innovation in line with market development. The Group has been optimizing the configuration of internal resources, exploring the integration of information technology resources and building the information and digital industry platform for the Group. The Group also promotes regional resource optimisation, achieves complementary advantages of engineering companies and construction enterprises, creates a total force, reduces marginal costs, and improves overall efficiency and competitiveness. Meanwhile, the Company will follow up with the precedents of the world's leading engineering enterprises and further optimize its corporate governance structure in reliance of its own strategies and strengths and in line with the principle "Streamlizing and Efficiency".

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

In 2019, the Group will adhere to the green low-carbon development strategy and vigorously expand new business areas and new business models. The Group will 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 favorable opportunity of natural gas market, vigorously explore natural gas purification plant, pipeline, receiving station and other engineering markets. The Group will also promote the market development by diversifying the funding channels and participate in various public-private-partnership ("PPP") projects in sewage management, industrial parks construction and infrastructure construction. The Group will also engage its subsidiaries, patents operations and suppliers in the investments through multiple means to make the investments in an efficient and precise manner.

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

In 2019, the Group will carry out various measures to ensure the smooth implementation of the in-progress projects. The Grop will increase the process control over newly launched large projects and make improvements in the reviewing of the commencement report and major plans of the projects. The Group will focus on the risk assessment of the projects, make quantitative analysis of their overall progress, take corrective measures promptly and conduct dynamic analysis of project cost. The Group will improve the project management and self-inspection systems, further optimize the design management, plan and precision system and further strengthen the EPC capability through such optimization measures. The Group will strengthen the management of man hours, optimize the balance of the human resources of projects and provide more accurate basis for subsequent bidding and quotations.

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

In 2019, the Group will seize the opportunities of "The Belt and Road" strategy, make full use of its advantages under unified brands and build a market development system that features the joint actions taken by the headquarters, subsidiaries and overseas institutions. The Group will strengthen its analysis and studies on 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 and expand the export of SINOPEC technology, engineering and equipment.

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

In 2019, in line with technology development in the market, the Group will continue to access to technological progress, create business growth through innovations and strengthen its technical capabilities to solid its leading position in the market. The Group will follow the basic principle "technical management serves the project, and technology innovations win the market" in its daily operation. Leveraging the Group's strengths in petrochemical industry, new coal chemical industry, medicine, inorganic chemical industry and large scale construction technology, the Group will actively develop and introduce new technologies, optimize resource allocation in research and development fields, especially in environmental engineering technology areas, and make use of external resources to create a win-win situation. The Group will also utilize the innovative resources of the research and development center, establish a network of innovative technologies, enhance the sharing and application efficiency of innovative resources, talents and new technology achievements in the Group, and thus 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

In 2019, the Group will actively explore the energy conservation and environment protection markets. The Group will enage its energy saving subsidiaries to provide energy conservation diagnosis and solutions, and explore external business markets such as steel, electric power and coal chemical markets, so as to further expand contractual energy management business and realize profits in such fields. The Group will organize technical communications concerning advanced energy conservation technologies, enrich its technological resources and promote application and piloting of advanced technologies. In soil restoration area, the Group will ensure execution of winning projects, ensure preparation services for site restoration projects for the Group's petrochemical relocation, and also organize communications concerning advanced technologies, so as to improve its market competence. The Group will also strive to explore external market by various cooperation modes.

3.3.7 Promote the establishment of modern human resource management system

In 2019, in line with the strategy to build a world first-class engineering company, the Group will continue to attach great importance to the talent teambuilding, optimize its policies and measures, and initiate reform and innovation in various areas. It will stress the integration of enterprise strategies, corporate culture and human resources management and, by taking target management as the basis, establish complete, regulated, flexible and prudent human resources management mechanism. In addition, the Group will also further improve its remuneration system in which the post-specific salary is adjusted dynamically with performance. Oriented by efficiency and benefits, the Group will speed up the construction of overseas remuneration and welfare system by referring corresponding overseas remuneration and welfare systems. In combination of its business characteristics, the Group will construct a domestic-overseas integrated remuneration management mode suitable for engineering construction enterprises. The Group will also formulate teambuilding targets and training measures for five talent teams, including management team, professional technical team, skill operating team, international talent team, and project manager team. Lastly, the Group will regulate its professional title evaluation, sophisticated talent election, talent growth channels and recruitment procedures, enhance talent teambuilding, and provide human resources support for business development.

3.3.8 Comprehensive commencement of constructing the engineering cloud platform

In 2019, the Group will further improve information reform, exert its overall advantage, cement its foundation and safety defense, stress standardization and integration, and enhance its ability and thus create a first-class enterprise. The Group will eliminate information isolation, continue to promote further application of enterprise resource planning ("ERP"), promote overseas pilot application of ERP, and promote the application of the Build-Work big data analysis in its daily work, and achieve the management and operation in a standardized, streamlized and efficient manner. The Group will focus on the data-based governance, promote the construction of digitalized factory platforms, increase the coverage of the use of engineering data cloud platforms and promote the operation of the engineering cloud platform. The Group will also promote the construction of "big data", "big application" and "big platform" comprehensively, and will work hard to build new business model, new industry mode and new practice areas driven by the intelligence and information innovations in the engineering industry.

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 increased by 29.9% from RMB36.209 billion for the year ended 31 December 2017 to RMB47.019 billion for the year ended 31 December 2018, which was mainly due to the increase of income as a result that large EPC Contracting projects such as Zhong'An Project and Zhongke Project have entered startup period.

4.1.2 Cost of sales

The cost of sales of the Group increased by 30.0% from RMB32.183 billion for the year ended 31 December 2017 to RMB41.823 billion for the year ended 31 December 2018, which was mainly due to the corresponding increase of the cost of subcontracting, equipment and materials together with income growth.

4.1.3 Gross profit

The gross profit of the Group increased by 29.0% from RMB4.026 billion for the year ended 31 December 2017 to RMB5.196 billion for the year ended 31 December 2018. Gross profit margin was 11.0%, on a remaining broadly stable on a year-on-year basis. The gross profit margin of the Construction segment increased significantly on a year-on-year basis, due to profit increased by some completed construction projects; while the gross profit margin of the EPC Contracting segment decreased on year-on-year basis, due to the increased price of materials, equipment and labor.

4.1.4 Other income

The other income of the Group increased by 202.7% from RMB185 million for the year ended 31 December 2017 to RMB559 million for the year ended 31 December 2018, which was mainly due to the exchange gains caused by the rise of the USD/RMB exchange rate during the Reporting Period.

4.1.5 Selling and marketing expenses

The selling and marketing expenses of the Group were RMB124 million, remaining broadly stable on a year-on-year basis.

4.1.6 Administrative expenses

The administrative expenses of the Group were RMB1.299 billion, remaining broadly stable on a year-on-year basis.

4.1.7 Research and development costs

The research and development costs of the Group increased by 67.1% from RMB1.003 billion for the year ended 31 December 2017 to RMB1.676 billion for the year ended 31 December 2018, which was mainly due to the Group's efforts in research and development of petroleum refining, petrochemical, inorganic chemical, environmental protection and other process technologies, as well as increased digital engineering design and construction automation R&D investment.

4.1.8 Other operating expenses

The other operating expenses of the Group decreased by 95.4% from RMB798 million for the year ended 31 December 2017 to RMB37 million for the year ended 31 December 2018, which was mainly due to the decrease in provision for impairment of receivables on year-on-year basis in the Reporting Period; and the exchange losses caused by the depreciation of US dollar in the same period last year.

4.1.9 Other losses - net

The net other losses of the Group increased from RMB2 million for the year ended 31 December 2017 to RMB1.185 billion for the year ended 31 December 2018, which was mainly due to the impact of the Separation and Transfer during the Reporting Period. For details, please refer to the announcement issued by the Company on 10 January 2019.

4.1.10 Operating profit

Due to the foregoing reasons, the operating profit of the Group increased by 29.1% from RMB1.112 billion for the year ended 31 December 2017 to RMB1.436 billion for the year ended 31 December 2018.

4.1.11 Financial income - net

The net finance income of the Group increased by 29.7% from RMB510 million for the year ended 31 December 2017 to RMB662 million for the year ended 31 December 2018, which was mainly due to (i) the increase of interest income from our bank deposits; and (ii) the increase of interest income arising from our entrusted loans to the ultimate holding company. Please refer to the Company's circular dated 19 September 2018.

4.1.12 Income tax expense

The Group's income tax expense decreased by 12.5% from RMB505 million for the year ended 31 December 2017 to RMB442 million for the year ended 31 December 2018, and effective income tax rate decreased from 30.9% to 20.8% on a period-on-period basis. This is mainly due to profit fluctuation of several subsidiaries which are subject to different tax rates and national tax incentives.

4.1.13 Profit for the year

Due to the above reasons, the profit in the Reporting Period increased by 48.6% from RMB1.130 billion for the year ended 31 December 2017 to RMB1.680 billion for the year ended 31 December 2018.

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 increased by 47.5% from RMB998 million for the year ended 31 December 2017 to RMB1.473 billion for the year ended 31 December 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 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 2018 (RMB'000)	As at 31 December 2017 (RMB'000)	Change (%)
Engineering, consulting and licensing	7,797,111	7,838,104	(0.5)
EPC Contracting	73,892,040	67,712,961	9.1
Construction	12,731,186	14,896,489	(14.5)
Equipment manufacturing	515,127	580,390	(11.2)
Total	94,935,464	91,027,944	4.3

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 2018 (RMB'000)	As at 31 December 2017 (RMB'000)	Change (%)
Oil refining	33,542,698	32,541,555	3.1
Petrochemicals	29,395,716	24,224,871	21.3
New coal chemicals	10,491,448	15,386,301	(31.8)
Other industries	21,505,602	18,875,217	13.9
Total	94,935,464	91,027,944	4.3

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

	As at 31 December 2018 (RMB'000)	As at 31 December 2017 (RMB'000)	Change (%)
PRC	71,720,786	62,728,624	14.3
Overseas	23,214,678	28,299,320	(18.0)
Total	94,935,464	91,027,944	4.3

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 2018 (RMB'000)	As at 31 December 2017 (RMB'000)	Change (%)
Sinopec Group and its associates	46,294,473	37,667,990	22.9
Non-Sinopec Group and its associates	48,640,991	53,359,954	(8.8)
Total	94,935,464	91,027,944	4.3

As at 31 December 2018, the Group's backlog was RMB94.935 billion, representing an increase of 4.3% from that as at 31 December 2017, and 2 times of the total revenue of RMB47.019 billion in 2018.

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		
	2018	2017	Change
	(RMB'000)		(%)
Engineering, consulting and licensing	2,883,414	3,704,714	(22.2)
EPC Contracting	35,314,894	19,838,314	78.0
Construction	12,236,631	14,685,028	(16.7)
Equipment manufacturing	491,605	835,348	(41.1)
Total	50,926,544	39,063,404	30.4

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		
	2018	**2017**	**Change**
	(RMB'000)		(%)
Oil refining	18,750,233	14,160,084	32.4
Petrochemicals	22,304,787	16,743,703	33.2
New coal chemicals	3,946,775	2,373,623	66.3
Other industries	5,924,749	5,785,994	2.4
Total	50,926,544	39,063,404	30.4

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		
	2018	**2017**	**Change**
	(RMB'000)		(%)
PRC	45,924,486	29,070,365	58.0
Overseas	5,002,058	9,993,039	(49.9)
Total	50,926,544	39,063,404	30.4

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		
	2018	**2017**	**Change**
	(RMB'000)		(%)
Sinopec Group and its associates	33,472,018	13,029,781	156.9
Non-Sinopec Group and its associates	17,454,526	26,033,623	(33.0)
Total	50,926,544	39,063,404	30.4

During the Reporting Period, the value of the Group's new contracts was RMB50.927 billion, representing an increase of 30.4% 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 distribution.

4.3.1 Assets, Liabilities and Equity

Units: RMB'000

	As at 31 December 2018	As at 31 December 2017	Changes
Total assets	70,872,740	59,405,621	11,467,119
Current assets	63,837,953	51,864,822	11,973,131
Non-current assets	7,034,787	7,540,799	(506,012)
Total liabilities	44,889,591	33,814,616	11,074,975
Current liabilities	41,998,840	31,015,076	10,983,764
Non-current liabilities	2,890,751	2,799,540	91,211
Non-controlling interests	4,503	4,166	337
Net assets	25,983,149	25,591,005	392,144
Equity attributable to equity holders of the Company	25,978,646	25,586,839	391,807
Share capital	4,428,000	4,428,000	0
Reserves	21,550,646	21,158,839	391,807

As at the end of the Reporting Period, the total assets of the Group were RMB70.873 billion, the total liabilities were RMB44.890 billion, the non-controlling interests were RMB5 million, and the equity attributable to the equity holders of the Group was RMB25.979 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 RMB70.873 billion, increased by RMB11.467 billion as compared with that as at the end of 2017. In particular, the current assets were RMB63.838 billion, increased by RMB11.973 billion as compared with that as at the end of 2017, mainly attributable to an increase of RMB3.844 billion for contractual assets, an increase of RMB5.337 billion for cash and cash equivalents, an increase of RMB2.673 billion for prepayments and other receivables, an increase of RMB2.500 billion for receivables due from the ultimate holding company; the non-current assets were RMB7.035 billion, decreased by RMB506 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 RMB44.890 billion, increased by RMB11.075 billion as compared with that as at the end of 2017. In particular, the current liabilities were RMB41.999 billion, increased by RMB10.984 billion as compared with that as at the end of 2017, mainly due to payables of the notes and trade increased by RMB14.666 billion, other payables increased by RMB1.549 billion, and the contract liabilities decreased RMB5.177 billion. The non-current liabilities were RMB28.908 billion, increased by RMB91 million as compared with that as at the end of 2017, mainly due to the increase of RMB100 million in retirement and other supplemental benefit obligations.

The total equity attributable to equity holders of the Company was RMB25.979 billion, increased by RMB392 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 increase in cash and cash equivalents was RMB4.949 billion and net cash generated from operating activities was RMB6.104 billion. The following table sets forth the main items and their changes in the Group's consolidated cash flow statements for the year ended 31 December 2018 and 2017, respectively.

Units: RMB'000

	Year ended 31 December	
Major items of cash flow	**2018**	**2017**
Net cash generated from operating activities	6,104,192	4,240,508
Net cash used in investing activities	23,954	(3,801,257)
Net cash used in financing activities	(1,179,216)	(179,062)
Net increase in cash and cash equivalents	4,948,930	260,189

During the Reporting Period, the profit before taxation was RMB2.122 billion, and the profit was RMB2.167 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 RMB713 million, exchange gains amounted to RMB493 million, net interest income was RMB662 million, and assets handed over in the Separation and Transfer were RMB189 million. Operational receivables and payables increased cash inflow to RMB4.261 billion, which were mainly shown in: increased trade and other payables balance, causing the cash inflow from operating activities of RMB15.840 billion; decreased inventory balance, causing the cash inflow from operating activities of RMB181 million; increased contractual assets, causing the cash outflow from operating activities of RMB3.862 billion; decreased contractual liabilities, causing the cash outflow from operating activities of RMB5.177 billion; increased trade and other receivables balance, causing the cash outflow from operating activities of RMB2.708 billion.

After adjusting non-cash items, receivables and payables for the profit before taxation, and deducting the income tax paid amounting to RMB588 million, increasing received interest amounting to RMB263 million and the net cash generating from operating activities was RMB6.104 billion.

Net cash generated from investing activities was RMB24 million, mainly due to the purchase of plants and equipment to increase cash outflow of RMB229 million, the recovery of fixed deposits to increase cash inflow of RMB2.340 billion, the lendings to the ultimate holding company to increase cash outflow of RMB2.500 billion, and the interests generated from the lendings from the ultimate holding company increased by RMB517 million.

Net cash used in financing activities was RMB1.179 billion, mainly due to the cash 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	
Main financial ratios	**2018**	**2017**
Net profit margin (%)	3.6	3.1
Return on assets (%) (1)	2.6	1.9
Return on equity (%) (2)	6.5	4.4
Return on invested capital (%) (3)	6.7	4.6

Main financial ratios	**As at 31 December 2018**	**As at 31 December 2017**
Gearing ratio (%) (4)	1.5	1.7
Net debt to equity ratio (%) (5)	net cash	net cash
Current ratio (6)	1.5	1.7
Quick ratio (7)	1.5	1.7

(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 increased to 2.6% from 1.9% for the same period in 2017, mainly due to the increase in net profit during the Reporting Period.

Return on equity

The Group's return on equity increased to 6.5% from 4.4% 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 increased to 6.7% from 4.6% for the same period in 2017 for the same reasons as the increase in return on equity.

Gearing ratio

The Group's gearing ratio decreased to 1.5% from 1.7% at the end of 2017, mainly due to the decrease in interest-bearing borrowings at the end of the Reporting Period.

Net debt to equity ratio

The Group maintained positive net cash as at 31 December 2017 and as at 31 December 2018.

Current ratio

The Group's current ratio decreased to 1.5 from 1.7 at the end of 2017, mainly due to the increase of current liabilities during the Reporting Period was greater than the increase of current assets.

Quick ratio

The Group's quick ratio decreased to 1.5 from 1.7 at the end of 2017. The Group's inventory accounts for a small proportion of current assets, for the same reasons as the change in current ratio.

5 Significant Events

5.1 Dividends

At the annual general meeting for the year 2017 convened on 8 May 2018, an ordinary resolution was passed to approve the authorisation to the Board to determine the interim profit distribution plan for the year 2018. The dividend distribution plan of RMB0.100 per share (inclusive of applicable tax) for the six months ended 30 June 2018 was approved at the thirteenth meeting of the second session of the Board convened on 21 August 2018. The dividend distribution plan was implemented.

The final dividend distribution plan for the year ended 31 December 2018 was approved at the second meeting of the third session of the Board. The final dividend distribution shall be calculated based on the total number of Shares as at 21 May 2019 (the "Record Date") and the final cash dividend distribution shall be based on RMB0.124 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 2019 to be held by the Company. The final dividend for the year 2018 will be paid on or before Friday, 19 July 2019 to all Shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 21 May 2019. 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, 15 May 2019 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, 16 May 2019 to Tuesday, 21 May 2019 (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 and Shenzhen 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 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 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) and "Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect" (Caishui [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[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 or 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 or 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.

5.2 Material litigation or arbitration events

During the Reporting Period, the Company was involved in 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 this report.

5.5 Review of Annual Results

The audit committee of the Company has reviewed this annual report. The Audit Committee has not expressed any dissent concerning the financial statements in this 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 23 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 2018, 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 2018 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

Details of the changes in the Company's accounting policies during the Record Period are set out in Note 3 to the financial statement in the Company's 2018 Annual Report.

7.3 Financial Statements

The financial statements prepared in accordance with the IFRS for the year ended 31 December 2018:

7.3.1 Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	2018	2017
	RMB'000	RMB'000
Revenue	47,019,024	36,208,723
Cost of sales	(41,823,450)	(32,182,551)
Gross profit	5,195,574	4,026,172
Other income	559,214	184,718
Selling and marketing expenses	(123,546)	(114,836)
Administrative expenses	(1,298,652)	(1,181,032)
Research and development costs	(1,675,692)	(1,002,907)
Other operating expenses	(36,812)	(797,788)
Other losses - net	(1,184,552)	(2,060)
Operating profit	1,435,534	1,112,267
Finance income	780,375	600,926
Finance expenses	(118,014)	(90,432)
Finance income - net	662,361	510,494
Share of loss of joint arrangements	(46)	(1,372)
Share of profit of associates	23,666	13,712
Profit before taxation	2,121,515	1,635,101
Income tax expense	(441,706)	(504,869)
Profit for the year	1,679,809	1,130,232

	2018	2017
	RMB'000	RMB'000
Other comprehensive income for the year, net of tax		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	(49,746)	(119,110)
Item that will not be reclassified subsequently to profit or loss:		
Losses on revaluation of retirement benefit plans obligations, net of income tax effect	(157,487)	(12,984)
Other comprehensive expense for the year, net of tax	(207,233)	(132,094)
Total comprehensive income for the year	1,472,576	998,138
Profit attributable to:		
Equity holders of the Company	1,679,472	1,129,974
Non-controlling interests	337	258
Profit for the year	1,679,809	1,130,232
Total comprehensive income attributable to:		
Equity holders of the Company	1,472,239	997,880
Non-controlling interests	337	258
Total comprehensive income for the year	1,472,576	998,138
	RMB	RMB
Earnings per share for profit attributable to equity holders of the Company during the year		
(expressed in RMB per share)		
– Basic and diluted	0.38	0.26

7.3.2 Consolidated Statement of Financial Position

As at 31 December 2018

	2018	2017
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	3,496,474	3,855,852
Land use rights	2,442,793	2,580,781
Intangible assets	164,081	223,440
Investment in joint arrangements	1,866	3,221
Investment in associates	147,454	123,788
Financial assets at fair value through other comprehensive income	680	—
Available-for-sale financial assets	—	2,750
Deferred income tax assets	781,439	750,967
Total non-current assets	7,034,787	7,540,799
Current assets		
Inventories	400,921	582,257
Notes and trade receivables	9,726,429	9,676,444
Prepayments and other receivables	4,820,469	3,970,334
Amounts due from customers for contract work	—	6,053,340
Contract assets	11,720,597	—
Loans due from the ultimate holding company	18,000,000	15,500,000
Restricted cash	29,468	16,087
Time deposits	2,142,406	4,405,700
Cash and cash equivalents	16,997,663	11,660,660
Total current assets	63,837,953	51,864,822
Total assets	70,872,740	59,405,621

	2018	2017
	RMB'000	RMB'000
EQUITY		
Share capital	4,428,000	4,428,000
Reserves	21,550,646	21,158,839
Equity attributable to equity holders of the Company	25,978,646	25,586,839
Non-controlling interests	4,503	4,166
Total equity	25,983,149	25,591,005
LIABILITIES		
Non-current liabilities		
Retirement and other supplemental benefit obligations	2,636,815	2,536,615
Provision for litigation claims	253,936	262,925
Total non-current liabilities	2,890,751	2,799,540
Current liabilities		
Notes and trade payables	28,686,243	14,020,233
Other payables	2,758,139	6,860,590
Amounts due to customers for contract work	—	9,493,684
Contract liabilities	9,968,594	—
Loans due to a fellow subsidiary	384,339	431,257
Current income tax liabilities	201,525	209,312
Total current liabilities	41,998,840	31,015,076
Total liabilities	44,889,591	33,814,616
Total equity and liabilities	70,872,740	59,405,621
Net current assets	21,839,113	20,849,746
Total assets less current liabilities	28,873,900	28,390,545

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:

	2018 RMB'000	2017 RMB'000
Engineering, consulting and licensing	2,924,408	2,843,657
EPC Contracting	29,135,814	21,056,256
Construction	14,401,934	11,899,210
Equipment manufacturing	556,868	409,600
	47,019,024	36,208,723

7.4.2 Income Tax Expense

	2018 RMB'000	2017 RMB'000
Current tax		
PRC enterprise income tax	376,647	344,656
Overseas enterprise income tax	87,834	113,373
(Over)/Under-provision for income tax in prior years	(25,405)	24,232
	439,076	482,261
Deferred tax		
Origination of temporary differences	2,630	22,608
Income tax expense	441,706	504,869

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 2018 and 2017 is 25%.

According to the normal statutory PRC corporate income tax and relevant rules, 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 2018 and 2017, the majority of the members of the Group are subject to 15% 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:

	2018	**2017**
	RMB'000	RMB'000
Profit before taxation	2,121,515	1,635,101
Taxation calculated at the statutory tax rate	530,379	408,775
Income tax effects of:		
Preferential income tax treatments of certain companies	(255,865)	(118,051)
Difference in overseas profits tax rates	(56,085)	(12,294)
Non-deductible expenses	291,137	218,797
Income not subject to tax	(52,736)	(25,517)
Unrecognised tax losses	10,281	13,327
Utilisation of previously unrecognised tax losses	—	(4,400)
(Over) /Under provision for income tax in prior years	(25,405)	24,232
Income tax expense	441,706	504,869
Effective income tax rate	20.8%	30.9%

7.4.3 Earnings Per Share

(a) Basic

The basic earnings per share for each of the years ended 31 December 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.

	2018	**2017**
Profit attributable to equity holders of the Company (RMB'000)	1.679.472	1,129,974
Weighted average number of ordinary shares in issue	4,428,000,000	4,428,000,000
Basic earnings per share (RMB)	0.38	0.26

(b) Diluted

As the Company had no dilutive shares for the each of the years ended 31 December 2018 and 2017, dilutive earnings per share for the years ended 31 December 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 years ended 31 December 2018 and 2017.

	2018	**2017**
	RMB'000	RMB'000
Interim dividends of RMB0.1 per ordinary share (2017: RMB0.056) (1)	442,800	247,968
Proposed final dividends of RMB0.124 per ordinary share (2017: RMB0.144) (2)	549,072	637,632

(1) Pursuant to a resolution passed at the board of Directors' meeting on 21 August 2018, the Directors authorised to declare the interim dividends for the year ended 31 December 2018 of RMB0.1 (2017: RMB0.056) per share totaling RMB442,800,000 (2017: RMB247,968,000). Interim dividends have been paid in October 2018.

(2) Pursuant to the board of Directors' meeting on 8 March 2019, the Directors recommended to declare the final dividends for the year ended 31 December 2018 of RMB0.124 per share totaling RMB549,072,000 (2017: RMB637,632,000). 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
SANG Jinghua
Vice President, Secretary to the Board

Beijing, the PRC
11 March 2019

As at the date of this announcement, the executive Directors are LU Dong, XIANG Wenwu, SUN Lili (employee representative Director) and ZHOU Yingguan (employee representative Director); the non-executive Directors are YU Baocai and WU Wenxin; and the independent non-executive Directors are Xu Zhaozhong, JIN Yong and YE Zheng.