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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)

2019 Interim Results Announcement

1 Important Notice

- 1.1 This announcement is extracted from the content of the 2019 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 2019 (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. YU Baocai
Authorised Representatives	:	Mr. XIANG Wenwu, Mr. JIA Yiqun
Company Secretary	:	Mr. JIA Yiqun
Place of Business and Correspondence Address	:	Building 8, Shengujiayuan, 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

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 2019	As at 31 December 2018	Changes from the end of 2018 (%)
Total assets	70,563,950	70,872,740	(0.4)
Consolidated equity attributable to equity holders of the Company	26,745,901	25,978,646	3.0
Net assets per share of equity holders of the Company (RMB)	6.04	5.87	3.0

Unit: RMB'000

Items	Six-month periods ended 30 June 2019	Six-month periods ended 30 June 2018	Changes over the same period of 2018 (%)
Revenue	22,682,018	18,335,880	23.7
Gross profit	2,371,953	1,921,486	23.4
Operating profit	1,101,143	997,847	10.4
Profit before taxation	1,513,464	1,335,904	13.3
Profit attributable to equity holders of the Company	1,198,685	1,107,565	8.2
Basic earnings per share (RMB)	0.27	0.25	8.2
Net cash flow used in operating activities	(4,964,239)	(1,032,823)	380.6
Net cash flow used in operating activities per share (RMB)	(1.12)	(0.23)	380.6

Items	Six-month periods ended 30 June 2019	Six-month periods ended 30 June 2018
Gross profit margin (%)	10.5	10.5
Net profit margin (%)	5.3	6.0
Return on assets (%)	1.7	1.8
Return on equity (%)	4.5	4.3
Return on invested capital (%)	4.5	4.3

Items	As at 30 June 2019	As at 31 December 2018
Asset-liability ratio (%)	62.1	63.3

3 Business Review and Prospects

In the first half of 2019, the international and domestic situations were intricate and complicated. The Chinese economy persisted in promoting high-quality development, adhered to supply reforms with emphasis on structural type of improvements, intensified reform and opening up, and continued to maintain economic operations at a reasonable range, which sustained the overall stable, steady and progressive development. The Group has achieved hard-earned business performance by aggressively expanding domestic and overseas markets, strengthening management and command of projects, and improving the elaborate management. During the Reporting Period, the Group recognised a revenue of RMB22.682 billion, representing an increase of 23.7% on a period-on-period basis, and profits attributable to the Company's equity holders of RMB1.199 billion, representing an increase of 8.2% on a period-on-period basis.

In the first half of 2019, taking the opportunities of successive commencements or steady construction progresses of certain projects from the "Seven Major National Petrochemical Industry Bases" and Sinopec Group's "Four World-class Refining and Chemical Bases", the Group seized potential market prospects and exerted its competitive advantages to maintain its market shares. In respect of project implementation, by making overall planning and optimising resources allocation, the Group managed to control costs of subcontracting and procurement, ensuring ongoing projects to be carried out smoothly while the safety, quality and progress are fully under control. During the Reporting Period, the total value of new contracts entered into by the Group was RMB33.220 billion, representing a decrease of 6.4% on a period-on-period basis. As at the end of the Reporting Period, the backlog of the Group was RMB105.473 billion, representing an increase of 11.1% as compared to the end of 2018.

In the second half of 2019, the world economy is still going to be full of challenges. Chinese economy will face more uncertainties, and the trend of international oil prices will remain variable. On the basis of consolidating its conventionally competitive businesses of oil refining and petrochemical engineering, the Group will continue to work on the integrated solutions on industries including natural gas, new coal chemicals, environmental protection and energy saving, establishing an innovative system with technology innovation as the core, as well as further deepening the integration and existing synergies, formalising internal transactions and optimising resources allocation. At the mean time, the Group will closely monitor the market opportunities of the countries along the "Belt and Road", and continue to improve the overall profitability and risk resistance capability of 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 RMB22.682 billion and RMB1.199 billion, respectively. As at the end of the Reporting Period, the Group's backlog was RMB105.473 billion. The value of new contracts entered into by the Group during the Reporting Period was RMB33.220 billion.

The business of the Group is mainly consisted 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				
	2019		2018		
	Revenue	Percentage of	Revenue	Percentage of	Change
	(RMB '000)	total revenue	(RMB '000)	total revenue	(%)
		(%)		(%)	
Engineering, consulting and licensing	1,147,922	4.6	1,402,857	7.1	(18.2)
EPC Contracting	13,852,329	55.6	10,185,271	51.5	36.0
Construction	9,589,987	38.5	7,874,211	39.8	21.8
Equipment manufacturing	318,010	1.3	307,259	1.6	3.5
Subtotal	24,908,248	100.0	19,769,598	100.0	26.0
Total (after inter-segment elimination) ⁽¹⁾	22,682,018	N/A	18,335,880	N/A	23.7

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 RMB22.682 billion, representing an increase of 23.7% on a period-on-period basis. This increase was mainly because several large EPC Contracting projects, such as Zhongke Refining and Chemical Complex Project, Kuwait Oil Refining Project and Sinochem Quanzhou Ethylene Project, had entered peak executive phase during the Reporting Period.

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

	Six-month periods ended 30 June				
	2019		2018		Change
	Revenue (RMB '000)	Percentage of total revenue (%)	Revenue (RMB '000)	Percentage of total revenue (%)	
Oil refining	7,854,494	34.6	6,931,713	37.8	13.3
Petrochemicals	10,913,276	48.1	5,202,464	28.4	109.8
New coal chemicals	2,509,314	11.1	4,159,805	22.7	(39.7)
Other industries	1,404,934	6.2	2,041,898	11.1	(31.2)
Subtotal	<u>22,682,018</u>	<u>100.0</u>	<u>18,335,880</u>	<u>100.0</u>	<u>23.7</u>

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 Zhongke Refining and Chemical Complex Project, Kuwait Oil Refining Project and Sinochem Quanzhou Ethylene Project, have entered peak execution phase. Also, revenue generated from the petrochemical and oil refining industries has grown rapidly period-on-period, among them, revenue generated from the petrochemical industry was RMB10.913 billion, representing an increase of 109.8% on a period-on-period basis; and revenue generated from the oil refining industry was RMB7.854 billion, representing an increase of 13.3% on a period-on-period basis. This increase during the Reporting Period was partially offset due to the completion of Zhong'An Joint Coalification Complex Project, Zhongtian Hechuang Project, Malaysia RAPID Automatic Stereoscopic Warehouse and other projects in new coal chemicals industry and other industries. Hence, revenue generated from the new coal chemicals industry was RMB2.509 billion, representing a decrease of 39.7% on a period-on-period basis; and revenue generated from other industries was RMB1.405 billion, representing a decrease of 31.2% 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				
	2019		2018		Change
	Revenue (RMB '000)	Percentage of total revenue (%)	Revenue (RMB '000)	Percentage of total revenue (%)	
PRC	16,754,294	73.9	12,101,546	66.0	38.4
Overseas	5,927,724	26.1	6,234,334	34.0	(4.9)
Subtotal	<u>22,682,018</u>	<u>100.0</u>	<u>18,335,880</u>	<u>100.0</u>	<u>23.7</u>

During the Reporting Period, the revenue of the Group generated in the PRC was RMB16.754 billion, representing an increase of 38.4% on a period-on-period basis. This increase was mainly because several large EPC Contracting projects, such as Zhongke Refining and Chemical Complex Project and Sinochem Quanzhou Ethylene Project, have entered peak execution phase. The revenue of the Group generated overseas was RMB5.928 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 RMB105.473 billion, representing an increase of 11.1% as compared with that as at 31 December 2018, and 2.2 times of the total revenue of RMB47.019 billion in 2018. During the Reporting Period, the value of new contracts amounted to RMB33.220 billion, representing a decrease of 6.4% on a period-on-period basis.

During the Reporting Period, representative domestic projects signed by the Group include: Fujian Gulei Refining and Petrochemical Integrated Project, Sinopec Tianjin Oil Products Upgrading Project, Sinochem Quanzhou Refinery Revamping and Expansion Project and Shaanxi Yanchang Coal and Oil Resources Comprehensive Utilisation Project. Representative overseas projects signed by the Group include: Oman DUQM Refinery P2 Construction Project, Saudi Aramco Overhaul and Renovation Project and BASF USA Pipeline Prefabrication Project.

During the Reporting Period, the capital expenditure of the Group amounted to approximately RMB145 million, which was mainly used for the production base matching and improvement, construction equipment renewal, information system improvement, software and hardware acquisition, and contract energy management services.

3.2 Business Highlights

3.2.1 *Successful implementation of major projects*

Zhongke Refining and Chemical Complex Project: Please refer to the announcements 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 was at the final detailed design phase. Civil construction, equipment acquisition and steel structure installation were fully implemented. The general progress has exceeded 60%.

Fujian Gulei Refining and Petrochemical Integrated Project: Please refer to the announcement dated 15 April 2019 published by the Company for further details. As at the end of the Reporting Period, the project was at startup phase. The general progress was approximately 10%.

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 general progress of this project was approximately 20%.

Zhong'An Joint Coalification Complex Project: Please refer to the announcement dated 24 November 2014 published by the Company for further details. As at the end of the Reporting Period, except for sewage and waste alkali units, the rest of the project was at the mechanical completion stage.

Sinochem Quanzhou Ethylene Project: Please refer to the announcement dated 6 June 2017 published by the Company for further details. As at the end of the Reporting Period, the general progress of this project had exceeded 60%.

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 this project had exceeded 90%. The project is scheduled to complete all contractual work by the end of this year.

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 had been completed and delivered to the owner.

Saudi Arabia SABIC GAS Phase-9 Air Separation Project: Please refer to the announcement dated 17 April 2018 published by the Company for further details. As at the end of the Reporting Period, the general progress of this project was approximately 40%, among which, the design progress exceeded 80%, the procurement progress exceeded 60%, and the construction progress was approximately 20%. The overall progress, cost, quality and safety were under control.

3.2.2 Continuous enhancement of project assurance capability

During the Reporting Period, leveraging the organisational support, the Group has established a number of coordination groups for key projects based on their respective characteristics and construction needs. The Group gave a full play to the overall synergy and collectivisation advantages, established a project grading management mechanism, published a list of key projects of the Group on a regular basis, comprehensively monitored the progress of key projects, ensured advanced planning and overall coordination of the key projects, implemented process assurance, and integrated and optimised internal resources, so as to warrant the quality and safety of the projects. The Group tightened its project monitoring system and established a triple warning mechanism to promote project efficiency and progress, which corrected errors in a timely manner and guaranteed smooth projects execution.

The Group has set up and put into use a subcontracting management information platform, which improved the level of informationisation on subcontracting management. The Group has introduced the management rules and regulations for strategic subcontractors, intensified the cultivation of strategic subcontractors, further optimised subcontractor resources, maintained the long-term cooperation enthusiasm and viscosity of high-quality subcontractors; meanwhile, the Group deepened the subcontracting management, strengthened supervision, and ensured the implementation of the subcontracting management system, so as to ensure smooth projects execution.

The Group closely monitored and analysed the implementation of settlement plans, thoroughly analysed issues in project settlement and inventory management, carried out corresponding actions and measures to strengthen process management during the execution, and timely confirmed the progress and contractual adjustments.

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 throughout the industry, business and technology chains, and proactively expanded its presence in the market. During the Reporting Period, the value of new contracts entered into by the Group was RMB33.220 billion, accounting for approximately 60.4% of the annual target, representing a decrease of 6.4% on a period-on-period basis; among them, the value of newly signed domestic contracts amounted to RMB31.043 billion, representing a decrease of 3.7% on a period-on-period basis, and the value of newly signed overseas contracts amounted to approximately RMB2.177 billion, representing a decrease of 32.9% on a period-on-period basis.

In the PRC markets, during the Reporting Period, the Group entered into new contracts for a number of large projects, such as Fujian Gulei Refining and Petrochemical Integrated Project with a total contract value of approximately RMB12.513 billion; Sinopec Tianjin Oil Products Upgrading Project with a total contract value of approximately RMB2.601 billion; Sinochem Quanzhou Refinery Revamping and Expansion Project with a total contract value of approximately RMB1.913 billion; and Shaanxi Yanchang Coal and Oil Resources Comprehensive Utilisation Project with a total contract value of approximately RMB1.570 billion. In overseas markets, during the Reporting Period, the Group entered into new contracts for a number of projects, such as Oman DUQM Refinery P2 Construction Project with a total contract value of approximately RMB376 million; Saudi Aramco Overhaul and Renovation Project with a total contract value of approximately RMB376 million; and BASF USA Pipeline Prefabrication Project with a total contract value of approximately RMB826 million.

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

3.2.4 Continuous promotion of innovation and technological advancement

All engineering technology R&D activities have been steadily advanced

The Group carried out various research and development activities with a focus on its main businesses. During the Reporting Period, technological innovation work was closely centered on the demand of petrochemical engineering market needs, and a number of technological research and development activities that around the market product demands were steadily advanced: equipment with the second generation of highly efficient environmental friendly aromatic hydrocarbon technology has been constructed and mechanical completed, and was currently at the production preparation stage; the development of low-cost ethane cracking gas to styrene technology progressed smoothly, and was expected to complete the basic engineering design of the plant in the second half of the year; process package preparation work of the key technologies for hydrogenation of crude oil to produce low-carbon olefins and BTX has been completed.

A number of energy saving and emission reduction technologies have entered the stage of project implementation: zero-discharge treatment technology for high-salt wastewater of the coal chemical project has completed design and been at the stage of construction; integration and development of catalytic cracking technology for heavy oil with high residue and low emission has completed design and been at the stage of construction; and the technology development of VOC removal process for gas-phase polypropylene products was expected to complete all design work by the end of this year. The development of energy saving and emission reduction technology fully reflects the long-term and future-oriented vision of the Company.

Major progresses has been made in key scientific research projects

Significant technological breakthroughs have been made in the treatment of coal chemical wastewater in large-scale biological fluidised bed. The construction and operation of the industrial sewage treatment plant applying such technology overturned the traditional sewage biochemical treatment model and succeeded in the revolutionary sewage treatment process in airtight plant. Compared with the traditional technology, this technology has the characteristics of less floor area, lower operation costs and less investment demand. It can reduce the discharge of waste gas by 80% and the excess sludge by over 40%, which is at the advanced level internationally.

Luoyang Technological Research and Development Center of the Group continuously exerted its own advantages, promoted key technological innovations and efficiency, and constantly strengthened the cooperation with other engineering companies. Leveraging the strength of the Group's subsidiaries in the field of sewage treatment engineering, Luoyang Technological Research and Development Center made collaborative innovation and key breakthroughs, successfully industrialised the large-scale biological fluidised bed sewage treatment technology in Hubei Province, and passed the technical appraisal organised by authoritative organizations. The successful industrialisation of this environmental protection technology marked a historic breakthrough in achieving the high efficiency, installation, sealing and intelligence of sewage treatment in China.

Increasing number of patent applications

During the Reporting Period, the Group completed 310 new patent applications, among which, 198 are invention patents applications, accounting for 63.9%. The Group also had 165 new licensed patents, 80 of which were invention patents.

Continued to achieve numerous fruitful results in technological innovation

During the Reporting Period, the Group received a total of 41 scientific advancement awards in scientific innovation and engineering construction fields at the provincial and above level. Among these awards, there was 1 national science and technology advancement award; 25 provincial and ministerial scientific advancement awards; 1 provincial and ministerial invention award; 1 national excellent design award, 3 high quality projects awards; and 10 provincial and ministerial high quality projects awards.

3.2.5 Environmental protection and energy saving businesses were constantly expanding

During the Reporting Period, the Group signed energy saving and environmental protection contracts with an aggregated value of RMB996 million, including Ji'nan 1.2 Million Tons Coking Plant Environmental Protection Comprehensive Treatment Project, Qingdao Refining and Chemical Company Delayed Coking Plant Airtight Decoking Project, Fujian Zhangzhou Gulei Refining and Petrochemical Integrated Project Sewage Treatment Plant Project, Tianjin Branch Catalytic Cracking Unit Flue Gas Desulfurisation Project, and Gaoqiao SBR Tail Gas VOCs Treatment Project.

In the field of energy saving, the Group has actively promoted the progress of 40 existing contract energy management projects of Sinopec Group, and signed contracts for 14 projects, with the remaining projects being at the stage of contract negotiation, feasibility reports compilation or plan drafting. The Group was actively organising and implementing communications on energy saving technology and enriching energy saving technological resources; actively exploring new market areas such as LNG cold energy utilisation outside the Group, waste gas power generation from landfills, energy saving in chemical industry parks and intelligent energy stations.

In the field of environmental protection, the Group has actively cooperated with international large-scale water companies to explore build-operate-transfer (BOT) model of large-scale industrial sewage projects; in soil remediation, established cooperation with relevant governmental departments of Sichuan and Shaanxi Provinces, carried out industrial pollution site remediation cooperation, and communicated with some polluting enterprises to explore the follow-up site remediation.

In the field of new coal chemicals industry, the Group has actively cooperated with advanced technology at home and abroad, carried out technological cooperation and market development of coal direct liquefaction, new coal-based ethylene glycol, coal-based diesel alternative fuels, and carried out pre-project services. In the field of new energy, the Group has cooperated in exploring market areas such as fuel ethanol, CO₂ utilisation and low-cost hydrogen production, and carried out the preliminary work of the demonstration projects.

3.2.6 Intensified enterprise reform

In accordance with the vision of “building a world-class engineering company” and the “integrated operation and collectivisation management and control” development model, the Group comprehensively promoted resource optimisation and restructuring of enterprises.

The Group continued to tap the advantages of integration and promoted the optimisation and integration of internal resources. During the Reporting Period, the Information Center of SINOPEC Engineering (Group) Co., Ltd. was set up to further promote the development of digitalisation and intellectualisation, enhance the application level of integration of “two modernisations” and accelerate the improvement of the integration capability in building the world-class factories.

3.2.7 Preliminary achievement in digital engineering application

During the Reporting Period, the Group continued to steadily promote the construction of digital factories, furthered the application of engineering design and production line in overseas projects, such as Kuwait Oil Refining Project. The Group promoted the intelligent P&ID application for key projects, such as Zhongke Refining and Chemical Complex Project and Sinopec-SABIC Project. It also improved the digital delivery platform, the independent innovation in professional 3D design for equipment and structures, the integrated application of standardised design, electronic archiving, digitalised publishing and reform in the modes of digitalised, networked and intelligent engineering design, all of which promoted the engineering service capability and level, and provided powerful support for the construction of intelligent factories.

3.2.8 Continued to promote safe production

During the Reporting Period, the Group always adhered to the core value of QHSSE (Quality, Health, Safety, Security, Environment) which insisted on “safety development, quality first, environmental protection priority and people-oriented”. The Group positioned the QHSSE management system as the main thread, and focused on the construction of a long-term mechanism and aimed to implement the accountability system comprehensively. The Group strived to thoroughly identify security risks and major latent risks, strengthened its risk control and cemented its “three foundation” management. The Group also constantly improved its QHSSE management by organising multi-level training, deepening the design of intrinsic safety management, enhancing supervision and inspection, intensively carrying out measures such as quality and safety improvement activities, and fully promoting the quality and safety standardisation and intrinsic safety capabilities. In line with its management philosophy of “all staffs, all process, all dimension and all time”, the Group kept improving its QHSSE management of overseas projects, so as to ensure successful implementation.

As at the end of the Reporting Period, the Group achieved the goal of no reporting accidents in safety, quality, environment, occupational health or overseas public security for on-going projects as a result of all employees' dedication and strict management. As a result, an aggregate of 138.1 million labour safe hours were realised during the Reporting Period.

3.3 Business Prospects

Looking forward to the second half of 2019, it is expected that the global industrial production will slow down and trade tensions will persist, and there are still uncertain factors affecting the recovery of the world economy. The external environment of Chinese economic operation is still complicated, uncertain factors are increasing, and the economy is under greater downward pressure. International oil price is still full of change. The global industrial investment will continue to grow, and certain projects from the "Seven Major National Petrochemical Industry Bases" and Sinopec Group's "Four World-class Refining and Chemical Bases" continue to advance. It is also expected that the production and operation of Chinese refining and chemical engineering industry will be constantly improved, while resource competition will be more intense, and engineering companies will still face great cost control pressure. In the second half of 2019, the Group will seize the opportunity, exert the advantages of collectivisation, integration and large scale, optimise the resources allocation and integrated management, persistently enhance core competition advantage and propel sustainable and healthy development.

Regarding market development, the Group will continue to promote the overall development of key markets; give full play to its advantages in the fields of refining and chemical integration, comprehensive utilisation of light hydrocarbons, new coal chemicals industry and natural gas LNG; promote the development of strategic clients and large-scale projects; strengthen the early tracking and full-cycle services of large-scale projects, and consolidate and enhance market share; speed up the business in new energy, new materials, energy saving and environmental protection and other new areas of business; increase the growth of energy saving business and the scale of soil remediation business; seize the market opportunities of renewable energy, carbon and hydrogen resources; promote the construction of relevant demonstration devices, and establish market competition advantages; intensify the cooperation relationship with global outstanding technicians, suppliers and engineering companies; explore new business models; and promote the overall development of key areas and key projects. In the field of overseas market development, the Group will continue to expand its market development efforts leveraging the "Belt and Road" initiatives; focus on Bangladesh Refining Project; strive to make breakthroughs in South Asia and Africa; continue to maintain its existing advantages in the traditional markets such as the Middle East, Central Asia and Russia; deepen the market and expand business areas; and strive to achieve new breakthroughs of Kuwait Substation Project. In addition, the Group plans to complete the compilation of the "Manual for Estimating Bidding Quotations for International Projects".

Regarding project management, the Group will strengthen the overall coordination and key monitoring of major domestic projects, strengthen project process control, timely resolve the issues during the project implementation, reduce project operation risks, ensure the smooth implementation of key projects, propel effectiveness-oriented project management mode in the condition of assurance of safety, quality and progress, and coordinate and optimise the resources allocation while maximising the Company's interests. In the overseas market, the Group will continue to enhance the Company's infrastructure on project management. The Group will start the construction of project management execution platform, and improve the price database of Middle East and Central Asia markets; organise communication and summarisation activities on overseas projects to share project execution experience; carry out special research on international project risk management and control to comprehensively improve the risk management level of overseas projects; improve the operation capability and management level of overseas projects in all directions and all dimensions.

Regarding technology R&D, the Group will continue to follow the philosophy of "Ten Technologies and Ten Billions of Output Value", focusing on following the technological developments in the fields of clean energy, energy saving, environmental protection and new materials, and centering on green environmental protection and process strengthening technologies, as well as direct chemical production from crude oil, cheap hydrogen sources, CO₂ utilisation, natural gas chemical industry and other fields. The Group will strength the domestic and overseas cooperation, enhance technical support for market development and various construction-in-progress projects, fully realise the technology integration advantages of the Group, continuously improve the quality of engineering services through technological innovation, and increase the competitiveness of the Group in domestic and overseas markets.

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 23.7% from RMB18.336 billion for the six months ended 30 June 2018 to RMB22.682 billion for the six months ended 30 June 2019, which was mainly due to several large EPC Contracting projects of the Group, such as Zhongke Refining and Chemical Complex Project, Kuwait Oil Refining Project and Sinochem Quanzhou Ethylene Project, have entered into peak execution phase, and Gulei Refining and Petrochemical Integrated Project have entered into startup phase.

4.1.2 Cost of sales

The cost of sales of the Group increased by 23.7% from RMB16.414 billion for the six months ended 30 June 2018 to RMB20.310 billion for the six months ended 30 June 2019, which was mainly due to the corresponding increase of the cost of subcontracting, equipment and materials as the revenue increased.

4.1.3 Gross profit

The gross profit of the Group increased by 23.4% from RMB1.921 billion for the six months ended 30 June 2018 to RMB2.372 billion for the six months ended 30 June 2019. Gross profit margin was 10.5%, which remained stable as compared with that for the six months period ended 30 June 2018.

4.1.4 Other income

The other income of the Group decreased by 12.5% from RMB136 million for the six months ended 30 June 2018 to RMB119 million for the six months ended 30 June 2019, which was mainly due to the decrease in exchange gains on a period-on-period basis.

4.1.5 Selling and marketing expenses

The selling and marketing expenses of the Group increased from RMB45 million for the six months ended 30 June 2018 to RMB50 million for the six months ended 30 June 2019.

4.1.6 Administrative expenses

The administrative expenses of the Group increased by 28.7% from RMB471 million for the six months ended 30 June 2018 to RMB607 million for the six months ended 30 June 2019, which was mainly due to the increase of employee benefits and depreciation expenses of right-of-use assets on a period-on-period basis.

4.1.7 Research and development costs

The research and development costs of the Group increased by 64.9% from RMB453 million for the six months ended 30 June 2018 to RMB747 million for the six months ended 30 June 2019, which was mainly due to the increased investment of new technology, new processes and construction automation by the Group.

4.1.8 Other operating income

The other operating income of the Group decreased by 82.3% from RMB65 million for the six months ended 30 June 2018 to RMB11 million for the six months ended 30 June 2019, which was mainly due to exchange losses during the Reporting Period.

4.1.9 Other gains/(losses) - net

The net other gains/(losses) of the Group increased from a net loss of RMB155 million for the six months ended 30 June 2018 to a net gain of RMB3 million for the six months ended 30 June 2019, which was mainly due to the losses from fair value change of exchange futures settlement in the same period of last year.

4.1.10 Operating profit

As a result of the reasons above, the operating profit of the Group increased by 10.4% from RMB998 million for the six months ended 30 June 2018 to RMB1,101 million for the six months ended 30 June 2019.

4.1.11 Financial income - net

The net finance income of the Group increased by 25.2% from RMB316 million for the six months ended 30 June 2018 to RMB396 million for the six months ended 30 June 2019, which was mainly due to the increase of interest income from growing deposit size and optimisation of deposit structure.

4.1.12 Income tax expense

The income tax expense of the Group increased by 37.9% from RMB228 million for the six months ended 30 June 2018 to RMB315 million for the six months ended 30 June 2019, which was mainly due to the increase in total profit. The effective income tax rate increased from 17.1% to 20.8% on a period-on-period basis. Change of effective income tax rate was mainly due to the profit fluctuation of several subsidiaries which are subject to different tax rates.

4.1.13 Profit for the period

As a result of the reasons above, the profit of the Group increased by 8.2% from RMB1.108 billion for the six months ended 30 June 2018 to RMB1.199 billion for the six months ended 30 June 2019.

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 comprehensive income for the period of the Group increased by 33.4% from RMB987 million for the six months ended 30 June 2018 to RMB1.317 billion for the six months ended 30 June 2019.

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. 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 30 June 2019 (RMB'000)	As at 31 December 2018 (RMB'000)	Change (%)
Engineering, consulting and licensing	8,227,297	7,797,111	5.5
EPC Contracting	84,499,745	73,892,040	14.4
Construction	11,387,396	12,731,186	(10.6)
Equipment manufacturing	1,358,794	515,127	163.8
Total	<u>105,473,232</u>	<u>94,935,464</u>	11.1

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

	As at 30 June 2019 (RMB'000)	As at 31 December 2018 (RMB'000)	Change (%)
Oil refining	35,139,374	33,542,698	4.8
Petrochemicals	35,498,159	29,395,716	20.8
New coal chemicals	12,826,387	10,491,448	22.3
Other industries	22,009,312	21,505,602	2.3
Total	105,473,232	94,935,464	11.1

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

	As at 30 June 2019 (RMB'000)	As at 31 December 2018 (RMB'000)	Change (%)
PRC	86,009,510	71,720,786	19.9
Overseas	19,463,722	23,214,678	(16.2)
Total	105,473,232	94,935,464	11.1

The following table sets forth the total value of backlog of the Group, which has been 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 2019 (RMB'000)	As at 31 December 2018 (RMB'000)	Change (%)
Sinopec Group and its associates	58,100,165	46,294,473	25.5
Non-Sinopec Group and its associates	47,373,067	48,640,991	(2.6)
Total	105,473,232	94,935,464	11.1

As at the end of the Reporting Period, the Group's backlog was RMB105.473 billion, representing an increase of 11.1% from that as at 31 December 2018, and 2.2 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:

	Six-month periods ended 30 June		Change (%)
	2019 (RMB'000)	2018 (RMB'000)	
Engineering, consulting and licensing	1,382,037	2,027,886	(31.8)
EPC Contracting	24,460,035	27,485,278	(11.0)
Construction	6,390,278	5,511,131	16.0
Equipment manufacturing	987,437	459,523	114.9
Total	<u>33,219,787</u>	<u>35,483,818</u>	(6.4)

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

	Six-month periods ended 30 June		
	2019	2018	Change
	(RMB'000)	(RMB'000)	(%)
Oil refining	9,451,172	11,560,684	(18.2)
Petrochemicals	17,015,718	16,425,490	3.6
New coal chemicals	4,844,253	3,638,597	33.1
Other industries	1,908,644	3,859,047	(50.5)
Total	<u>33,219,787</u>	<u>35,483,818</u>	(6.4)

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		
	2019	2018	Change
	(RMB'000)	(RMB'000)	(%)
PRC	31,043,019	32,240,784	(3.7)
Overseas	2,176,768	3,243,034	(32.9)
Total	<u>33,219,787</u>	<u>35,483,818</u>	(6.4)

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:

	Six-month periods ended 30 June		
	2019	2018	Change
	(RMB'000)	(RMB'000)	(%)
Sinopec Group and its associates	21,264,226	25,729,283	(17.4)
Non-Sinopec Group and its associates	11,955,561	9,754,535	22.6
Total	<u>33,219,787</u>	<u>35,483,818</u>	(6.4)

During the Reporting Period, the value of the Group's new contracts was RMB33.220 billion, representing a decrease of 6.4% from RMB35.484 billion in the same period in 2018.

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 2019	As at 31 December 2018	Changes
Total assets	70,563,950	70,872,740	(308,790)
Current assets	63,579,562	63,837,953	(258,391)
Non-current assets	6,984,388	7,034,787	(50,399)
Total liabilities	43,813,477	44,889,591	(1,076,114)
Current liabilities	40,837,306	41,998,840	(1,161,534)
Non-current liabilities	2,976,171	2,890,751	85,420
Net assets	26,750,473	25,983,149	767,324
Consolidated equity attributable to equity holders of the Company	26,745,901	25,978,646	767,255
Share capital	4,428,000	4,428,000	—
Reserves	22,317,901	21,550,646	767,255
Non-controlling interests	4,572	4,503	69

As at the end of the Reporting Period, the total assets of the Group were RMB70.564 billion, the total liabilities were RMB43.813 billion, and the equity attributable to the equity holders of the Company was RMB26.746 billion. The changes in the assets and liabilities as compared with those as at the end of 2018 and the main reasons are as follows:

As at the end of the Reporting Period, the total assets were RMB70.564 billion, decreased by RMB309 million as compared with that as at the end of 2018. In particular, the current assets were RMB63.580 billion, decreased by RMB258 million as compared with that as at the end of 2018; the non-current assets were RMB6.984 billion, decreased by RMB50 million as compared with that as at the end of 2018.

As at the end of the Reporting Period, the total liabilities were RMB43.813 billion, decreased by RMB1.076 billion as compared with that as at the end of 2018. In particular, the current liabilities were RMB40.837 billion, decreased by RMB1.162 billion as compared with that as at the end of 2018, which was mainly due to the decrease in payables. The non-current liabilities were RMB2.976 billion, increased by RMB85 million as compared with that as at the end of 2018, which was mainly due to the increase of payment of lease liabilities.

The total equity attributable to equity holders of the Company was RMB26.746 billion, increased by RMB767 million as compared with that as at the end of 2018, which was mainly due to the increase in the retained earnings.

4.3.2 Cash Flows

During the Reporting Period, the net decrease in cash and cash equivalents was RMB10.300 billion and net cash used in operating activities was RMB4.964 billion. The following table sets forth the main items and their changes in the Group's consolidated statement of cash flows for the six months ended 30 June 2019 and 2018.

Units: RMB'000

Major items of cash flows	Six-month periods ended 30 June	
	2019	2018
Net cash used in operating activities	(4,964,239)	(1,032,823)
Net cash (used in)/generated from investing activities	(5,283,423)	470,865
Net cash (used in)/generated from financing activities	(52,155)	127,235
Net decrease in cash and cash equivalents	(10,299,817)	(434,723)

During the Reporting Period, the profit before taxation was RMB1.513 billion, and the profit was RMB1.519 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 RMB333 million; exchange loss amounted to RMB186 million, net interest income and expenditure was RMB396 million, reversal of provision for ECL was RMB98 million. Increased cash outflow of operational receivables and payables was RMB6.265 billion, were mainly shown in: trade and other receivables balance was increased, causing the cash outflow from operating activities of RMB3.336 billion; contract assets were increased, causing the cash outflow from operating activities of RMB862 million; increased inventory balance, causing the cash outflow from operating activities of RMB231 million; decreased trade and other payables balance, causing the cash outflow from operating activities of RMB1.274 billion; and contract liabilities were decreased, causing cash outflow from operating activities of RMB555 million.

After adjusting non-cash items, receivables and payables for the profit before taxation, and deducting the outflow of paid income tax of RMB318 million in cash, adding inflow of interest income of RMB100 million in cash, the net cash used in operating activities was RMB4.964 billion.

Net cash used in investing activities was RMB5.283 billion, which was mainly due to the increase in fixed deposits and the borrowings to the holding company.

Net cash used in financing activities was RMB52 million, which was mainly due to the interest expenditure and payments of lease liabilities.

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 or as at the dates indicated:

Main financial ratios	Six-month periods ended 30 June	
	2019	2018
Net profit margin (%)	5.3	6.0
Return on assets (%) ⁽¹⁾	1.7	1.8
Return on equity (%) ⁽²⁾	4.5	4.3
Return on invested capital (%) ⁽³⁾	4.5	4.3

Main financial ratios	As at 30 June 2019	As at 31 December 2018
Gearing ratio (%) ⁽⁴⁾	2.2	1.5
Net debt to equity ratio (%) ⁽⁵⁾	Net Cash	Net Cash
Current ratio (%) ⁽⁶⁾	1.6	1.5
Quick ratio (%) ⁽⁷⁾	1.5	1.5

- (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 decreased to 1.7% from 1.8% in the same period of the previous year, remaining stable on a period-on-period basis.

Return on equity

The Group's return on equity increased to 4.5% from 4.3% for the same period in 2018, 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 4.5% from 4.3% for the same period in 2018 for the same reasons as the increase in return on equity.

Gearing ratio

The Group's gearing ratio increased to 2.2% from 1.5% at the end of 2018, mainly due to the increase in lease liabilities at the end of the Reporting Period.

Net debt to equity ratio

The Group maintained positive net cash as at 30 June 2019 and as at 31 December 2018.

Current ratio

The Group's current ratio was 1.6, remaining stable on a period-on-period basis.

Quick ratio

The Group's quick ratio was 1.5, remaining stable on a period-on-period basis.

5 Significant Events

5.1 H Share Appreciation Rights Scheme

The Exercise Price and Its Adjustment of the Initial Grant under the H Share Appreciation Rights

For details of H Share Appreciation Rights Scheme of the Company, please refer to the announcements of the Company entitled "The Proposed Initial Terms of H Share Appreciation Rights Scheme" dated 21 August 2017, the "Announcement in Relation to the Approval of the Proposed Initial Terms of H Share Appreciation Rights Scheme by the SASAC" dated 12 December 2017, the "Announcement of Resolutions Passed at the Second Extraordinary General Meeting for the year 2017 (the "2017 EGM")" dated 20 December 2017, the "Grant of H Share Appreciation Rights" dated 20 December 2017 and the circular of the 2017 EGM dated 3 November 2017.

On 20 December 2017, the Company granted 13,143,000 units H share 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 20 December 2017) to 89 incentive recipients, accounting for approximately 0.5% of the total number of contracted employees as at 20 December 2017) (the “Initial Grant”), including the Directors (other than the independent non-executive Directors), the Company’s senior management members (including president, vice president and chief financial officer) and the core management, technical and highly skilled staff of the Company’s subsidiaries. The exercise price of each H share 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 reviewed and approved in the Thirteenth Meeting of the Second Session of the Board convened on 21 August 2018, the Company distributed 2018 interim cash dividend as RMB0.100 per share (inclusive of applicable tax). As reviewed and approved at the 2018 annual general meeting convened on 8 May 2019, the final cash dividend of RMB0.124 per share (inclusive of applicable tax) was paid by the Company. As at the date of this interim report, the distribution of the final dividends of 2017, interim dividends of 2018 and final dividends of 2018 has been completed. According to Article 28 of “The H Share Appreciation Rights Scheme and the Initial Grant” (the “H Share Appreciation Rights Scheme”) in Appendix 1 to the circular of the second extraordinary general meeting for the year 2017 published on 3 November 2017, the Company may adjust the exercise price of the share appreciation rights in the event of distribution of dividends, and the exercise price after adjustment will be equal to the exercise price before adjustment minus the amount of dividends distributed per share. Thus, the exercise price of each H share appreciation right under the Initial Grant will be adjusted to HKD5.931 per share.

Unfulfillment of the Conditions to the First Effective Phase of the Initial Grant under the H Share Appreciation Rights Scheme

For details of unfulfillment of the conditions to the first effective phase of the Initial Grant under the H Share Appreciation Rights Scheme, please refer to the announcement of the Company dated 30 July 2019.

The H share appreciation rights initially granted by the Company on 20 December 2017 will enter into the first effective phase on 21 December 2019. According to the H Share Appreciation Rights Scheme, “the year before the first effective phase coming into effect” as specified in the conditions of the Initial Grant means the year of 2018. According to the audit report prepared by Grant Thornton China (Special General Partnership), the PRC auditor of the Company, the ROE of the Company for the year of 2018 was 10.08%, the growth rate of revenue for the year of 2018 compared with that for the year of 2016 was 19.41%, and the EVA for the year of 2018 was approximately RMB2.385 billion. However, both the ROE for the year of 2018 and the growth rate of revenue for the year of 2018 compared with that of the year of 2016 are lower than 75 percentile of the respective indicators of benchmark companies. Thus, the conditions to effect the H share appreciation rights in the first effective phase of the Initial Grant were not fulfilled.

According to the authorisation granted to the Board under the 2017 EGM, the Company has considered and approved the “Proposal in Relation to the Unfulfillment of The Conditions to the First Effective Phase of the Initial Grant under the H Share Appreciation Rights Scheme” in the forth meeting of the third session of the Board convened on 30 July 2019. The Board approved that a total of 4,337,190 units (representing 33% of the H share appreciation rights under the Initial Grant) of H share appreciation rights in the first effective phase of the Initial Grant shall be nullified. This nullification will not affect the remaining number of H share appreciation rights of 8,805,810 units to be effective upon the second effective phase and the third effective phase under the Initial Grant.

During the Reporting Period, save as the above adjustment to the exercise price and the unfulfillment of the conditions to the first effective phase of the Initial Grant under the H Share Appreciation Rights Scheme, there is no other cases that involve the number of units and the exercise price of the H share appreciation rights.

5.2 The dividend distribution plan for the six-month period ended 30 June 2019

The fifth meeting of the third session of the Board approved the dividend distribution plan for the six months ended 30 June 2019. An interim cash dividend of RMB0.108 (inclusive of applicable taxes) per share would be distributed based on 4,428,000,000 shares, being the total share capital of the Company (including 1,460,800,000 H shares and 2,967,200,000 domestic shares) as at 30 June 2019. Since shareholders of the Company have authorised the Board to decide the interim profit distribution plan of 2019 by ordinary resolution in 2018 annual general meeting held on 8 May 2019, 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 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 Renminbi to Hong Kong dollars as announced by the People’s Bank of China during the week prior to the date of declaration of the dividend by the Board (i.e. Friday, 16 August 2019). The mean of the exchange rates of Renminbi to Hong Kong dollars as announced by the People’s Bank of China during the five business days prior to the date of declaration of the Interim Dividend by the Board (i.e. Friday, 16 August 2019) is RMB0.89626 to HKD1.00. Accordingly, the Interim Dividend will be HKD0.1205 per H share (inclusive of applicable taxes).

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 will 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 have an agreed tax rate of 10% for the cash dividends given 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 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 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.

5.3 Material litigation or arbitration events

The Company is currently involved in legal proceedings 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.

5.4 Repurchase, sale and redemption of shares

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

5.5 Review of the interim results

The audit committee of the Company (the “**Audit Committee**”) has reviewed the interim results of the Company for the Reporting Period. The Audit Committee has not expressed any dissent concerning the financial statements contained in this interim results announcement.

The Audit Committee is consisted 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.

5.6 Important events affecting the Group after the Reporting Period

There was no other important event affecting the Group which has taken place since 30 June 2019 up to the date of this announcement.

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 2019 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

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 2019 interim report.

7.3 Financial Statements

The interim financial statements prepared in accordance with IFRS for the six months ended 30 June 2019:

7.3.1 Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Six months ended 30 June	
	2019	2018
	(RMB'000)	(RMB'000)
Revenue	22,682,018	18,335,880
Cost of sales	(20,310,065)	(16,414,394)
Gross profit	2,371,953	1,921,486
Other income	118,758	135,723
Selling and marketing expenses	(50,250)	(44,658)
Administrative expenses	(606,920)	(471,455)
Research and development costs	(746,721)	(452,868)
Other operating income	11,440	64,691
Other gains/(losses) - net	2,883	(155,072)
Operating profit	1,101,143	997,847
Finance income	450,638	368,009
Finance expenses	(54,561)	(51,758)
Finance income - net	396,077	316,251
Share of losses of joint arrangements	(111)	(215)
Share of profits of associates	16,355	22,021
Profit before taxation	1,513,464	1,335,904
Income tax expense	(314,710)	(228,194)
Profit for the period	1,198,754	1,107,710

	Six months ended 30 June	
	2019	2018
	(RMB'000)	(RMB'000)
Other comprehensive income/(expense)		
for the period, net of tax:		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	117,849	(29,680)
Item that will not be reclassified subsequently to profit or loss:		
Gains/(losses) on revaluation of retirement benefit plans obligations, net of income tax effect	122	(90,690)
Other comprehensive income/(expense) for the period, net of tax	<u>117,971</u>	<u>(120,370)</u>
Total comprehensive income for the period	<u>1,316,725</u>	<u>987,340</u>
Profit attributable to:		
Equity holders of the Company	1,198,685	1,107,565
Non-controlling interests	69	145
Profit for the period	<u>1,198,754</u>	<u>1,107,710</u>
Total comprehensive income attributable to:		
Equity holders of the Company	1,316,656	987,195
Non-controlling interests	69	145
Total comprehensive income for the period	<u>1,316,725</u>	<u>987,340</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>0.27</u>	<u>0.25</u>

7.3.2 Consolidated Statement of Financial Position

	As at 30 June 2019 (RMB'000)	As at 31 December 2018 (RMB'000)
ASSETS		
Non-current assets		
Property, plant and equipment	3,341,966	3,496,474
Land use rights	—	2,442,793
Right of use assets	2,628,789	—
Intangible assets	128,653	164,081
Investment in joint arrangements	1,755	1,866
Investment in associates	160,609	147,454
Financial assets at fair value through other comprehensive income	—	680
Deferred income tax assets	722,616	781,439
Total non-current assets	<u>6,984,388</u>	<u>7,034,787</u>
Current assets		
Inventories	632,123	400,921
Notes and trade receivables	10,812,118	9,726,429
Prepayments and other receivables	7,179,681	4,967,162
Contract assets	12,630,703	11,573,904
Loans due from the ultimate holding company	19,000,000	18,000,000
Restricted cash	35,870	29,468
Time deposits	6,647,621	2,142,406
Cash and cash equivalents	6,641,446	16,997,663
Total current assets	<u>63,579,562</u>	<u>63,837,953</u>
Total assets	<u><u>70,563,950</u></u>	<u><u>70,872,740</u></u>
EQUITY		
Share capital	4,428,000	4,428,000
Reserves	22,317,901	21,550,646
Equity attributable to equity holders of the Company	26,745,901	25,978,646
Non-controlling interests	4,572	4,503
Total equity	<u><u>26,750,473</u></u>	<u><u>25,983,149</u></u>

	As at 30 June 2019 (RMB'000)	As at 31 December 2018 (RMB'000)
LIABILITIES		
Non-current liabilities		
Lease liabilities	152,453	—
Retirement and other supplemental benefit obligations	2,559,001	2,636,815
Provision for litigation claims	264,485	253,936
Deferred tax liabilities	232	—
Total non-current liabilities	2,976,171	2,890,751
Current liabilities		
Notes and trade payables	28,556,378	28,686,243
Other payables	1,752,411	2,758,139
Dividend payables	549,072	—
Contract liabilities	9,413,189	9,968,594
Lease liabilities	55,220	—
Loans due to a fellow subsidiary	384,983	384,339
Current income tax liabilities	126,053	201,525
Total current liabilities	40,837,306	41,998,840
Total liabilities	43,813,477	44,889,591
Total equity and liabilities	70,563,950	70,872,740
Net current assets	22,742,256	21,839,113
Total assets less current liabilities	29,726,644	28,873,900

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	
	2019	2018
	(RMB'000)	(RMB'000)
Engineering, consulting and licensing	951,852	1,402,857
EPC Contracting	13,852,329	10,185,271
Construction	7,734,067	6,457,422
Equipment manufacturing	143,770	290,330
	<u>22,682,018</u>	<u>18,335,880</u>

7.4.2 Income Tax Expense

	Six months ended 30 June	
	2019	2018
	(RMB'000)	(RMB'000)
Current tax		
PRC enterprise income tax	113,270	180,718
Overseas enterprise income tax	89,925	31,823
Under/(Over)-provision for income tax in prior years	52,486	(5,784)
	<u>255,681</u>	<u>206,757</u>
Deferred tax		
Origination of temporary differences	59,029	21,437
	<u>314,710</u>	<u>228,194</u>

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the six months ended 30 June 2019 and 2018 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 six months ended 30 June 2019 and 2018, 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:

	Six months ended 30 June	
	2019	2018
	(RMB'000)	(RMB'000)
Profit before taxation	<u>1,513,464</u>	<u>1,335,904</u>
Taxation calculated at the statutory tax rate	378,366	333,976
Income tax effects of:		
Preferential income tax treatments of certain companies	(129,440)	(126,567)
Difference in overseas profits tax rates	(3,688)	111
Non-deductible expenses	17,014	31,890
Income not subject to tax	(2,437)	(3,270)
Unrecognised tax losses	13,369	1,948
Utilisation of previously unrecognised tax losses	(9,650)	(4,109)
Under/(Over)-provision for income tax in prior years	52,486	(5,785)
Others	<u>(1,310)</u>	<u>—</u>
Income tax expense	<u>314,710</u>	<u>228,194</u>
Effective income tax rate	<u>20.8%</u>	<u>17.1%</u>

7.4.3 Earnings Per Share

(a) Basic

The basic earnings per share for each of the six months ended 30 June 2019 and 2018 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	
	2019	2018
Profit attributable to equity holders of the Company (RMB'000)	1,198,685	1,107,565
Weighted average number of ordinary shares in issue	4,428,000,000	4,428,000,000
Basic earnings per share (RMB)	<u>0.27</u>	<u>0.25</u>

(b) Diluted

As the Company had no dilutive shares for the each of the six months ended 30 June 2019 and 2018, diluted earnings per share for the six months ended 30 June 2019 and 2018 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 2019 and 2018.

	Six months ended 30 June	
	2019	2018
	(RMB'000)	(RMB'000)
Proposed interim dividends of RMB0.108 per ordinary share (2018: RMB0.1) ⁽¹⁾	<u>478,224</u>	<u>442,800</u>

- ⁽¹⁾ Pursuant to the Directors' meeting on 16 August 2019, the Directors recommended to declare the interim dividends for the year ending 30 June 2019 of RMB0.108 (2018: RMB0.1) per share totalling RMB478,224,000 (2018: RMB442,800,000). 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 2019.

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 Order of the Board
SINOPEC Engineering (Group) Co., Ltd.
Jia Yiqun
Chief Financial Officer, Company Secretary

Beijing, the PRC
19 August 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 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).