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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)

2020 Interim Results Announcement

1 Important Notice

- 1.1 This announcement is extracted from the content of the 2020 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 2020 (the “**Reporting Period**”) of SINOPEC SEG and its subsidiaries (the “**Group**”), prepared in accordance with the International Financial Reporting Standards (“**IFRS**”), were audited by BDO Limited, which has issued standard unqualified auditor’s 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 Renming
Authorised Representatives	:	Mr. XIANG Wenwu, Mr. JIA Yiqun
Company Secretary	:	Mr. JIA Yiqun
Place of Business and Correspondence Address	:	Building 8, Shenggujiayuan, 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 2020	As at 31 December 2019	Changes from the end of 2019 (%)
Total assets	67,497,829	67,873,748	(0.6)
Equity attributable to equity holders of the Company	27,549,243	27,265,976	1.0
Net assets per share of equity holders of the Company (RMB)	6.22	6.16	1.0

Unit: RMB' 000

Items	Six-month periods ended 30 June		Changes over the same period of 2019 (%)
	2020	2019	
Revenue	23,797,156	22,682,018	4.9
Gross profit	2,191,775	2,371,953	(7.6)
Operating profit	1,150,453	1,101,143	4.5
Profit before taxation	1,562,823	1,513,464	3.3
Profit attributable to equity holders of the Company	1,260,191	1,198,685	5.1
Basic earnings per share (RMB)	0.28	0.27	5.1
Net cash flow used in operating activities	(1,962,757)	(4,964,239)	(60.5)
Net cash flow used in operating activities per share (RMB)	(0.44)	(1.12)	(60.5)

Items	Six-month periods ended 30 June	
	2020	2019
Gross profit margin (%)	9.2	10.5
Net profit margin (%)	5.3	5.3
Return on assets (%)	1.9	1.7
Return on equity (%)	4.6	4.5
Return on invested capital (%)	4.7	4.5

Items	As at 30 June 2020	As at 31 December 2019
Asset-liability ratio (%)	59.2	59.8

3 Business Review and Prospects

In the first half of 2020, the pandemic COVID-19 spread all over the world. The international oil price plummeted, the financial market fluctuated, the energy consumption dropped, and the global economy suffered heavy losses. Confronted with this unprecedented difficult situation and the complicated and ever-changing domestic and international environment, the Group braved all the difficulties and actively carried out the “one hundred day campaign to address the tough challenges and to improve performance”, focusing on epidemic prevention and control and on business operation, organizing work resumption, strengthening project process control and improving the level of intensive management. The Group worked hard to overcome the adverse effects caused by the epidemic and achieved hard-won business performance. All the projects were implemented smoothly, with safety, quality and progress well controlled. During the Reporting Period, the Group recognized a revenue of RMB23.797 billion, an increase of 4.9% compared with the same period of last year (hereinafter referred to as “**period-on-period**”), and the profits attributable to equity holders of the Company were RMB1.260 billion, with a period-on-period increase of 5.1%.

During the Reporting Period, the value of new contracts entered into by the Group was RMB36.638 billion, representing an increase of 10.3% on a period-on-period basis. In the first half of 2020, the Group seized the opportunity of alleviated epidemic situation in China, closely followed the transition of the domestic petrochemical industry and grasped the market opportunities of steady advancement of the “seven major national petrochemical industry bases” and the “four world-class refining and petrochemical bases of Sinopec Group”. Given full play to its competitive advantages, the Group maintained a stable development of domestic market. During the Reporting Period, the value of new domestic contracts entered into by the Group was RMB30.094 billion, representing a decrease of 3.1% on a period-on-period basis. Meanwhile, thanks to long-term hard work in overseas markets such as in the Middle East, Russia and Central Asia, the Group achieved a breakthrough in overseas market. During the Reporting Period, the value of newly signed overseas contracts amounted to approximately RMB6.544 billion, representing an increase of 200.6% on a period-on-period basis. As at the end of the Reporting Period, the Group’s backlog was RMB107.834 billion, representing an increase of 13.5% compared to that as at 31 December 2019.

The Group devoted itself to epidemic prevention and control and actively fulfilled its social responsibilities, greatly enhanced the brand image of the company. The Group built the first meltblown fabric production line for Sinopec in only 12 days, and built the world’s largest meltblown fabric production base in Sinopec Yanshan Petrochemical Company and Sinopec Yizheng Chemical Fiber Co., LTD. within 76 days, making a great contribution to the epidemic prevention and control. The Group donated approximately 460,000 pieces of epidemic prevention materials to business partners in Italy, Spain, Kazakhstan, Saudi Arabia, Uzbekistan, Belgium and etc. to help to tide over these difficulties.

3.1 Business Review

During the Reporting Period, the total revenue of the Group was RMB23.797 billion, representing an increase of 4.9% on a period-on-period basis, mainly due to the fact that large EPC contracting projects such as Fujian Gulei Refining and Petrochemical Integration Project, Zhongke Refining and Petrochemical Integration Project, SINOPEC SABIC Polycarbonate Project and Sinochem Quanzhou Ethylene Project have contributed a lot to the revenue. Profit attributable to equity holders of the Company was RMB1.260 billion, representing an increase of 5.1% on a period-on-period basis. As at the end of the Reporting Period, the backlog of the Group amounted to RMB107.834 billion, representing an increase of 13.5% compared to that as at 31 December 2019, and was 2.06 times of the total revenue of RMB52.261 billion in 2019. During the Reporting Period, the value of new contracts amounted to RMB36.638 billion, representing an increase of 10.3% on a period-on-period basis.

The business of the Group is mainly consisted of 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:

	Six-month periods ended 30 June				
	2020		2019		Change
	Revenue (RMB’000)	Percentage of total revenue (%)	Revenue (RMB’000)	Percentage of total revenue (%)	
Engineering, consulting and licensing	1,230,173	4.6	1,147,922	4.6	7.2
EPC Contracting	15,528,332	58.3	13,852,329	55.6	12.1
Construction	9,612,750	36.1	9,589,987	38.5	0.2
Equipment manufacturing	264,320	1.0	318,010	1.3	(16.9)
Subtotal	26,635,575	100.0	24,908,248	100.0	6.9
Total (after inter-segment elimination) ⁽¹⁾	23,797,156	N/A	22,682,018	N/A	4.9

Note:

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

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				
	2020		2019		Change
	Revenue (RMB' 000)	Percentage of total revenue (%)	Revenue (RMB' 000)	Percentage of total revenue (%)	
Oil refining	5,524,808	23.2	7,854,494	34.6	(29.7)
Petrochemicals	14,428,401	60.6	10,913,276	48.1	32.2
New coal chemicals	2,204,020	9.3	2,509,314	11.1	(12.2)
Other industries	1,639,927	6.9	1,404,934	6.2	16.7
Subtotal	<u>23,797,156</u>	<u>100.0</u>	<u>22,682,018</u>	<u>100.0</u>	<u>4.9</u>

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, thanks to the revenue contribution from large EPC contracting projects such as Fujian Gulei Refining and Petrochemical Integration Project, Zhongke Refining and Petrochemical Integration Project, SINOPEC SABIC Polycarbonate Project and Sinochem Quanzhou Ethylene Project, revenue generated from petrochemicals industry was RMB14.428 billion, representing an increase of 32.2% on a period-on-period basis; thanks to the contribution of crude oil storage facilities projects and natural gas pipeline network and gas storage facilities projects, revenue generated from other industries was RMB1.640 billion, representing an increase of 16.7% on a period-on-period basis; revenue generated from oil refining industry was RMB5.525 billion, representing a decrease of 29.7% on a period-on-period basis, which was affected by the settlement and completion of the projects such as Kuwait Oil Refining Project; revenue generated from new coal chemicals industry was RMB2.204 billion, representing a decrease of 12.2% on a period-on-period 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:

	Six-month periods ended 30 June				
	2020		2019		Change
	Revenue (RMB' 000)	Percentage of total revenue (%)	Revenue (RMB' 000)	Percentage of total revenue (%)	
PRC	21,040,916	88.4	16,754,294	73.9	25.6
Overseas	2,756,240	11.6	5,927,724	26.1	(53.5)
Subtotal	<u>23,797,156</u>	<u>100.0</u>	<u>22,682,018</u>	<u>100.0</u>	<u>4.9</u>

During the Reporting Period, thanks to the rapid control of the domestic epidemic, the Group's active work resumption, and the large revenue contribution from large EPC contracting projects such as Fujian Gulei Refining and Petrochemical Integration Project, Zhongke Refining and Petrochemical Integration Project, SINOPEC SABIC Polycarbonate Project and Sinochem Quanzhou Ethylene Project, revenue of the Group generated in the PRC was RMB21.041 billion, representing an increase of 25.6% on a period-on-period basis, affected by the slowdown of progress in some overseas projects due to the spread of epidemic COVID-19 in the world and the settlement and completion of Kuwait Oil Refining Project, revenue generated from overseas was RMB2.756 billion, representing a decrease of 53.5% on a period-on-period basis.

During the Reporting Period, representative domestic projects that the Group entered into include Zhenhai Refining and Chemical Ethylene Expansion Project, Sinopec Tianjin Liquefied Natural Gas (LNG) Project Expansion Project (Phase II) Receiving Terminal Project, crude oil storage facilities projects in Guangdong, Tianjin and Xinjiang. Representative overseas projects entered into by the Group include Saudi Aramco Crude Oil Transportation Pump Station Upgrade Project, Russian Amur AGCC Polyolefin Project, Hengyi Brunei PMB Project Design Contract, etc.

During the Reporting Period, the Group's capital expenditure was approximately RMB190 million, mainly used for the contract energy management investment, production base construction, information system construction, construction machinery and engineering professional software purchase, etc.

3.2 Business Highlights

3.2.1 *Successful implementation of major projects*

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 entered into construction peak period, with an overall progress exceeding 60%.

Zhongke Refining and Petrochemical Integration Project: please refer to the announcements dated 18 January 2018, 19 March 2018 and 17 April 2018 published by the Company for further details. As at the end of the Reporting Period, the project entered the full-scale start-up phase.

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 project entered into construction peak period, with an overall progress of about 60%.

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 was in the final stage, and the main units were at the mechanical completion stage.

Zhenhai Refining and Chemical Ethylene Expansion Project: please refer to the announcements dated 28 February 2020 and 16 April 2020 published by the Company for further details. As at the end of the Reporting Period, this project was in the stage of detailed design and civil construction, with an overall progress of about 10%.

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 project entered into construction peak period, with an overall progress exceeding 80%.

3.2.2 Continuous enhancement of project management and control

During the Reporting Period, the Group established a key project work coordination group to maintain close communication with the project owners and tighten the coordination of key projects; the Group intensified early planning, optimized management process, and enhanced in-process quality control; 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, and strengthened project process management and closed-loop management to ensure smooth implementation of all projects; optimising the design workflow and professional division interface, the Group strengthened standardized design, modular design, and modular construction to improve design and construction efficiency; the Group carried out project management trainings and contract management trainings, implementing the advanced management concepts and management processes of international projects.

During the Reporting Period, the Group further improved the subcontracting management system, strengthened the cultivation of strategic subcontractors, and dynamically evaluated the operational effectiveness of the QHSSE system of strategic subcontractors, optimized the allocation of subcontracting resources; the Group developed subcontracting resources and information sharing platform, realised integrated management of subcontractor resource pool and subcontractor assessment, reduced subcontracting management costs; the Group guaranteed the supply of materials for various projects, actively explored ways to improve procurement efficiency and cost reduction, improved standard procedures, document templates and management regulations of procurement further improved procurement management for domestic and overseas projects.

3.2.3 Forge ahead in market development

During the Reporting Period, fully grasped the market opportunities and made full use of its overall advantages in industry chain, service chain and technology chain, the Group vigorously expanded the market. During the Reporting Period, the value of new contracts entered into by the Group was RMB36.638 billion, representing an increase of 10.3% on a period-on-period basis; out of which, the value of newly signed domestic contracts amounted to RMB30.094 billion, representing a decrease of 3.1% on a period-on-period basis, and the value of newly signed overseas contracts amounted to approximately RMB6.544 billion, representing an increase of 200.6% on a period-on-period basis.

During the Reporting Period, the Group continued to develop market in the PRC and strive to explore new business in new fields and new areas. The Group entered into new contracts for a number of large projects in the PRC, such as Zhenhai Refining and Chemical Ethylene Expansion Project with a total contract value of approximately RMB10.565 billion; a series of crude oil storage facilities projects in Guangdong, Tianjin and Xinjiang with a total contract value of approximately RMB3.950 billion; Sinopec Tianjin Liquefied Natural Gas (LNG) Project Expansion Project (Phase II) Receiving Terminal Project with a total contract value of approximately RMB3.183 billion.

During the Reporting Period, the Group continuously strengthened the cooperation with international engineering companies and strengthened overseas outlets, improved the deployment in overseas markets. Thanks to the long-term hard work in key markets, the Group has made a breakthrough in overseas market. The major overseas projects newly signed include: Saudi Aramco Crude Oil Transportation Pump Station Upgrade Project with a total contract value of approximately USD386 million; Russian Amur AGCC Polyolefin Project with a total contract value of approximately USD256 million; and Hengyi Brunei PMB Project Design Contract with a total contract value of approximately USD47 million.

In addition to above projects, the Group followed up with several projects in oil refining, petrochemicals, new coal chemicals, environmental protection and energy saving fields, which are expected to enter into new contracts in the future.

3.2.4 Continuous promotion of technological innovation and technological advancement

During the Reporting Period, the Group has signed 158 new contracts for the scientific research programs, covering new energy sources, new materials, and energy saving and emission reduction technologies required for the development of petrochemical market.

During the Reporting Period, the Group's key R&D programs were steadily advanced. The project "Solid Superacid C5, C6 Isomerization Technology Development and Industrial Test" has gone through the plant start-up stage and is now under adjustment, entering the calibration preparation stage; the project "Research and Demonstration of Packaged Technologies for Safe and Reliable Large-flux Plasma Treatment of VOCs" has been completed and is expected to be delivered in the near future; the project "Integration and Development of High Slag Content and Low Emission Heavy Oil Catalytic Cracking Technology" has gone through the start-up for some units; and other key research projects have been advanced as scheduled and are under overall control.

During the Reporting Period, the Group completed 271 new patent applications, among which, 163 or 60.1% applications were invention patents applications. Besides, the Group completed 192 newly licensed patents, 66 of which were invention patents.

During the Reporting Period, the Group received a total of 20 scientific advancement awards in scientific innovation and engineering construction fields at the provincial and above level, among them, the project “Development and Application of Packaged Technologies for Ultra-low Sulfur Emission and Resource Utilization of Sulfide-bearing Waste Gas from Refining and Chemical Industry” won the second prize of National Science and Technology Progress Award in 2019, 14 projects won the annual Sinopec Science and Technology Progress Award, and 3 projects won quality engineering awards at different levels.

3.2.5 Businesses of environmental protection and energy saving constantly expanded

During the Reporting Period, the contracts signed by the Group concerning energy saving and environmental protection include Tianjin Petrochemical’s renovation project of confined decoking for delayed coking unit, Qilu Petrochemical’s renovation project of confined decoking for delayed coking unit, Anqing Petrochemical’s project of waste residue landfill site restoration, Qilu Petrochemical’s project of rectisol tail gas treatment, Baling Petrochemical Resin Department’s public works No.1 station recycling water system energy saving transformation project, Jinan refining and chemical coking furnace outer wall energy saving transformation project, Maoming Petrochemical’s energy management project under refinery CFB circulating water system optimization and coal-to-hydrogen circulating water system optimization contract, and so on.

In the field of energy saving, the Group actively promoted the progress of the existing contract energy management projects and carbon footprint evaluation services, undertook the energy saving research work such as the development of biological aviation kerosene life cycle model, the development of clean production technology and carbon footprint accounting technology in petroleum and petrochemical enterprises, and the application of mechanical vapor recompression (MVR) technology of multi-effect evaporation process, and promoted photovoltaic power station construction projects in gas station and oil depot. In the field of soil restoration, the Group closely tracked the progress of site restoration work in Beihai Refinery, Xi’ an Petrochemical, Baling Petrochemical, Anqing Petrochemical and other enterprises and the restoration projects of contaminated sites in Chongqing and Anhui, and organized domestic and foreign partners to jointly participate in tendering for KOC crude oil contaminated soil restoration project in Kuwait.

3.2.6 Deepen reform and explore new momentum

During the Reporting Period, according to the corporate vision of “building a world-leading engineering company” and the development model of “integrated operation and collectivized management”, the Group has comprehensively promoted the optimisation and realignment, made greater efforts in the international expansion, differentiated evolution, digital transformation and smart upgrade, and strived to build the brand of “whole life cycle service provider from project tracking to project operation”. The Group promoted reform in depth, coordinated the development of all business segments, formed the advantages of collectivization scale, exerted the integration synergy effect, improved and extended the business chain on the basis of consolidating the traditional and core business areas, and made the high-end business bigger and stronger. During the Reporting Period, the Group continued to improve the reform of information technology branches, and accelerated the construction of operation and management platform, project management platform, digital factory platform and intelligent application platform.

3.2.7 The application of digital engineering has achieved initial success

During the Reporting Period, the Group vigorously promoted digital transformation and smart upgrade. According to the “data + platform + application” model, the Group combed the “three-in-one” scenario of business flow, phased management process flow and production tool flow in the whole life cycle from project tracking to project operation, prepared the information and digital development planning framework of the 14th Five-Year Plan, and comprehensively scheme the overall plan of the Group’s digital transformation. During the Reporting Period, the Group focused on the integration of industry and finance, deepened ERP application, promoted comprehensive budget management, and established and optimized an operation management platform; paying special attention to digital delivery the Group developed in-depth application of digital factory production line through an engineering cloud APP; focusing on smart factory services, the Group deepened the application of engineering master data, explored the integrated application of equipment domains, and participated in the construction of petrochemical intelligent cloud.

3.2.8 Continued to promote safe production

During the Reporting Period, in accordance with the strategy of “preventing imported cases from abroad and resurgence at home”, the Group resolutely takes the blocking action of epidemic prevention and control, decisively implements the core value of QHSSE (quality, health, safety, security and environment) of “safety development, quality first, environmental protection priority and people-oriented”, taking the effective operation of QHSSE management system as the main roadmap, taking the construction of long-term mechanism as the guideline, creating a normalization mechanism for epidemic prevention and control, fully implementing the entity responsibility, identifying safety risks and hazards, strengthening risk prevention and control, and consolidating the management of “grass-roots construction, basic work and basic skill building”. By organizing multi-level training, deepening the design of intrinsic safety management, strengthening video remote supervision and inspection, and carrying out quality and safety improvement activities, the Group fully promoted quality and safety standardization construction and intrinsic safety capacity building, and continuously improve QHSSE management level. In addition, the Group actively took precautions against overseas public safety risks arising from the epidemic, and ensured the stability of overseas project teams and project implementation.

As at the end of the Reporting Period, the Group achieved the goal of no reported accidents such as safety, quality, environment, occupational health, or overseas public safety of the projects being implemented. As a result, an aggregate of 131.59 million labour safe hours were realised during the Reporting Period.

3.3 Business Prospects

Looking forward to the second half of 2020, the global economy is still facing great challenges. The “long tail effect” of the epidemic and the trend of “anti-globalization” have a profound impact on global development. Financial market is subject to accumulated risks, and the uncertainty of international oil prices becomes prominent, resulting the market competition increasingly fierce. However, China’s economy still has great potential and momentum, and the fundamentals of long-term improvement have not changed. With continuous improvement of the epidemic situation, the demand recovery is expected to accelerate. The Group will stick to the long-term perspective, strive to find new chances amidst the crisis, create new leads in the changing situation, take initiatives in grasping the domestic and international market opportunities, and give full play to the advantages of collectivization, integration and scale to continuously enhance the core competitiveness of the enterprises and promote the sustainable development of the Group.

In the future, the development of the energy industry will adjust the pace with improved quality and efficiency, and the pattern of refining and petrochemical industry will constantly change. Projects of the “seven major national petrochemical industry bases” and Sinopec Group’s “four world-class refining and petrochemical bases” will continue to move forward. Investments from private sector will remain active, and international energy giants such as Exxon Mobil, BASF and SABIC are poised to enter the Chinese market. Focusing on the development orientation of “Whole Life Cycle Service Provider from Project Tracking to Project Operation”, the Group will strengthen its traditional advantageous businesses in oil refining and petrochemical industries and continue to establish overall solutions for industries of natural gas, new coal chemicals, environmental protection and energy saving, and build an innovation system with technological innovation as the core, focusing on key points, optimizing resources, implementing the policies in a classified and targeted manner, and jointly promoting the development of various business segments. Meanwhile, the Group will continue to closely track the market opportunities in countries and regions along the “Belt and Road” and continuously improve the competitiveness of overseas business and increase the anti-risk ability.

In respect of the market development, for the second half of 2020, the Group will continue to promote the overall exploration of key markets, give full play to advantageous areas such as refining and petrochemical integration and comprehensive utilization of light hydrocarbons, new coal chemicals, natural gas and LNG, promote the development of strategic customers and large projects, strengthen engineering, consulting and licensing business, propel project tracking and full-cycle services, and increase market share; the Group will explore new businesses fields such as new energy, new materials, energy saving and environmental protection, promote the growth of energy saving business and soil restoration business and seize the market opportunities of renewable energy, carbon resources and hydrogen resources to promote the construction of related demonstration units, establishing market competitive advantages; the Group will extend the service chain of digital delivery, modular design and construction, high-end manufacturing, and new inspection and maintenance services; the Group will explore new business models in conjunction with digital transformation and promote the overall development of key areas and key projects; the Group will form a closer cooperative relationship with strategic partners such as global excellent technology licensors suppliers and engineering companies. In overseas market, the Group will strive to overcome the adverse effects of the epidemic COVID-19, continue to take the lead in “Belt and Road” initiative to make greater effort in market development of countries along the “Belt and Road”, maintain the existing advantages in traditional markets such as the Middle East, Central Asia and Russia, and deepen the market exploitation and expand business areas; the Group will strive to make breakthroughs in South Asia and Africa.

In respect of project management, for the second half of 2020, the prevention and control of domestic epidemic has become the new normal, the risk of overseas epidemic spread is still relatively high, and the uncertainty in overseas business operation is increasing. The Group will always adhere to prevention and control of epidemic situation on one hand and business operation on the other, further carry out the campaign to address the tough challenges and to improve performance, take effective measures to enhance profitability; the Group will strengthen the overall coordination and key monitoring of major domestic projects, prevent epidemic resurgence at home, and stress the early planning and assurance of implementation process of key projects; the Group will strengthen project process control, solve problems existing in the project implementation process in time, reduce project management risks, and ensure the smooth implementation of key projects; the Group will coordinate and optimize the resource allocation of the project under the conditions of ensuring safety, quality and controllable schedule, and take the maximization of the company's benefits as the guideline. As for overseas businesses, the Group will continue to do a good job in epidemic prevention and control based on the concept of "life first" and an attitude of being highly responsible for all overseas employees, and at the same time, strengthen humanistic care to ensure the life safety and mental health of overseas employees.

In respect of technology research and development, for the second half of 2020, while strengthening and optimizing traditional refining and chemical businesses, the Group will focus on technology development trends in the fields of new energy, new materials, and energy saving and environmental protection, and focus on technologies and applications in the fields of direct production of chemicals from crude oil, cheap hydrogen sources, CO₂ utilization and natural gas chemical industry. The Group will strengthen cooperation, give full play to the integration advantages of the Group in technology, improve the quality of engineering services through technological innovation, and enhance 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 4.9% from RMB22.682 billion for the six months ended 30 June 2019 to RMB23.797 billion for the six months ended 30 June 2020, which was mainly due to the fact that large EPC contracting projects such as Fujian Gulei Refining and Petrochemical Integration Project, Zhongke Refining and Chemical Integration Project, SINOPEC SABIC Polycarbonate Project and Sinochem Quanzhou Ethylene Project have contributed a lot to the revenue.

4.1.2 Cost of sales

The cost of sales of the Group increased by 6.4% from RMB20.310 billion for the six months ended 30 June 2019 to RMB21.605 billion for the six months ended 30 June 2020, which was mainly due to (i) the increase in cost of equipment and materials as a result of entering into the peak period of equipment and materials procurement for large EPC contracting projects such as Fujian Gulei Refining and Petrochemical Integration Project, SINOPEC SABIC Polycarbonate Project and Sinochem Quanzhou Ethylene Project, and (ii) the increase in project execution cost and epidemic prevention cost as a result of the slowdown in progress or delay of some projects in light of the impact of the pandemic COVID-19.

4.1.3 Gross profit

Due to the above reasons, the gross profit of the Group decreased by 7.6% from RMB2.372 billion for the six months ended 30 June 2019 to RMB2.192 billion for the six months ended 30 June 2020, and the gross profit margin decreased from 10.5% to 9.2% on a period-on-period basis.

4.1.4 Other income

The other income of the Group increased by 77.2% from RMB119 million for the six months ended 30 June 2019 to RMB210 million for the six months ended 30 June 2020. The main reason is that an exchange gain of RMB61 million was recorded in the Reporting Period due to exchange rates fluctuation, while an exchange loss was recorded during the same period of last year.

4.1.5 Selling and marketing expenses

The selling and marketing expenses of the Group were RMB50 million, which remained broadly stable on a period-on-period basis.

4.1.6 Administrative expenses

The administrative expenses of the Group decreased by 18.6% from RMB607 million for the six months ended 30 June 2019 to RMB494 million for the six months ended 30 June 2020, which was mainly due to the decrease in expenses such as travel and office expenses on a period-on-period basis.

4.1.7 Research and development costs

The research and development costs of the Group increased by 6.6% from RMB747 million for the six months ended 30 June 2019 to RMB796 million for the six months ended 30 June 2020, which was mainly due to the Group's increased R&D investment in new technologies, new processes and digitization.

4.1.8 Other operating income

Other operating income of the Group increased by 679.5% from RMB11 million for the six months ended 30 June 2019 to RMB89 million for the six months ended 30 June 2020, which was mainly due to (i) the return of impairment allowance in the Reporting Period, and (ii) the exchange loss caused by the fluctuation of exchange rate in the same period of last year.

4.1.9 Other (losses)/gains – net

The net other (losses)/gains of the Group were a loss of RMB85,800.

4.1.10 Operating profit

Due to the above reasons, the operating profit of the Group increased by 4.5% from RMB1.101 billion for the six months ended 30 June 2019 to RMB1.150 billion for the six months ended 30 June 2020.

4.1.11 Financial income – net

The net finance income of the Group was RMB402 million, which remained broadly stable on a period-on-period basis.

4.1.12 Income tax expense

The Group's income tax expense was RMB302 million, which remained broadly stable on a period-on-period basis. The effective income tax rate decreased from 20.8% to 19.4% on a period-on-period basis. The change in the 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

Due to the above reasons, the profit of the Group increased by 5.1% from RMB1.199 billion for the six months ended 30 June 2019 to RMB1.260 billion for the six months ended 30 June 2020.

4.1.14 Total comprehensive income for the period

As a combined result of the reasons above and the effect of other comprehensive income of the Group, the total comprehensive income of the Group decreased by 7.7% from RMB1.317 billion for the six months ended 30 June 2019 to RMB1.216 billion for the six months ended 30 June 2020.

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 2020 (RMB' 000)	As at 31 December 2019 (RMB' 000)	Change (%)
Engineering, consulting and licensing	9,970,939	8,192,663	21.7
EPC Contracting	80,905,791	72,662,664	11.3
Construction	16,262,262	13,653,862	19.1
Equipment manufacturing	<u>695,435</u>	<u>484,371</u>	43.6
Total	<u><u>107,834,427</u></u>	<u><u>94,993,560</u></u>	13.5

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 2020 (RMB' 000)	As at 31 December 2019 (RMB' 000)	Change (%)
Oil refining	31,462,516	28,201,648	11.6
Petrochemicals	28,721,369	28,285,500	1.5
New coal chemicals	11,511,535	13,394,670	(14.1)
Other industries	<u>36,139,007</u>	<u>25,111,742</u>	43.9
Total	<u><u>107,834,427</u></u>	<u><u>94,993,560</u></u>	13.5

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

	As at 30 June 2020 (RMB' 000)	As at 31 December 2019 (RMB' 000)	Change (%)
PRC	83,807,756	74,754,485	12.1
Overseas	<u>24,026,671</u>	<u>20,239,075</u>	18.7
Total	<u><u>107,834,427</u></u>	<u><u>94,993,560</u></u>	13.5

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 2020 (RMB' 000)	As at 31 December 2019 (RMB' 000)	Change (%)
Sinopec Group and its associates	60,414,836	49,789,049	21.3
Non-Sinopec Group and its associates	<u>47,419,591</u>	<u>45,204,511</u>	4.9
Total	<u><u>107,834,427</u></u>	<u><u>94,993,560</u></u>	13.5

As at the end of the Reporting Period, the Group's backlog was RMB107.834 billion, representing an increase of 13.5% from that as at 31 December 2019, and 2.06 times of the total revenue of RMB52.261 billion in 2019.

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		Change
	periods ended 30 June		
	2020	2019	
	(RMB' 000)	(RMB' 000)	(%)
Engineering, consulting and licensing	2,988,407	1,382,037	116.2
EPC Contracting	23,771,460	24,460,035	(2.8)
Construction	9,509,700	6,390,278	48.8
Equipment manufacturing	<u>368,456</u>	<u>987,437</u>	(62.7)
Total	<u>36,638,023</u>	<u>33,219,787</u>	10.3

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		Change
	periods ended 30 June		
	2020	2019	
	(RMB' 000)	(RMB' 000)	(%)
Oil refining	8,785,676	9,451,172	(7.0)
Petrochemicals	14,864,270	17,015,718	(12.6)
New coal chemicals	320,885	4,844,253	(93.4)
Other industries	<u>12,667,192</u>	<u>1,908,644</u>	563.7
Total	36,638,023	33,219,787	10.3

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		
	2020	2019	Change
	(RMB' 000)	(RMB' 000)	(%)
PRC	30,094,187	31,043,019	(3.1)
Overseas	<u>6,543,836</u>	<u>2,176,768</u>	200.6
Total	<u>36,638,023</u>	<u>33,219,787</u>	10.3

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

	Six-month periods ended 30 June		Change (%)
	2020	2019	
	(RMB' 000)	(RMB' 000)	
Sinopec Group and its associates	24,349,418	21,264,226	14.5
Non-Sinopec Group and its associates	<u>12,288,605</u>	<u>11,955,561</u>	2.8
Total	<u>36,638,023</u>	<u>33,219,787</u>	10.3

During the Reporting Period, the value of the Group's new contracts was RMB36.638 billion, representing a increase of 10.3% compared to RMB33.220 billion for the six months ended 30 June 2019.

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 2020	As at 31 December 2019	Changes
Total assets	67,497,829	67,873,748	(375,919)
Current assets	60,366,086	60,616,791	(250,705)
Non-current assets	7,131,743	7,256,957	(125,214)
Total liabilities	39,943,859	40,603,207	(659,348)
Current liabilities	37,166,424	37,791,658	(625,234)
Non-current liabilities	2,777,435	2,811,549	(34,114)
Net assets	27,553,970	27,270,541	283,429
Equity attributable			
to equity holders of the Company	27,549,243	27,265,976	283,267
Share capital	4,428,000	4,428,000	0
Reserves	23,121,243	22,837,976	283,267
Non-controlling interests	4,727	4,565	162

As at the end of the Reporting Period, the total assets of the Group were RMB67.498 billion, the total liabilities were RMB39.944 billion, and the equity attributable to the equity holders of the Company was RMB27.549 billion. The changes in the assets and liabilities as compared with those as at the end of 2019 and the main reasons are as follows:

As at the end of the Reporting Period, the total assets were RMB67.498 billion, decreased by RMB376 million as compared with that as at the end of 2019. In particular, the current assets were RMB60.366 billion, decreased by RMB251 million as compared with that as at the end of 2019, which was mainly due to an increase of RMB1.681 billion in prepayments and other receivables, an increase of RMB1.435 billion in contract assets, a decrease of RMB1.465 billion in cash and cash equivalents, a decrease of RMB1.380 billion in notes and trade receivables; non-current assets amounted to RMB7.132 billion, a decrease of RMB125 million as compared to that as at the end of 2019, which was mainly due to the depreciation and amortization of non-current assets.

As at the end of the Reporting Period, the total liabilities were RMB39.944 billion, decreased by RMB659 million as compared with that as at the end of 2019. In particular, the current liabilities were RMB37.166 billion, decreased by RMB625 million as compared with that as at the end of 2019, which was mainly due to an increase of RMB907 million in dividend payables, an increase of RMB371 million in notes and trade payables, and a decrease of RMB1.863 billion in contract liabilities; the non-current liabilities were RMB2.777 billion, decreased by RMB34 million as compared with that as at the end of 2019, which was mainly due to a decrease of RMB22 million in retirement and other supplementary benefit obligations.

The equity attributable to equity holders of the Company was RMB27.549 billion, increased by RMB283 million as compared with that as at the end of 2019, which was mainly due to the increase in retained earnings.

4.3.2 Cash Flows

During the Reporting Period, the net decrease in cash and cash equivalents was RMB1.534 billion and net cash used in operating activities was RMB1.963 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 2020 and 2019.

Units: RMB' 000

Major items of cash flows	Six-month periods ended 30 June	
	2020	2019
Net cash used in operating activities	(1,962,757)	(4,964,239)
Net cash generated from/(used in) investing activities	461,574	(5,283,423)
Net cash used in financing activities	(32,397)	(52,155)
Net decrease in cash and cash equivalents	(1,533,580)	(10,299,817)

During the Reporting Period, the profit before taxation was RMB1.563 billion, and the profit was RMB1.256 billion after adjusting the items in expenses that did not affect the cash flow in operating activities. Major non-cash expense items included: depreciation and amortisation of RMB306 million, exchange gain of RMB78 million, net interest income and expenditure of RMB402 million, reversal of impairment on trade receivables of RMB117 million. Receivables and payables in connection with operating activities increased the cash outflow of RMB3.202 billion, which was mainly shown in: the increase in trade and other receivables balance which caused the cash outflow from operating activities of RMB242 million; the increase in contract assets which caused the cash outflow from operating activities of RMB1.429 billion; the decrease in inventory balance which caused the cash inflow from operating activities of RMB170 million; the increase in trade and other payables balance which caused the cash inflow from operating activities of RMB159 million; the decrease in contract liabilities which caused cash outflow from operating activities of RMB1.863 billion.

After adjusting non-cash items, receivables and payables for the profit before taxation, deducting the income tax paid amounting to RMB219 million, and adding inflow of received interest by RMB201 million, the net cash used in operating activities was RMB1.963 billion.

Net cash generated from investing activities was RMB462 million, which was mainly due to the recovery of loans to the ultimate holding company.

Net cash used in financing activities was RMB32 million, which was mainly due to the 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, control the use of working capital in operating activities, proactively manage the investment risk, 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 or as at the dates indicated:

Main financial ratios	Six-month periods ended 30 June	
	2020	2019
Net profit margin (%)	5.3	5.3
Return on assets (%) ⁽¹⁾	1.9	1.7
Return on equity (%) ⁽²⁾	4.6	4.5
Return on invested capital (%) ⁽³⁾	4.7	4.5

Main financial ratios	As at 30 June 2020	As at 31 December 2019
Gearing ratio (%) ⁽⁴⁾	0.6	0.7
Net debt to equity ratio (%) ⁽⁵⁾	Net cash	Net Cash
Current ratio (%) ⁽⁶⁾	1.6	1.6
Quick ratio (%) ⁽⁷⁾	1.6	1.6

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

Return on assets

During the Reporting Period, the Group's return on assets increased to 1.9% from 1.7% for the same period in 2019, mainly due to the increase in the profit during the Reporting Period and the decrease in the total assets at the end of the Reporting Period.

Return on equity

The Group's return on equity increased to 4.6% from 4.5% for the same period in 2019, 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 4.7% from 4.5% for the same period in 2019 for the same reasons as the increase in return on equity.

Gearing ratio

The Group's gearing ratio decreased to 0.6% from 0.7% at the end of 2019, 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 30 June 2020 and as at 31 December 2019.

Current ratio

The Group's current ratio was 1.6, which was basically the same as at the end of 2019.

Quick ratio

The Group's quick ratio was 1.6, which was basically the same as at the end of 2019.

5 Significant Events

5.1 H Share Appreciation Rights Scheme

For the details of H Shares appreciation rights scheme of the Company, please refer to the announcement of the Company entitled “The Proposed Initial Terms of H Share Appreciation Rights Scheme” dated 21 August 2017, the circular of the Company in relation to the second extraordinary general meeting for the year 2017 dated 3 November 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” dated 20 December 2017, the announcement entitled “Grant of H Share Appreciation Rights” dated 20 December 2017, the announcement entitled “Unfulfillment of the Conditions to the First Effective Phase of the Initial Grant Under the H Share Appreciation Rights Scheme” dated 30 July 2019, and the contents in relation to the unfulfillment of the conditions to the second effective phase of the Initial Grant under the H Share Appreciation Rights Scheme in the announcement dated 23 March 2020.

On 20 December 2017, the Company granted 13,143,000 units of H share appreciation rights (the “**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 of the Company 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 presidents, vice presidents and chief financial officer) and the core management, technical and highly skilled personnel of the Company’s subsidiaries. The exercise price of each H Share Appreciation Right granted under the Initial Grant is HKD6.35 per share.

As reviewed and approved at the 2017 annual general meeting convened on 8 May 2018, the final cash dividend of RMB0.144 per share (inclusive of applicable tax) 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 of 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 reviewed and approved in the fifth meeting of the Third Session of the Board convened on 16 August 2019, the Company distributed 2019 interim cash dividend of RMB0.108 per share (inclusive of applicable tax). As reviewed and approved at the 2019 annual general meeting convened on 8 May 2020, the final cash dividend of RMB0.212 per share (inclusive of applicable tax) was paid by the Company. As at the date of this announcement, the distribution of the final dividends of 2017, the interim dividends of 2018, the final dividends of 2018, the interim dividends of 2019 and the final dividends of 2019 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 I 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 H 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 HKD5.572 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 and the 2019 interim report of the Company.

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

For details of the unfulfillment of the conditions to the second effective phase of the Initial Grant under the H Share Appreciation Rights Scheme, please refer to the announcement of the Company dated 23 March 2020 and the 2019 annual report of the Company.

The nullification of H Share Appreciation Rights in the first and second effective phases will not affect the remaining number of H Share Appreciation Rights of 4,468,620 units to be effective upon the third effective phase under the Initial Grant.

According to Article 23 of Chapter 7 of the H Share Appreciation Rights Scheme, the conditions upon which the granted H Share Appreciation Rights become effective include conditions based on the Group's performance and conditions based on the performance of the relevant incentive recipients. The performance evaluation benchmarks on the Group for the third effective phase are as follows:

- (1) the ROE of the financial year immediately before the effective date shall not be lower than 10.0% and shall not be lower than 75 percentile of such growth rate of revenue of benchmark companies
- (2) the growth rate of revenue of the financial year immediately before the effective date as compared with that of the financial year immediately before the grant shall not be lower than 29.3% and shall not be lower than 75 percentile of such growth rate of revenue of benchmark companies
- (3) the EVA of the financial year immediately before the effective date shall not be less than RMB2.373 billion

The Company will use the financials prepared in accordance with the China Accounting Standards for Business Enterprises and the net profit after deduction of non-recurring profit or loss for the purposes of computing the ROE, the growth rate of revenue and the EVA stated above. The benchmark companies shall be those with similar business, in similar markets, with similar scale as the Group and with relatively stable historical operating performance.

During the Reporting Period, save for the above adjustment to the exercise price and the unfulfillment of the conditions to the first and second effective phases of the Initial Grant under the H Share Appreciation Rights Scheme, there are no other matters in relation to the number of units and adjustment to the exercise price of the H Share Appreciation Rights. For details of the Company's H Share Appreciation Rights Scheme, please refer to Note 36 of the consolidated financial statements in the Interim Report.

5.2 The dividend distribution plan for the six-month period ended 30 June 2020

The twelfth meeting of the third session of the Board approved the dividend distribution plan for the six months ended 30 June 2020. An interim cash dividend of RMB0.113 per share (inclusive of applicable taxes) would be distributed based on 4,428,000,000 shares (including 1,460,800,000 H shares and 2,967,200,000 domestic shares), being the total share capital of the Company as at 30 June 2020. Since shareholders of the Company have authorised the Board to decide the interim profit distribution plan of 2020 by an ordinary resolution in the 2019 annual general meeting held on 8 May 2020, it is unnecessary to submit the above dividend distribution plan to the general meeting of shareholders for review and approval.

The interim dividend will be paid on or before Friday, 30 October 2020 to all shareholders whose names appear on the register of members of the Company at the close of business on Monday, 21 September 2020. In order to qualify for the interim dividend, the H shareholders must lodge all share certificates accompanied by the transfer documents with Computershare Hong Kong Investor Services Ltd. (address: Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong) before 4:30 p.m. on Tuesday, 15 September 2020 for registration. For the purpose of ascertaining the shareholders who are qualified for the interim dividend, the register of members for H shares will be closed from Wednesday, 16 September 2020 to Monday, 21 September 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 prior to the date of declaration of the dividend by the Board (i.e. Friday, 21 August 2020). 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, 21 August 2020) is RMB0.89424 to HKD1.00. Accordingly, the interim dividend will be HKD0.1264 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, 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 and 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 Monday, 21 September 2020.

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 under the relevant tax agreements 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 have an agreed tax rate of less than 10% under the relevant tax agreements 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 after obtaining the approval of the competent tax authority. Should the individual holders of H Shares be residents of the countries which have an agreed tax rate of over 10% but less than 20% under the relevant tax agreements 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 an agreed tax rate of 20% under the relevant tax agreements with the PRC, or which have not entered into any tax agreement with the PRC, or in any other circumstances, the Company shall withhold and pay the individual income tax at a rate of 20%.

For investors (including enterprises and individuals) investing in the H Shares of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange or Shenzhen Stock Exchange (the “**Southbound Trading**”), the Company has entered into the Agreement on Appropriation of Cash Dividends of H Shares for Southbound Trading (《港股通H股股票現金紅利派發協議》) with China Securities Depository and Clearing Corporation Limited, pursuant to which, China Securities Depository and Clearing Corporation Limited, as the nominee of the holders of H Shares for Southbound Trading, will receive all cash dividends distributed by the Company and distribute the cash dividends to the relevant investors of H Shares of Southbound Trading through its depository and clearing system. The cash dividends for the investors of H Shares of Southbound Trading will be paid in Renminbi.

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

5.3 Material litigation or arbitration events

The Company is currently 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 has not progressed for a long time, and the Company has submitted an application for formal withdrawal to the court.

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 has reviewed the interim results of the Company for the Reporting Period. The audit committee did not have any disagreement concerning the financial statements in this interim results announcement.

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 30 June 2020 and up to the date of this announcement, there is no significant event that affected the Group after the Reporting Period.

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 2020 of the Company, prepared in accordance with IFRS, were audited by BDO Limited, which has issued a standard unqualified auditors' 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 2020 interim report.

7.3 Financial Statements

The interim financial statements prepared in accordance with IFRS for the six months ended 30 June 2020:

7.3.1 Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Six months ended 30 June	
	2020	2019
	(RMB' 000)	(RMB' 000)
Revenue	23,797,156	22,682,018
Cost of sales	<u>(21,605,381)</u>	<u>(20,310,065)</u>
Gross profit	2,191,775	2,371,953
Other income	210,475	118,758
Selling and marketing expenses	(50,426)	(50,250)
Administrative expenses	(494,146)	(606,920)
Research and development costs	(796,316)	(746,721)
Other operating income	89,177	11,440
Other (losses)/gains – net	<u>(86)</u>	<u>2,883</u>
Operating profit	<u>1,150,453</u>	<u>1,101,143</u>
Finance income	446,324	450,638
Finance expenses	<u>(43,958)</u>	<u>(54,561)</u>
Finance income – net	402,366	396,077
Share of profit/(loss) of joint arrangements	7	(111)
Share of profit of associates	<u>9,997</u>	<u>16,355</u>
Profit before taxation	1,562,823	1,513,464
Income tax expense	<u>(302,470)</u>	<u>(314,710)</u>
Profit for the period	<u>1,260,353</u>	<u>1,198,754</u>

	Six months ended 30 June	
	2020	2019
	(RMB' 000)	(RMB' 000)
Other comprehensive (expense)/income for the period, net of tax		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	942	117,849
Item that will not be reclassified subsequently to profit or loss:		
(Losses)/gains on revaluation of retirement benefit plans obligations, net of income tax effect	(45,491)	122
Other comprehensive (expense)/income for the period, net of tax	(44,549)	117,971
Total comprehensive income for the period	1,215,804	1,316,725
Profit attributable to:		
Equity holders of the Company	1,260,191	1,198,685
Non-controlling interests	162	69
Profit for the period	1,260,353	1,198,754
Total comprehensive income attributable to:		
Equity holders of the Company	1,215,642	1,316,656
Non-controlling interests	162	69
Total comprehensive income for the period	1,215,804	1,316,725
	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	0.28	0.27

7.3.2 Consolidated Statement of Financial Position

	As at 30 June 2020 (RMB' 000)	As at 31 December 2019 (RMB' 000)
ASSETS		
Non-current assets		
Property, plant and equipment	3,531,301	3,597,352
Right-of-use assets	2,496,540	2,523,770
Intangible assets	207,831	233,315
Investment in joint arrangements	2,523	2,516
Investment in associates	178,310	161,952
Deferred income tax assets	715,238	738,052
Total non-current assets	<u>7,131,743</u>	<u>7,256,957</u>
Current assets		
Inventories	1,023,167	1,193,480
Notes and trade receivables	7,232,808	8,613,198
Prepayments and other receivables	8,345,514	6,664,671
Contract assets	9,521,450	8,085,951
Loans due from the ultimate holding company	18,500,000	19,000,000
Restricted cash	34,677	38,087
Time deposits	7,238,206	7,086,066
Cash and cash equivalents	8,470,264	9,935,338
Total current assets	<u>60,366,086</u>	<u>60,616,791</u>
Total assets	<u><u>67,497,829</u></u>	<u><u>67,873,748</u></u>
EQUITY		
Share capital	4,428,000	4,428,000
Reserves	23,121,243	22,837,976
Equity attributable to equity holders of the Company	27,549,243	27,265,976
Non-controlling interests	4,727	4,565
Total equity	<u><u>27,553,970</u></u>	<u><u>27,270,541</u></u>

	As at 30 June 2020 (RMB' 000)	As at 31 December 2019 (RMB' 000)
LIABILITIES		
Non-current liabilities		
Lease liabilities	120,825	125,678
Retirement and other supplemental benefit obligations	2,467,308	2,488,926
Provision for litigation claims	189,302	196,945
Total non-current liabilities	<u>2,777,435</u>	<u>2,811,549</u>
Current liabilities		
Notes and trade payables	22,485,472	22,114,039
Other payables	1,876,046	2,008,917
Dividend payables	907,027	–
Contract liabilities	11,451,773	13,314,941
Lease liabilities	52,432	55,275
Current income tax liabilities	393,674	298,486
Total current liabilities	<u>37,166,424</u>	<u>37,791,658</u>
Total liabilities	<u>39,943,859</u>	<u>40,603,207</u>
Total equity and liabilities	<u>67,497,829</u>	<u>67,873,748</u>
Net current assets	<u>23,199,662</u>	<u>22,825,133</u>
Total assets less current liabilities	<u>30,331,405</u>	<u>30,082,090</u>

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

7.4.1 Revenue

The Group's revenue is set out below:

	Six months ended 30 June	
	2020 (RMB' 000)	2019 (RMB' 000)
Engineering, consulting and licensing	1,210,131	951,852
EPC Contracting	15,528,332	13,852,329
Construction	6,901,301	7,734,067
Equipment manufacturing	157,392	143,770
	<u>23,797,156</u>	<u>22,682,018</u>

7.4.2 Income Tax Expense

	Six months ended 30 June	
	2020 (RMB' 000)	2019 (RMB' 000)
Current tax		
PRC enterprise income tax	209,851	113,270
Overseas enterprise income tax	41,335	89,925
Under provision for income tax in prior years	19,030	52,486
	<u>270,216</u>	<u>255,681</u>
Deferred tax		
Origination and reversal of temporary differences (note 35)	32,254	59,029
	<u>302,470</u>	<u>314,710</u>

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the six months ended 30 June 2020 and 2019 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 2020 and 2019, 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:

	Six months ended 30 June	
	2020	2019
	(RMB' 000)	(RMB' 000)
Profit before tax	<u>1,562,823</u>	<u>1,513,464</u>
Taxation calculated at the statutory tax rate	390,706	378,366
Income tax effects of:		
Preferential income tax treatments of certain companies	(122,918)	(129,440)
Difference in overseas profits tax rates	(7,832)	(3,688)
Non-deductible expenses	12,887	17,014
Income not subject to tax	(1,490)	(2,437)
Unrecognised tax losses	12,046	13,369
Utilisation of previously unrecognised tax losses	(5,122)	(9,650)
Under provision for income tax in prior years	19,030	52,486
Others	<u>5,163</u>	<u>(1,310)</u>
Income tax expense	<u>302,470</u>	<u>314,710</u>
Effective income tax rate	<u>19.4%</u>	<u>20.8%</u>

7.4.3 Earnings Per Share

(a) Basic

The basic earnings per share for each of the six months ended 30 June 2020 and 2019 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	
	2020	2019
Profit attributable to equity holders of the Company (RMB' 000)	1,260,191	1,198,685
Weighted average number of ordinary shares in issue	4,428,000,000	4,428,000,000
Basic earnings per share (RMB)	<u>0.28</u>	<u>0.27</u>

(b) Diluted

As the Company had no dilutive shares for the each of the six months ended 30 June 2020 and 2019, diluted earnings per share for the six months ended 30 June 2020 and 2019 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 2020 and 2019.

	Six months ended 30 June	
	2020	2019
	(RMB' 000)	(RMB' 000)
Proposed Interim dividends of RMB0.113 per ordinary share (2019: RMB0.108) ⁽¹⁾	<u>500,364</u>	<u>478,224</u>

⁽¹⁾ Pursuant to a resolution passed at the board of Directors' meeting on 21 August 2020, the Directors authorised to declare the interim dividends for the six months ended 30 June 2020 of RMB0.113 (2019: RMB0.108) per share totaling RMB500,364,000 (2019: RMB478,224,000).

8 Miscellaneous

Copies of the Interim Report will be despatched to the Shareholders before 30 September 2020.

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
23 August 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).