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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 2019

1 Important Notice

- 1.1** This announcement is extracted from the content of the 2019 annual report (the “**2019 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 2019 Annual Report for more details.
- 1.2** The financial statements for the year ended 31 December 2019 (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 Exchange
Legal Representative	:	Mr. YU Renming
Authorised Representatives	:	Mr. XIANG Wenwu, Mr. JIA Yiqun
Company Secretary	:	Mr. JIA Yiqun
Place of Business and Correspondence Address	:	Building 8, Shenggu Jiayuan, Shenggu Middle Road, Chaoyang District, Beijing, the PRC (Postcode: 100029)
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* For identification purposes only

2.2 Principal Financial Data and Indicators

Summary of Financial Data and Indicators Prepared in Accordance with IFRS

Unit: RMB' 000

Items	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015	Changes from the end of 2018 (%)
Non-current assets	7,256,957	7,034,787	7,540,799	7,871,988	7,977,456	3.2
Current assets	60,616,791	63,837,953	51,864,822	51,016,799	50,490,979	(5.0)
Current liabilities	37,791,658	41,998,840	31,015,076	30,724,440	30,807,397	(10.0)
Non-current liabilities	2,811,549	2,890,751	2,799,540	2,899,238	2,967,341	(2.7)
Consolidated equity						
attributable to equity holders						
of the Company	27,265,976	25,978,646	25,586,839	25,261,201	24,689,960	5.0
Net assets per share						
of equity holders						
of the Company (RMB)	6.16	5.87	5.78	5.70	5.58	5.0

Unit: RMB' 000

Items	Year ended 31 December					Changes over the same period of 2018 (%)
	2019	2018	2017	2016	2015	
Revenue	52,261,051	47,019,024	36,208,723	39,402,331	45,498,354	11.1
Gross profit	5,482,733	5,195,574	4,026,172	4,295,415	6,157,034	5.5
Operating profit	2,017,007	1,435,534	1,112,267	1,942,256	3,845,193	40.5
Profit before taxation	2,827,400	2,121,515	1,635,101	2,376,776	4,240,047	33.3
Profit attributable to equity holders of the Company	2,183,457	1,679,472	1,129,974	1,670,888	3,317,704	30.0
Basic earnings per share (RMB)	0.49	0.38	0.26	0.38	0.75	30.0
Net cash flow generated from operating activities	300,047	6,104,192	4,240,508	4,670,772	5,793,143	(95.1)
Net cash flow generated from operating activities per share (RMB)	0.07	1.38	0.96	1.05	1.31	(95.1)

Items	Year ended 31 December				
	2019	2018	2017	2016	2015
Gross profit margin (%)	10.5	11.0	11.1	10.9	13.5
Net profit margin (%)	4.2	3.6	3.1	4.2	7.3
Return on assets (%) ⁽¹⁾	3.1	2.6	1.9	2.8	6.0

Items	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
	2019	2018	2017	2016	2015
Asset-liability ratio (%) ⁽²⁾	59.8	63.3	56.9	57.1	57.8

Notes:

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

$$(2) \text{ Asset-liability ratio} = \frac{\text{Total liabilities as at the end of the year}}{\text{Total assets as at the end of the year}}$$

3 Business Review and Prospects

3.1 Business Review

During the Reporting Period, the Group's total revenue and profits attributable to equity holders of the Company were RMB52.261 billion and RMB2.183 billion, respectively. As at the end of the Reporting Period, the Group's backlog was RMB94.994 billion. The value of new contracts entered into by the Group during the Reporting Period was RMB52.319 billion.

The business of the Group mainly comprises four segments: (1) engineering, consulting and licensing; (2) engineering, 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				Change (%)
	2019		2018		
	Revenue (RMB' 000)	Percentage of total revenue (%)	Revenue (RMB' 000)	Percentage of total revenue (%)	
Engineering, consulting and licensing	2,802,805	4.7	2,924,408	5.8	(4.2)
EPC Contracting	32,438,087	54.4	29,135,814	57.3	11.3
Construction	23,723,645	39.8	18,120,864	35.7	30.9
Equipment manufacturing	611,368	1.1	630,598	1.2	(3.0)
Subtotal	<u>59,575,905</u>	<u>100.0</u>	<u>50,811,684</u>	<u>100.0</u>	17.2
Total (after inter-segment elimination) ⁽¹⁾	<u>52,261,051</u>	N/A	<u>47,019,024</u>	N/A	11.1

Note:

- (1) "Total (after inter-segment elimination)" means the aggregate revenue generated from each business segment after inter-segment elimination to exclude the impact of inter-segment transactions. Inter-segment elimination mainly arises from the inter-segment sales to the EPC Contracting segment made by the engineering, consulting and licensing, construction and equipment manufacturing segments.

During the Reporting Period, the total revenue of the Group was RMB52.261 billion, representing an increase of 11.1% on a year-on-year basis, which was mainly due to the fact that several large projects such as Zhongke Refining and Chemical Integration Project, Sinochem Quanzhou Ethylene Project, Zhejiang Petrochemical Zhoushan Refining and Chemical Integration Project and Kuwait Oil Refining Project have entered into peak execution period during the Reporting Period.

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

	Year ended 31 December				Change (%)
	2019		2018		
	Revenue	Percentage of	Revenue	Percentage of	
	(RMB' 000)	total revenue (%)	(RMB' 000)	total revenue (%)	
Oil refining	19,399,122	37.1	17,749,091	37.7	9.3
Petrochemicals	25,146,107	48.1	17,133,941	36.4	46.8
New coal chemicals	4,109,700	7.9	8,841,627	18.8	(53.5)
Other industries	3,606,122	6.9	3,294,365	7.0	9.5
Total	52,261,051	100.0	47,019,024	100.0	11.1

The Group derived its revenue mainly from services provided to clients in oil refining, petrochemicals, new coal chemicals and other industries. During the Reporting Period, due to large projects such as Zhongke Refining and Chemical Integration Project, Sinochem Quanzhou Ethylene Project, Zhejiang Petrochemical Zhoushan Refining and Chemical Integration Project and Kuwait Oil Refining Project have entered into peak execution periods, revenue generated from petrochemicals industry and oil refining industry increased by different degrees. Revenue generated from petrochemicals industry was RMB25.146 billion, representing an increase of 46.8% on a year-on-year basis; revenue generated from oil refining industry was RMB19.399 billion, representing an increase of 9.3% on a year-on-year basis. Due to the growth of business volume such as natural gas pipeline engineering, revenue generated from other industries was RMB3.606 billion, representing an increase of 9.5% on a year-on-year basis. Revenue generated from new coal chemicals industry was RMB4.110 billion, representing a decrease of 53.5% on a year-on-year basis, which was affected by the settlement and completion of coal chemicals projects such as Zhong'An Joint Coalification Integration Project.

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

	Year ended 31 December				Change (%)
	2019		2018		
	Revenue (RMB' 000)	Percentage of total revenue (%)	Revenue (RMB' 000)	Percentage of total revenue (%)	
PRC	42,551,448	81.4	36,932,325	78.5	15.2
Overseas	9,709,603	18.6	10,086,699	21.5	(3.7)
Total	<u>52,261,051</u>	<u>100.0</u>	<u>47,019,024</u>	<u>100.0</u>	11.1

During the Reporting Period, revenue of the Group generated in the PRC was RMB42.551 billion, representing an increase of 15.2% on a year-on-year basis, mainly due to the fact that several large projects such as Zhongke Refining and Chemical Integration Project, Sinochem Quanzhou Ethylene Project, Zhejiang Petrochemical Zhoushan Refining and Chemical Integration Project have entered into peak execution periods. The Group continued to expand its overseas business steadily. Revenue generated from overseas was RMB9.710 billion, representing a decrease of 3.7% on a year-on-year basis.

As at the end of the Reporting Period, the backlog of the Group amounted to RMB94.994 billion, which remained broadly the same as compared to that as at the end of 2018, and was 1.8 times of the total revenue of RMB52.261 billion in 2019. During the Reporting Period, the value of new contracts amounted to RMB52.319 billion, representing an increase of 2.7% on a year-on-year basis.

During the Reporting Period, representative domestic projects that the Group entered into include Fujian Gulei Refining and Petrochemical Integration Project, Sinopec Tianjin Oil Product Upgrade Project, Tianjin Bohai Chemical DMTO Relocation and Transformation Project, Sinochem Quanzhou Oil Refining Reconstruction and Expansion Project. Representative overseas projects that were entered into by the Group include Saudi Aramco Overhaul and Renovation Project, BASF USA Pipeline Prefabrication Project, Saudi Aramco Marjan Oil and Gas Increase and Expansion Project.

During the Reporting Period, the Group's capital expenditure was approximately RMB810 million, which was mainly used for the contract energy management investment, production base construction, information system construction, construction machinery and engineering professional software purchase, as well as the right-of-use assets recognised in accordance with the new standards in relation to leases.

The discussions on the Group's environmental policies, relationships with its major stakeholders and compliance with applicable laws and regulations are set out in the "Report of the Board - 28. Report on Corporate Environmental, Social and Governance" from pages 100 to 101 of the Company's 2019 Annual Report.

3.2 Business Highlights

3.2.1 Successful implementation of major projects

Zhongke Refining and Chemical Integration Project: please refer to the announcements dated 18 January 2018 and 17 April 2018 published by the Company for further details. As at the end of the Reporting Period, the project was in the final stage of construction with an overall progress exceeding 90%, and the progress was under control in general.

Fujian Gulei Refining and Petrochemical Integration 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 is in the stage of underground pipeline and civil construction, with an overall progress of about 30%.

Zhong'An Joint Coalification Integration 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, the main units achieved a comprehensive high standard of interim handover, and the whole plant successfully commissioned once and produced acceptable products.

SINOPEC SABIC Polycarbonate 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 detailed design of the project was completed, and the field installation started, with an overall progress of about 40%.

Sinochem Quanzhou Ethylene Project: please refer to the announcement dated 6 June 2017 published by the Company for further details. As at the end of the Reporting Period, the project is in the final stage of construction, with an overall progress exceeding 90%.

Kuwait Oil Refining Project: please refer to the announcements dated 14 October 2015 and 23 February 2016 published by the Company for further details. As at the end of the Reporting Period, the project has been completed and handed over to the owner, which made us the first to complete the contract among the contractors in the project and was highly recognised by the owner.

Malaysia RAPID Oil Refining Project: please refer to the announcements dated 29 August 2014 and 15 October 2014 published by the Company for further details. As at the end of the Reporting Period, the project has already completed the start-up of the atmospheric distillation unit, and the start-up of other units was in progress as scheduled.

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, design of the project has been largely completed, and the procurement progressed nearly 80%. Currently, the project is under construction with an overall progress exceeding 70%.

3.2.2 Continuous enhancement of project management capability

During the Reporting Period, the Group kept close communications with owners, strengthened the coordination of key projects construction, issued a list of key projects, established a coordination group for key projects, and strengthened organisation and coordination. Focusing on efficiency and progress, the Group implemented the “triple warning” for progress deviation, revenue deviation and budget deviation, rectified the deviation in a timely manner, strengthened closed-loop management, and ensured the smooth implementation of the projects. Through optimising the design workflow and professional division interface, the Group strengthened standardisation and modular designs, and improved design efficiency; carried out project management trainings and contract management trainings, creating International Project Management Manual brand trainings and implementing the advanced management concepts and management processes of international projects; strengthened project settlement management, continuously followed up the reduction of project inventory and accounts receivable, and constantly paid attention to the analysis of project basic data and rectification guidance.

During the Reporting Period, the Group further improved the subcontracting management system, strengthened the cultivation of strategic subcontractors, and evaluated the operational effectiveness of the QHSSE system of strategic subcontractors; developed subcontracting resources and information sharing platform, realised integrated management of subcontractor resource pool and subcontractor assessment, with continuous optimisation of allocation in subcontracting resources, which reduced subcontracting management costs. While ensuring the supply of materials for various construction projects, we have actively explored ways and means to improve procurement management, procurement efficiency, cost reduction and efficiency promotion. We improved standard procedures, document templates and management regulations, promoted framework agreement procurement, and strengthened procurement management for overseas projects, areas of which witnessed remarkable progress.

3.2.3 Significant results in market development

During the Reporting Period, the Group 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 RMB52.319 billion, among which, the value of newly signed domestic contracts amounted to RMB45.585 billion, which remained broadly the same on a year-on-year basis, and the value of newly signed overseas contracts amounted to approximately RMB6.734 billion, representing an increase of 34.6% on a year-on-year basis.

During the Reporting Period, the Group continued to deepen its traditional markets while striving to open up new regional markets. The Group entered into new contracts for a number of large projects in the PRC, such as Fujian Gulei Refining and Petrochemical Integration Project with a total contract value of approximately RMB12.513 billion, Sinopec Tianjin Oil Product Upgrade Project with a total contract value of approximately RMB2.601 billion, Tianjin Bohai Chemical DMTO Relocation and Transformation Project with a total contract value of approximately RMB2.049 billion, Sinochem Quanzhou Oil Refining Reconstruction and Expansion Project with a total contract value of approximately RMB1.913 billion.

During the Reporting Period, the Group strengthened its cooperation with international engineering companies, continuously improved its competitiveness, improved the deployment in overseas markets, strengthened overseas outlets and expanded its business to new regions and new fields. The Group achieved breakthroughs in the Omani and Uzbek markets for the first time, signing the Oman DUQM Refinery P2 Construction Project with a total contract value of approximately RMB376 million, and the basic design contract of the new sulfuric acid and phosphate fertilizer project for Uzbekistan with a total contract value of approximately RMB29 million. During the Reporting Period, other major newly signed overseas projects of the Group include Saudi Aramco Marjan Oil and Gas Increase and Expansion Project with a total contract value of approximately RMB1.004 billion; BASF USA Pipeline Prefabrication Project with a total contract value of approximately RMB826 million; Kuwait's Al-Zour New Refinery Maintenance Project with a total contract value of approximately RMB395 million; Saudi Aramco Overhaul and Updating Project with a total contract value of approximately RMB376 million.

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

3.2.4 Continuous promotion of innovation and technological advancement

Steady progress in research and development of engineering technologies and major progress in key scientific research projects

During the Reporting Period, the Group has newly set up 190 key scientific research projects. Relevant scientific research projects closely focused on the development trend and demand of engineering market technologies. Key research and development projects have been steadily moved forward. “Development and Industrial Application of Second-Generation High Efficiency Environmental-friendly Aromatics Packaged Technology” was successfully commissioned once in September 2019. The key research tasks represented by “SE Water Coal (Coke) Slurry Gasification Complete Technology” have achieved the key research objectives at a high standard. Other key research projects, such as “Alkylation of High-grade Polybutene -1 and 200,000 Tons Per Annum ZCA-1 Solid Acid”, were all moved forward as scheduled and under overall control.

Increasing number of patent applications and numerous fruitful results in technological innovation

During the Reporting Period, the Group completed 600 new patent applications, among which, 370 or 61.7% applications were invention patents applications. The Group also had 338 newly licensed patents, 138 of which were invention patents.

During the Reporting Period, the Group received a total of 72 scientific advancement awards in scientific innovation and engineering construction fields at the provincial and above level. Among these awards, “High Efficiency Catalyst and Complete Set of Technology for Dilute Ethylene Value-added Conversion” received the national scientific and technological advancement award. Further, there was 1 provincial and ministerial scientific advancement award, 24 provincial and ministerial invention awards, 1 national excellent design award, 10 high quality projects awards, and 27 provincial and ministerial high quality projects awards.

3.2.5 Enterprise reform continued to deepen

According to the vision of “building a world-class engineering company” and the development model of “integrated management and cross-group control”, the Group has comprehensively promoted the optimisation of resources, and the reform and reorganisation of enterprises. The Group continued to leverage the integration advantages and promote the optimisation and integration of internal resources.

During the Reporting Period, the Company has set up the Information Technology Branch of SINOPEC ENGINEERING (GROUP) CO., LTD. as the Group’s information center, to further promote the Group’s digital and intelligent enabling development, enhance the application level of the “two modernisations”, and accelerate the digital transformation.

During the Reporting Period, by benchmarking with well-known engineering companies at home and abroad, in accordance with the principles of flattening, simplification and high efficiency, the Company improved the structural efficiency and management effectiveness of the Company, and completed the optimisation and adjustment of the organisation structure of the Company in a comprehensive way. The number of internal functional departments of the Company have been reduced from 16 to 11.

3.2.6 Environmental protection and energy saving businesses constantly expanded

During the Reporting Period, the Group's environmental protection and energy saving business has been constantly expanded. The contract value of energy saving and environmental protection business amounted to RMB2.1 billion, including Ji'nan 1.2 Million Tons Per Annum Coking Plant Environmental Protection Comprehensive Treatment Project, Qingdao Refining and Chemical Company Delayed Coking Plant Airtight Decoking Project, Fujian Gulei Refining and Petrochemical Integration 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 actively promoted the progress of the existing contract energy management projects. The Group was actively organising communications on energy-saving technologies and enriching energy saving technological resources; actively exploring new market areas such as coal chemical waste heat recovery, LNG cold energy utilisation, gas waste heat recovery from power plant and smart energy stations; actively exploring cooperation with financial lease companies with greater efforts to develop external markets.

In the field of environmental protection, the Group has actively cooperated with international large-scale water companies to explore building-owning-operation (BOO) model of large-scale industrial wastewater treatment projects. In soil remediation, the Group successfully won the bid for the soil remediation project of former Anhui Bayi Chemical Plant, achieving a breakthrough in the external market. We cooperated with the enterprises in Sichuan, Shaanxi, Guangxi and other regions and explored the cooperation opportunities in site remediation.

3.2.7 ERP system successfully constructed and implemented

During the Reporting Period, the Group comprehensively promoted the application of integrated design and digital delivery, and established a construction platform for digital factory based on INTERGRAPH/AVEVA production line. The innovation of the Group in engineering design model supported the intelligent factory operation of domestic and foreign owners. The Group strengthened the cross-group control of large-scale engineering software licensing in full scope, full module, full process and full element costs, deepened application of intelligent process design, comprehensively promoted integrated engineering design, improved quality and efficiency of visual three-dimensional design, achieved breakthrough in pilot of digital delivery, centralised control of standardised engineering main data, and shared virtual engineering cloud resources. The overall engineering design capability and project execution effectiveness of the Group were improved, and new momentum was obtained for the networking, digitalisation and intelligence reform of the engineering construction model of the Group.

During the Reporting Period, the Group steadily pushed forward the construction of smart projects and completed a series of smart engineering projects such as the draft of Implementation Detailed Rules for Digital Delivery of Petrochemical Engineering, the pilot application of Zhenhai Refining and Chemical POX Unit Project, the promotion and application of key Sinopec projects with unified engineering material coding, the integration and application of Zhongke Refining and Chemical Integration Project in the 4D pipeline construction management system, and the research, development and independent innovation of three-dimensional design in equipment and structure. The standardised design, centralised procurement and modular construction have enabled the Group to transform and upgrade its digitalisation. The Group has effectively guaranteed the high level, high quality and high efficiency for completion of the owner's contracts with first-class platform, excellent design and high-quality service.

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 and environment) as People-oriented and Quality First, constantly improved QHSSE management system and effectively implemented corporate responsibility, strived to thoroughly identify security risks and major latent risks, strengthened risk control and cemented "Three Foundations" management. The Group advanced the establishment of quality safety standardisation and intrinsic safe construction capability, adhered to the combination of "raided front-line inspection without notice" and "cross-checking", and carried out diagnostic evaluation and continuous follow-up on key areas, key nodes, major hidden dangers and outstanding issues. The Group also constantly improved its QHSSE management by organising multi-level trainings, deepening the design of intrinsic safety management, and fully promoting quality elevation activities. 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 of domestic and overseas projects.

As at the end of the Reporting Period, the Group achieved no accidents in safety, quality, environment, occupational health or public security as a result of all employees' dedication and strict management. As a result, an aggregate of 346.62 million labour safe hours were realised during the Reporting Period.

3.3 Business Prospects

Looking forward to 2020, there are still many uncertain factors affecting the recovery of the world economy and the complicated situation where domestic and international contradictions exist simultaneously may continue. The year of 2020 is the last year of China's 13th Five-Year Plan and the decisive year for building a comprehensive well-off society. Chinese economy will overcome the impact of the COVID-19 and continue to maintain a development with stable growth rate, optimised structure, and kinetic energy conversion. In the future, the development of the energy industry will adjust the pace with improved quality and efficiency, and the pattern of refining and chemical industry will constantly change. Certain projects of the national "seven major national petrochemical industry bases" and Sinopec Group's "four world-class refining and petrochemical bases" will continue to progress. Private investments will remain active, and international large energy companies such as Exxon Mobil, BASF and SABIC will actively be involved in the Chinese market. The business development of the Group will meet new opportunities and challenges.

In 2020, the Group will enthusiastically seize the market conditions at home and abroad, fully leverage its advantages such as collectivisation, integration and large scale, continuously enhance its core competitive edge, propel its sustainable and healthy development. In 2020, the Group's target of domestic new contract value is RMB46 billion, and the target of overseas new contract value is USD1.5 billion.

3.3.1 Continuously promote in-depth enterprise reform and accelerate the optimisation of internal resources

In 2020, the Group will continue to promote the optimal allocation of internal resources, explore digital transformation, integrate information technology resources, and establish the information and digital industry platform of the Group. The Group will promote regional resource optimisation, achieve complementary advantages of engineering companies and construction enterprises, create a total force, reduce marginal costs, and improve overall efficiency and competitiveness.

3.3.2 Actively explore transformation, develop and open up new market areas

In 2020, the Group will attach great importance to and vigorously develop high-end businesses such as engineering consulting and technology licensing to enhance the Company's overall competitiveness and influence; strive to develop factory operations, inspection and maintenance services, and strive to create new profit areas for the Company; greatly promote modular designs and modular manufacture; actively deploy intelligent manufacturing business, and promote intelligent and high-end development of the equipment manufacturing sector.

3.3.3 Strengthen project process management, take various measures to enhance cost efficiency

In 2020, the Group will continue to strengthen project control and coordination, fully guarantee the smooth implementation of projects under construction. Focusing on revenue conversion and cost reduction, we will strengthen production management and operation plans, and enhance economic benefits from the projects. The Group will further strengthen the refined management of project costs, continue to advance design optimisation, promote groupisation and coordinated procurement, emphasise inventory and contract asset management, and further reduce costs and increase efficiency.

3.3.4 Seize the strategic opportunity of the “Belt and Road” initiative to solidly advance global development

In 2020, the Group will strengthen the “Belt and Road” international cooperation strategy, actively leverage the integration advantages of the Group, and comprehensively enhance the Company's international capabilities. The Group will strengthen and optimise the global layout, on the basis of consolidating the traditional regional markets such as the Middle East, Central Asia and Russia and Southeast Asia, and foster new regional markets in Africa, South Asia and South America, establish and improve the overseas marketing network system, strengthen relationship with financial institutions, expand market development channels and models, actively cultivate “one-stop” overall solutions, and strive to provide customers with a full range of high-quality services to better serve the overseas market.

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

In 2020, the Group will be oriented by the market demand for refining engineering business, actively find cooperation partners, expand technology sources, and continuously organise the technology innovation tasks of the Company. While constantly improving the technology of traditional refining and chemical engineering, we will actively stimulate technology cooperation and engineering development in the fields of environmental protection and new energy technologies, so as to create new market growth for the sustainable development of the Company.

3.3.6 Vigorously exploit environmental protection and energy saving sectors to create new profit pool

In 2020, the Group will actively explore the energy saving and environmental protection market. The Group will also actively carry out energy saving diagnosis for clients, and propose energy saving transformation plans. The Group will develop energy saving markets in the industries such as steel, electric power, and coal chemicals, in order to further expand contract energy management business and realise new profit growth. In the field of soil restoration, the Group will ensure projects execution after winning the bids, provide preparation services for petrochemical relocation site restoration projects, continue to focus on key projects tracking and bid preparation.

3.3.7 Promote the innovation of human resource management system

In 2020, the Group will place more emphasise on the in-depth integration of corporate strategy, corporate culture and human resources management, improve the construction of human resources strategic management system, and steadily stimulate the motivation and atmosphere for active innovation and creation of organisations and employees. The Group will continue to improve the value creation and sharing mechanism of the entire industrial chain, attract more excellent talents to help create value for the Company, further give play to the governance advantages of listed companies, establish more flexible incentive and distribution measures, and effectively mobilise the polarity of the management members and all employees.

3.3.8 Give full play to the application effect of ERP system

In 2020, the Group will continue to deepen information reform, 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, and achieve the management and operation of the Group in a standardised, streamlined and integrated manner. The Group will focus on the data-based governance, promote the application of digitalised factory platform projects with integrated design as the initial stage, promote the integration of engineering master data platforms based on standardised design, and promote the centralised application of engineering cloud platforms with intensive engineering software licenses as the core.

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 2019 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 11.1% from RMB47.019 billion for the year ended 31 December 2018 to RMB52.261 billion for the year ended 31 December 2019, which was mainly due to the fact that large projects such as Zhongke Refining and Chemical Integration Project, Sinochem Quanzhou Ethylene Project, Zhejiang Petrochemical Zhoushan Refining and Chemical Integration Project and Kuwait Oil Refining Project have entered into the peak period of construction, and led to an increase in revenue on a year-on-year basis.

4.1.2 Cost of sales

The cost of sales of the Group increased by 11.8% from RMB41.823 billion for the year ended 31 December 2018 to RMB46.778 billion for the year ended 31 December 2019, which was mainly due to the increase in business volume and the corresponding increase in costs of equipment, materials and subcontracting.

4.1.3 Gross profit

The gross profit of the Group increased by 5.5% from RMB5.196 billion for the year ended 31 December 2018 to RMB5.483 billion for the year ended 31 December 2019, which was mainly due to the increase in revenue. The gross profit margin decreased from 11.0% for the same period of last year to 10.5%, which was mainly due to the year-on-year increase in the price of equipment, materials and subcontracted labor.

4.1.4 Other income

The other income of the Group decreased by 54.4% from RMB559 million for the year ended 31 December 2018 to RMB255 million for the year ended 31 December 2019, a year-on-year decrease of RMB304 million. The main reason is that an exchange loss of RMB41 million was recorded in the Reporting Period due to exchange rates fluctuation, while an exchange gain of RMB370 million was recorded last year.

4.1.5 Selling and marketing expenses

The selling and marketing expenses of the Group were RMB131 million, which remained broadly stable on a year-on-year basis.

4.1.6 Administrative expenses

The administrative expenses of the Group were RMB1.282 billion, which remained 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 27.5% from RMB1.676 billion for the year ended 31 December 2018 to RMB2.136 billion for the year ended 31 December 2019, which was mainly due to the Group's continued technology development in traditional business areas in oil refining, petrochemicals, coal chemicals and energy saving and environmental protection, such as high efficiency environmental-friendly aromatics, gasification and hydrogen production technology, and zero discharge of high salinity, as well as increased investment in research and development in engineering design digitisation and construction automation.

4.1.8 Other operating expenses

Other operating expenses of the Group increased from RMB37 million for the year ended 31 December 2018 to RMB191 million for the year ended 31 December 2019. The main reasons were that the impairment allowance in the Reporting Period increased by RMB85 million on a year-on-year basis, and that due to the impact of exchange rates fluctuation, an exchange loss of RMB41 million was recorded in the Reporting Period while an exchange gain was recorded last year.

4.1.9 Other gains/(losses) - net

The net other gains/(losses) of the Group increased from a loss of RMB1.185 billion for the year ended 31 December 2018 to a gain of RMB20 million for the year ended 31 December 2019, which was mainly due to the impact of a relatively large amount of expenses from the separation and transfer of "Water/Electricity/Gas Supply and Property Management" incurred last year.

4.1.10 Operating profit

Due to the above reasons, the operating profit of the Group increased by 40.5% from RMB1.436 billion for the year ended 31 December 2018 to RMB2.017 billion for the year ended 31 December 2019.

4.1.11 Finance income - net

The net finance income of the Group increased by 18.7% from RMB662 million for the year ended 31 December 2018 to RMB786 million for the year ended 31 December 2019, which was mainly due to the year-on-year volume increase in time deposits and loans due from the ultimate holding company.

4.1.12 Income tax expense

The Group's income tax expense increased by 45.8% from RMB442 million for the year ended 31 December 2018 to RMB644 million for the year ended 31 December 2019, which was mainly due to the year-on-year increase in the Group's pre-tax profit. The effective income tax rate increased from 20.8% to 22.8% on a year-on-year basis. The change in the effective income tax rate was mainly due to the profit fluctuation of certain subsidiaries with different tax rates.

4.1.13 Profit for the year

Due to the above reasons, the profit for the year increased by 30.0% from RMB1.680 billion for the year ended 31 December 2018 to RMB2.184 billion for the year ended 31 December 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 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.

In addition, the Group transferred certain backlog and new contracts value from equipment manufacturing segment to construction segment to reflect the actual production and operation situation of the Company in a more accurate and effective way, as well as to align with the revenue recognition of the Group. Due to such adjustment, the data disclosed below may not be exactly the same as those previously disclosed by the Company. However, such adjustment does not affect the total value of backlog and new contracts.

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 2019 (RMB' 000)	As at 31 December 2018 (RMB' 000)	Change (%)
Engineering, consulting and licensing	8,192,663	7,797,111	5.1
EPC Contracting	72,662,664	73,892,040	(1.7)
Construction	13,653,862	12,731,186	7.2
Equipment manufacturing	484,371	515,127	(6.0)
Total	94,993,560	94,935,464	0.1

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 2019 (RMB' 000)	As at 31 December 2018 (RMB' 000)	Change (%)
Oil refining	28,201,648	33,542,698	(15.9)
Petrochemicals	28,285,500	29,395,716	(3.8)
New coal chemicals	13,394,670	10,491,448	27.7
Other industries	25,111,742	21,505,602	16.8
Total	94,993,560	94,935,464	0.1

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

	As at 31 December 2019 (RMB' 000)	As at 31 December 2018 (RMB' 000)	Change (%)
PRC	74,754,485	71,720,786	4.2
Overseas	20,239,075	23,214,678	(12.8)
Total	94,993,560	94,935,464	0.1

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 2019 (RMB' 000)	As at 31 December 2018 (RMB' 000)	Change (%)
Sinopec Group and its associates	49,789,049	46,294,473	7.5
Non-Sinopec Group and its associates	<u>45,204,511</u>	<u>48,640,991</u>	(7.1)
Total	<u>94,993,560</u>	<u>94,935,464</u>	0.1

As at 31 December 2019, the Group's backlog was RMB94.994 billion, which was generally in line with that as at 31 December 2018, and 1.8 times of the total revenue of RMB52.261 billion in 2019.

The following table sets forth the total value of new contracts entered into categorised by the Group's each business segment in the periods indicated:

	Year ended 31 December 2019 (RMB' 000)	2018 (RMB' 000)	Change (%)
Engineering, consulting and licensing	2,713,103	2,883,414	(5.9)
EPC Contracting	31,208,711	35,314,894	(11.6)
Construction	18,142,304	12,236,631	48.3
Equipment manufacturing	<u>255,029</u>	<u>491,605</u>	(48.1)
Total	<u>52,319,147</u>	<u>50,926,544</u>	2.7

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

	Year ended 31 December		Change
	2019	2018	
	(RMB' 000)	(RMB' 000)	(%)
Oil refining	14,058,072	18,750,233	(25.0)
Petrochemicals	24,035,891	22,304,787	7.8
New coal chemicals	7,012,922	3,946,775	77.7
Other industries	<u>7,212,262</u>	<u>5,924,749</u>	21.7
Total	<u><u>52,319,147</u></u>	<u><u>50,926,544</u></u>	2.7

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

	Year ended 31 December		Change
	2019	2018	
	(RMB' 000)	(RMB' 000)	(%)
PRC	45,585,147	45,924,486	(0.7)
Overseas	<u>6,734,000</u>	<u>5,002,058</u>	34.6
Total	<u><u>52,319,147</u></u>	<u><u>50,926,544</u></u>	2.7

The following table sets forth the total value of new contracts entered into by the Group with the clients of each of (i) Sinopec Group and its associates, and (ii) non-Sinopec Group and its associates in the periods indicated:

	Year ended 31 December		Change
	2019	2018	
	(RMB' 000)	(RMB' 000)	(%)
Sinopec Group and its associates	29,195,571	33,472,018	(12.8)
Non-Sinopec Group and its associates	<u>23,123,576</u>	<u>17,454,526</u>	32.5
Total	<u><u>52,319,147</u></u>	<u><u>50,926,544</u></u>	2.7

During the Reporting Period, the value of the Group's new contracts was RMB52.319 billion, representing an increase of 2.7% on a year-on-year basis.

4.3 Assets, Liabilities, Equity and Cash Flows

The Group's funds mainly came from operating activities and were primarily used for working capital, capital expenditure and dividend distribution.

4.3.1 Assets, Liabilities and Equity

Units: RMB' 000

	As at 31 December 2019	As at 31 December 2018	Changes
Total assets	67,873,748	70,872,740	(2,998,992)
Current assets	60,616,791	63,837,953	(3,221,162)
Non-current assets	7,256,957	7,034,787	222,170
Total liabilities	40,603,207	44,889,591	(4,286,384)
Current liabilities	37,791,658	41,998,840	(4,207,182)
Non-current liabilities	2,811,549	2,890,751	(79,202)
Non-controlling interests	4,565	4,503	62
Net assets	27,270,541	25,983,149	1,287,392
Consolidated equity attributable to equity holders of the Company	27,265,976	25,978,646	1,287,330
Share capital	4,428,000	4,428,000	0
Reserves	22,837,976	21,550,646	1,287,330

As at the end of the Reporting Period, the total assets of the Group were RMB67.874 billion, the total liabilities were RMB40.603 billion, the non-controlling interests were RMB5 million, and the equity attributable to the equity holders of the Company was RMB27.266 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 RMB67.874 billion, decreased by RMB2.999 billion as compared with that as at the end of 2018. In particular, the current assets were RMB60.617 billion, decreased by RMB3.221 billion as compared with that as at the end of 2018, which was mainly due to a decrease of RMB7.062 billion in cash and cash equivalents, a decrease of RMB3.488 billion in contract assets, an increase of RMB4.944 billion in time deposits, an increase of RMB1.00 billion in loans due from the ultimate holding company, a decrease of RMB1.113 billion in notes and trade receivables, and an increase of RMB1.698 billion in prepayments and other receivables. Non-current assets amounted to RMB7.257 billion, an increase of RMB222 million over the end of 2018, which was mainly due to an increase of RMB180 million in the right-of-use assets (other than the land use rights).

As at the end of the Reporting Period, the total liabilities were RMB40.603 billion, decreased by RMB4.286 billion as compared with that as at the end of 2018. In particular, the current liabilities were RMB37.792 billion, decreased by RMB4.207 billion as compared with that as at the end of 2018, which was mainly due to a decrease of RMB6.572 billion in notes and trade payables, and a decrease of RMB384 million in loans due to a fellow subsidiary. The non-current liabilities were RMB2.812 billion, decreased by RMB79 million as compared with that as at the end of 2018, which was mainly due to a decrease of RMB148 million in retirement and other supplementary benefit obligations.

The equity attributable to equity holders of the Company was RMB27.266 billion, increased by RMB1.287 billion as compared with that as at the end of 2018, which was mainly due to the increase in retained earnings during the Reporting Period.

4.3.2 Cash Flows

During the Reporting Period, the net decrease in cash and cash equivalents was RMB7.095 billion and net cash generated from operating activities was RMB300 million. 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 2019 and 2018, respectively.

Units: RMB' 000

Major items of cash flow	Year ended 31 December	
	2019	2018
Net cash generated from operating activities	300,047	6,104,192
Net cash (used in)/generated from investing activities	(5,889,979)	23,954
Net cash used in financing activities	(1,505,020)	(1,179,216)
Net (decrease)/increase in cash and cash equivalents	(7,094,952)	4,948,930

During the Reporting Period, the profit before taxation was RMB2.827 billion, and the profit was RMB2.843 billion after adjusting the items (non-cash expense items) in expenses that did not affect the cash flow in operating activities. Major non-cash expense items included depreciation and amortisation of RMB683 million; gains on disposal of property, plant, land use rights and equipment of RMB59 million; exchange losses of RMB78 million, net interest income and expenditure of RMB786 million. Changes in working capital affected cash outflows of RMB2.412 billion, which were mainly shown in: the increase in trade and other receivables balance which caused the cash outflow from operating activities of RMB771 million; the decrease in contract assets which caused the cash inflow from operating activities of RMB3.460 billion; the increase in inventory balance which caused the cash outflow from operating activities of RMB793 million; the decrease in trade and other payables balance which caused the cash outflow from operating activities of RMB7.646 billion; the increase in contract liabilities which caused cash inflow from operating activities of RMB3.346 billion. After adjusting non-cash expense items, receivables and payables for the profit before taxation, deducting the income tax paid amounting to RMB574 million, and increasing inflow of received interest by RMB443 million, the net cash generated from operating activities was RMB300 million.

Net cash used in investing activities was RMB5.890 billion, which was mainly due to the increase in time deposits and loans to the ultimate holding company.

Net cash used in financing activities was RMB1.505 billion, which was mainly due to the dividend distribution, repayment of loans from a fellow subsidiary and rental expenses of the leased right-of-use assets.

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 to 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:

Main financial ratios	Year ended 31 December	
	2019	2018
Net profit margin (%)	4.2	3.6
Return on assets (%) ⁽¹⁾	3.1	2.6
Return on equity (%) ⁽²⁾	8.0	6.5
Return on invested capital (%) ⁽³⁾	8.3	6.7

Main financial ratios	As at 31 December 2019	As at 31 December 2018
Gearing ratio (%) ⁽⁴⁾	0.7	1.5
Net debt to equity ratio (%) ⁽⁵⁾	Net cash	Net cash
Current ratio ⁽⁶⁾	1.6	1.5
Quick ratio ⁽⁷⁾	1.6	1.5

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

Return on assets

During the Reporting Period, the Group's return on assets increased to 3.1% from 2.6% for the same period in 2018, mainly due to the increase in the profit during the Reporting Period.

Return on equity

The Group's return on equity increased to 8.0% from 6.5% for the same period in 2018, mainly due to the increase in the profit during the Reporting Period.

Return on invested capital

The Group's return on invested capital increased to 8.3% from 6.7% for the same period in 2018 for the same reason as the increase in return on equity.

Gearing ratio

The Group's gearing ratio decreased to 0.7% from 1.5% at the end of 2018, 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 2018 and as at 31 December 2019.

Current ratio

The Group's current ratio increased to 1.6 from 1.5 at the end of 2018. This increase was mainly due to the decrease of current liabilities during the Reporting Period was greater than the decrease of current assets.

Quick ratio

The Group's quick ratio increased to 1.6 from 1.5 at the end of 2018. As the inventory accounted for a small proportion of current assets of the Group, the reason for the change in quick ratio was the same as that for current ratio.

5 Significant Events

5.1 Dividends

At the annual general meeting for the year 2018 convened on 8 May 2019, an ordinary resolution was passed to approve the authorisation to the Board to determine the interim profit distribution plan for the year 2019. The dividend distribution plan of RMB0.108 per share (inclusive of applicable tax) for the six months ended 30 June 2019 was approved at the fifth meeting of the Third Session of the Board convened on 16 August 2019. The dividend distribution plan was implemented.

The final dividend distribution plan for the year ended 31 December 2019 was approved at the tenth meeting of the Third Session of the Board. The final dividend distribution shall be calculated based on the total number of Shares of 4,428,000,000 shares as at Wednesday, 20 May 2020 and the final dividend distribution shall be based on RMB0.212 per Share (inclusive of applicable tax). That distribution plan will be implemented after being reviewed and approved at the annual general meeting to be held by the Company on 8 May 2020. The final dividend for the year 2019 will be paid on or before Monday, 20 July 2020 to all Shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 20 May 2020. 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 Thursday, 14 May 2020 for registration. For the purpose of ascertaining Shareholders who qualify for the dividend, the register of members for H Shares will be closed from Friday, 15 May 2020 to Wednesday, 20 May 2020 (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 Renminbi to Hong Kong dollars as announced by the People's Bank of China during the five business days preceding the date of approval of the final dividend by the annual general meeting to be convened on 8 May 2020.

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, 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 Wednesday, 20 May 2020.

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 given to them under the relevant tax agreement with the PRC, 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% under the relevant tax agreement with the PRC, 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 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 registrar of the Company. The Company will assist with the tax refund of the extra amount withheld 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% under the tax agreement with the PRC, 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% under the relevant tax agreement with the PRC, or which has not entered into any tax agreement with PRC, or otherwise, the Company shall withhold and pay the individual income tax at a rate of 20%.

For investors investing in the H Shares of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange 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有關稅收政策的通知》(財稅[2014]81號) and the “Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect” (Caishui [2016] No. 127) 《關於深港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 securities of the Company.

5.4 Reserves

During the Reporting Period, movements in the reserves of the Group were set out in the consolidated statement of changes in equity of the financial report, which was prepared in accordance with IFRS in the 2019 Annual Report.

5.5 Review of Annual Results

The audit committee of the Company has reviewed the annual results. The Audit Committee has not expressed any dissent concerning the financial statements in the 2019 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 24 years of experience in auditing, internal control and consultancy.

5.6 Important events affecting the Group after the Reporting Period

From 31 December 2019 and up to the date of this announcement, there is no significant event that affected the Group after the Reporting Period.

6 Compliance with Corporate Governance Code

During the Reporting Period, the Company complied with all code 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 code provisions.

7 Financial Report

7.1 Auditor's opinion

The financial statements for the year ended 31 December 2019 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 2019 Annual Report.

7.3 Financial Statements

The financial statements prepared in accordance with the IFRS for the year ended 31 December 2019:

7.3.1 Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	2019	2018
	RMB' 000	RMB' 000
Revenue	52,261,051	47,019,024
Cost of sales	<u>(46,778,318)</u>	<u>(41,823,450)</u>
Gross profit	5,482,733	5,195,574
Other income	254,958	559,214
Selling and marketing expenses	(131,243)	(123,546)
Administrative expenses	(1,281,950)	(1,298,652)
Research and development costs	(2,136,152)	(1,675,692)
Other operating expenses	(191,263)	(36,812)
Other gains/(losses) – net	<u>19,924</u>	<u>(1,184,552)</u>
Operating profit	2,017,007	1,435,534
Finance income	897,375	780,375
Finance expenses	<u>(111,130)</u>	<u>(118,014)</u>
Finance income – net	786,245	662,361
Share of profit/(loss) of joint arrangements	650	(46)
Share of profit of associates	<u>23,498</u>	<u>23,666</u>
Profit before taxation	2,827,400	2,121,515
Income tax expense	<u>(643,881)</u>	<u>(441,706)</u>
Profit for the year	<u>2,183,519</u>	<u>1,679,809</u>

	2019 RMB' 000	2018 RMB' 000
Other comprehensive income/(expense) for the year, net of tax		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	95,848	(49,746)
 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	35,650	(157,487)
 Other comprehensive income/(expense) for the year, net of tax	131,498	(207,233)
 Total comprehensive income for the year	<u>2,315,017</u>	<u>1,472,576</u>
 Profit attributable to:		
Equity holders of the Company	2,183,457	1,679,472
Non-controlling interests	62	337
 Profit for the year	<u>2,183,519</u>	<u>1,679,809</u>
 Total comprehensive income attributable to:		
Equity holders of the Company	2,314,955	1,472,239
Non-controlling interests	62	337
 Total comprehensive income for the year	<u>2,315,017</u>	<u>1,472,576</u>
	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	<u>0.49</u>	<u>0.38</u>

7.3.2 Consolidated Statement of Financial Position

As at 31 December 2019

	2019	2018
	RMB' 000	RMB' 000
ASSETS		
Non-current assets		
Property, plant and equipment	3,597,352	3,496,474
Land use rights	–	2,442,793
Right-of-use assets	2,523,770	–
Intangible assets	233,315	164,081
Investment in joint arrangements	2,516	1,866
Investment in associates	161,952	147,454
Financial assets at fair value through other comprehensive income	–	680
Deferred income tax assets	738,052	781,439
Total non-current assets	<u>7,256,957</u>	<u>7,034,787</u>
Current assets		
Inventories	1,193,480	400,921
Notes and trade receivables	8,613,198	9,726,429
Prepayments and other receivables	6,664,671	4,967,162
Contract assets	8,085,951	11,573,904
Loans due from the ultimate holding company	19,000,000	18,000,000
Restricted cash	38,087	29,468
Time deposits	7,086,066	2,142,406
Cash and cash equivalents	9,935,338	16,997,663
Total current assets	<u>60,616,791</u>	<u>63,837,953</u>
Total assets	<u><u>67,873,748</u></u>	<u><u>70,872,740</u></u>

	2019 RMB' 000	2018 RMB' 000
EQUITY		
Share capital	4,428,000	4,428,000
Reserves	22,837,976	21,550,646
Equity attributable to equity holders of the Company	27,265,976	25,978,646
Non-controlling interests	4,565	4,503
Total equity	27,270,541	25,983,149
LIABILITIES		
Non-current liabilities		
Lease liabilities	125,678	—
Retirement and other supplemental benefit obligations	2,488,926	2,636,815
Provision for litigation claims	196,945	253,936
Total non-current liabilities	2,811,549	2,890,751
Current liabilities		
Notes and trade payables	22,114,039	28,686,243
Other payables	2,008,917	2,758,139
Contract liabilities	13,314,941	9,968,594
Lease liabilities	55,275	—
Loans due to a fellow subsidiary	—	384,339
Current income tax liabilities	298,486	201,525
Total current liabilities	37,791,658	41,998,840
Total liabilities	40,603,207	44,889,591
Total equity and liabilities	67,873,748	70,872,740
Net current assets	22,825,133	21,839,113
Total assets less current liabilities	30,082,090	28,873,900

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:

	2019 RMB' 000	2018 RMB' 000
Engineering, consulting and licensing	2,317,552	2,924,408
EPC Contracting	32,438,087	29,135,814
Construction	17,219,628	14,401,934
Equipment manufacturing	285,784	556,868
	<u>52,261,051</u>	<u>47,019,024</u>

7.4.2 Income Tax Expense

	2019 RMB' 000	2018 RMB' 000
Current tax		
PRC enterprise income tax	392,908	376,647
Overseas enterprise income tax	170,023	87,834
Under/(Over)-provision for income tax in prior years	49,232	(25,405)
	<u>612,163</u>	<u>439,076</u>
Deferred tax		
Origination of temporary differences	31,718	2,630
Income tax expense	<u>643,881</u>	<u>441,706</u>

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 2019 and 2018 is 25%.

According to the normal statutory PRC corporate income tax and relevant rules, for the years ended 31 December 2019 and 2018, the majority of subsidiaries of the Company have been qualified as new high-tech enterprises which can enjoy 15% preferential tax rate in the related period, other members of the Group are subject to 25% income tax rate.

The tax of other countries is based on the nation's tax laws, where the relevant subsidiary of the Group operates in.

The difference between the actual income tax charge in the consolidated statement of 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:

	2019	2018
	RMB' 000	RMB' 000
Profit before taxation	<u>2,827,400</u>	<u>2,121,515</u>
Taxation calculated at the statutory tax rate	706,850	530,379
Income tax effects of:		
Preferential income tax treatments of certain companies	(195,910)	(255,865)
Difference in overseas profits tax rates	(63,675)	(56,085)
Non-deductible expenses	167,333	291,137
Income not subject to tax	(46,836)	(52,736)
Unrecognised tax losses	31,789	10,281
Utilisation of previously unrecognised tax losses	(4,902)	—
Under/(Over) provision for income tax in prior years	<u>49,232</u>	<u>(25,405)</u>
Income tax expense	<u>643,881</u>	<u>441,706</u>
Effective income tax rate	<u>22.8%</u>	<u>20.8%</u>

7.4.3 Earnings Per Share

(a) Basic

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

	2019	2018
Profit attributable to equity holders of the Company (RMB' 000)	2,183,457	1,679,472
Weighted average number of ordinary shares in issue	4,428,000,000	4,428,000,000
Basic earnings per share (RMB)	<u>0.49</u>	<u>0.38</u>

(b) Diluted

As the Company had no dilutive shares for the each of the years ended 31 December 2019 and 2018, dilutive earnings per share for the years ended 31 December 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 years ended 31 December 2019 and 2018.

	2019	2018
	RMB' 000	RMB' 000
Interim dividends of RMB0.108		
(2018: RMB0.1) per ordinary share ⁽¹⁾	478,224	442,800
Proposed final dividends of RMB0.212		
(2018: RMB0.124) per ordinary share ⁽²⁾	<u>938,736</u>	<u>549,072</u>

Notes:

- (1) Pursuant to a resolution passed at the board of Directors' meeting on 16 August 2019, the Directors authorised to declare the interim dividends for the year ended 31 December 2019 of RMB0.108 (2018: RMB0.1) per share totaling RMB478,224,000 (2018: RMB442,800,000), and have been paid in October 2019.
- (2) Pursuant to the board of Directors' meeting on 20 March 2020, the Directors recommended to declare the final dividends for the year ended 31 December 2019 of RMB0.212 (2018: RMB0.124) per share totaling RMB938,736,000 (2018: RMB549,072,000). 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.
JIA Yiqun
Chief Financial Officer, Company Secretary

Beijing, the PRC
23 March 2020

As at the date of this announcement, the executive Directors are YU Renming, XIANG Wenwu, SUN Lili (employee representative Director) and ZHOU Yingguan (employee representative Director); the non-executive Director is 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).