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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 2020**

**1 Important Notice**

- 1.1** This announcement is extracted from the content of the 2020 annual report (the “**2020 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](http://www.hkex.com.hk)) and the Company ([www.segroup.cn](http://www.segroup.cn)). The investors should read the 2020 Annual Report for more details.
- 1.2** The financial statements for the year ended 31 December 2020 (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 BDO 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	:	Mdm. SUN Lili
Authorised Representatives	:	Mr. JIANG Dejun, 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 2020	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016	Changes from the end of 2019 (%)
Non-current assets	7,409,911	7,256,957	7,034,787	7,540,799	7,871,988	2.1
Current assets	64,055,416	60,616,791	63,837,953	51,864,822	51,016,799	5.7
Current liabilities	40,672,278	37,791,658	41,998,840	31,015,076	30,724,440	7.6
Non-current liabilities	2,537,011	2,811,549	2,890,751	2,799,540	2,899,238	(9.8)
Consolidated equity						
attributable to equity holders						
of the Company	28,251,172	27,265,976	25,978,646	25,586,839	25,261,201	3.6
Net assets per share						
of equity holders						
of the Company (RMB)	6.38	6.16	5.87	5.78	5.70	3.6

Unit: RMB' 000

Items	Year ended 31 December					Changes over the same period of 2019 (%)
	2020	2019	2018	2017	2016	
Revenue	52,352,584	52,261,051	47,019,024	36,208,723	39,402,331	0.2
Gross profit	5,714,072	5,482,733	5,195,574	4,026,172	4,295,415	4.2
Operating profit	2,204,379	2,017,007	1,435,534	1,112,267	1,942,256	9.3
Profit before taxation	3,010,562	2,827,400	2,121,515	1,635,101	2,376,776	6.5
Profit attributable to equity holders of the Company	2,381,905	2,183,457	1,679,472	1,129,974	1,670,888	9.1
Basic earnings per share (RMB)	0.54	0.49	0.38	0.26	0.38	9.1
Net cash flow generated from operating activities	2,956,836	300,047	6,104,192	4,240,508	4,670,772	885.5
Net cash flow generated from operating activities per share (RMB)	0.67	0.07	1.38	0.96	1.05	885.5

Items	Year ended 31 December				
	2020	2019	2018	2017	2016
Gross profit margin (%)	10.9	10.5	11.0	11.1	10.9
Net profit margin (%)	4.6	4.2	3.6	3.1	4.2
Return on assets (%) <sup>(1)</sup>	3.4	3.1	2.6	1.9	2.8

Items	As at 31 December 2020	As at 31 December 2019	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
	2020	2019	2018	2017	2016
Asset-liability ratio (%) <sup>(2)</sup>	60.5	59.8	63.3	56.9	57.1

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 RMB52.353 billion and RMB2.382 billion, respectively. As at the end of the Reporting Period, the Group's backlog was RMB105.655 billion. The value of new contracts entered into by the Group during the Reporting Period was RMB63.014 billion, representing an increase of 20.4% on a year-on-year basis, among them, the newly signed overseas contracts amounted to approximately RMB10.161 billion, representing an increase of 50.9% on a year-on-year basis.

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
	2020	Percentage	2019	Percentage	
	Revenue	of total	Revenue	of total	
	(RMB' 000)	revenue	(RMB' 000)	revenue	(%)
		(%)		(%)	
Engineering, consulting and licensing	3,695,022	6.2	2,802,805	4.7	31.8
EPC Contracting	33,577,673	56.0	32,438,087	54.4	3.5
Construction	21,912,398	36.5	23,723,645	39.8	(7.6)
Equipment manufacturing	761,389	1.3	611,368	1.1	24.5
Subtotal	<u>59,946,482</u>	<u>100.0</u>	<u>59,575,905</u>	<u>100.0</u>	0.6
Total (after inter-segment elimination) <sup>(1)</sup>	<u>52,352,584</u>	N/A	<u>52,261,051</u>	N/A	0.2

Note:

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

	Year ended 31 December				Change (%)
	2020		2019		
	Revenue (RMB' 000)	Percentage of total revenue (%)	Revenue (RMB' 000)	Percentage of total revenue (%)	
Oil refining	11,941,849	22.8	19,399,122	37.1	(38.4)
Petrochemicals	29,839,940	57.0	25,146,107	48.1	18.7
New coal chemicals	3,649,328	7.0	4,109,700	7.9	(11.2)
Other industries	6,921,467	13.2	3,606,122	6.9	91.9
Total	<u>52,352,584</u>	<u>100.0</u>	<u>52,261,051</u>	<u>100.0</u>	0.2

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 the steady construction development of EPC contracting projects such as Fujian Gulei Refining and Chemical Integration Project, Zhenhai Refining and Chemical Ethylene Expansion Project and SINOPEC SABIC Polycarbonate Project, revenue generated from petrochemicals industry was RMB29.840 billion, representing an increase of 18.7% on a year-on-year basis; due to the contribution of crude oil storage facility project and natural gas pipeline network as well as gas storage facilities project, revenue generated from other industries was RMB6.921 billion, representing an increase of 91.9% on a year-on-year basis. Revenue generated from oil refining industry was RMB11.942 billion, representing a decrease of 38.4% on a year-on-year basis, which was affected by the settlement and completion for refining projects such as Kuwait Oil Refining Project and Sinopec Tianjin Oil Product Upgrade Project; revenue generated from new coal chemicals industry was RMB3.649 billion, representing a decrease of 11.2% 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 (%)
	2020		2019		
	Revenue	Percentage of	Revenue	Percentage of	
	(RMB' 000)	total revenue (%)	(RMB' 000)	total revenue (%)	
PRC	47,629,649	91.0	42,551,448	81.4	11.9
Overseas	4,722,935	9.0	9,709,603	18.6	(51.4)
Total	52,352,584	100.0	52,261,051	100.0	0.2

During the Reporting Period, thanks to the rapid control of the domestic epidemic and the active resumption of production in China, we are benefited from the steady construction development of large EPC contracting projects such as Fujian Gulei Refining and Chemical Integration Project, Zhenhai Refining and Chemical Ethylene Expansion Project, SINOPEC SABIC Polycarbonate Project and Sinochem Quanzhou Ethylene Project, revenue of the Group generated in the PRC was RMB47.630 billion, representing an increase of 11.9% on a year-on-year basis; revenue generated from overseas was RMB4.723 billion, representing a decrease of 51.4% on a year-on-year basis, which was affected by the global spread of COVID-19 epidemic and the settlement and completion for Kuwait Oil Refining Project.

As at the end of the Reporting Period, the backlog of the Group amounted to RMB105.655 billion, representing an increase of 11.2% as compared to that as at the end of 2019, and was 2.02 times of the total revenue of RMB52.353 billion in 2020. During the Reporting Period, the value of new contracts amounted to RMB63.014 billion, representing an increase of 20.4% on a year-on-year basis.

During the Reporting Period, representative domestic projects that the Group entered into include Zhenhai Refining and Chemical Ethylene Expansion Project, Hainan Refining & Chemical Ethylene and Oil Refining Reconstruction and Expansion Project, Sinopec Tianjin Liquefied Natural Gas (LNG) Expansion Project (Phase II) Receiving Station Project, Sinopec Shandong Liquefied Natural Gas (LNG) Project Phase II, Shandong Yulong Island Refining and Chemical Integration Project, Shenghong Refining and Chemical Integration Project, Zhejiang Petrochemical Zhoushan Refining and Chemical Integration Project (Phase II), etc.. Representative overseas projects that were entered into by the Group include Saudi Aramco's Crude Oil Pumping Station Upgrading and Improvement Project, Russia Amur AGCC Polyolefin EPSS Project, Hengyi (Brunei) PMB Petrochemical Phase II Project and so on.

During the Reporting Period, the Group's capital expenditure was approximately RMB0.918 billion, which was mainly used for purchase and renewal of engineering facilities and equipment, office facilities and other supporting auxiliary construction, contract energy management investment, construction of temporary facilities for engineering projects, informatization construction, lease of use right assets.

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 on Corporate Environmental, Social and Governance" to be issued on 12 April 2021.

## **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 has been completed and put into operation.

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 final stage of construction, with an overall progress of about 90%.

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 is in the final stage of construction, with an overall progress exceeding 90%.

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 has been completed and put into operation.

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, the project is in the stage of construction and installation, with an overall progress exceeding 40%.

Zhejiang Petrochemical Zhoushan Refining and Chemical Integration Project (Phase II): please refer to the announcements dated 28 February 2020 published by the Company for further details. As at the end of the Reporting Period, the project is in the stage of construction and installation, with an overall progress exceeding 60%.

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, this project is in the peak stage of construction, with an overall progress exceeding 80%.

### 3.2.2 Forge ahead in market development

During the Reporting Period, the Group worked hard to overcome the impact of the epidemic and kept a close eye on key project contracts, and made full use of its overall advantages in its industry, business and technical chains, the value of new contracts entered into by the Group was RMB63.014 billion, reaching a new high in recent years, among which, the value of newly signed domestic contracts amounted to RMB52.852 billion, representing an increase of 15.9% on a year-on-year basis, and the value of newly signed overseas contracts amounted to approximately RMB10.161 billion, representing an increase of 50.9% on a year-on-year basis.

During the Reporting Period, the Group continued the intensive work in the domestic market. The Group entered into new contracts for a number of large projects, include Zhenhai Refining and Chemical Ethylene Expansion Project with a total contract value of approximately RMB12.093 billion, Hainan Refining & Chemical Ethylene and Oil Refining Reconstruction and Expansion Project with a total contract value of approximately RMB3.597 billion, Sinopec Tianjin Liquefied Natural Gas (LNG) Expansion Project (Phase II) Receiving Station Project with a total contract value of approximately RMB3.183 billion, Zhejiang Petrochemical Zhoushan Refining and Chemical Integration Project (Phase II) with a total contract value of approximately RMB2.870 billion, Shenghong Refining and Chemical Integration Project with a total contract value of approximately RMB1.676 billion, Shandong Yulong Island Refining and Chemical Integration Project with a total contract value of approximately RMB1.189 billion.

During the Reporting Period, the Group successfully reversed the adverse situation of overseas market development. In the Middle East, the channel and resource advantages formed by long-term operation in Saudi Arabia were brought into play, and the total amount of newly signed contracts was equivalent to about RMB5.8 billion, achieving strong growth; in Russia, Amur AGCC Polyolefin EPSS Project was successfully signed, with a total contract value of approximately RMB1.651 billion; in Southeast Asia, we signed the construction contract for Thailand Clean Oil Products Project with a total contract value of approximately RMB470 million, Contract for Design and Consulting Services of Hengyi (Brunei) PMB Petrochemical Phase II Project with a total contract value of approximately RMB368 million.



### **3.2.3 Strong support for engineering service**

During the Reporting Period, the Group overcame the impact of the epidemic, promoted the orderly resumption of work and production for the relevant projects, and actively launched campaign to overcome difficulties and ensure the smooth operation of the projects; strengthened the coordination of key projects construction, ensured the continuous advancement of all work by relying on the remote collaborative work system; focusing on profitability 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 closed-loop management; through optimising the design workflow and professional division interface, the Group strengthened standardization, integration, modular design and modular construction to improve the efficiency of design and construction.

During the Reporting Period, the Group continued to strengthen the construction of subcontracting management system, and dynamically evaluated the operational effectiveness of the QHSSE system of strategic subcontractors; continued to strengthen the cultivation of strategic subcontractors, optimized the allocation of subcontracting resources, and ensured the quality, safety, progress and cost control of project construction; improved the subcontracting resources and information sharing platform, realized the integrated management of subcontractor resource pool and subcontractor evaluation, and optimized the subcontracting management cost. While ensuring the supply of materials for various construction projects, the Group has actively explored ways and means to improve procurement management, procurement efficiency, cost reduction and efficiency promotion, continued to promote the practice of framework agreement procurement and centralized procurement, and strengthened procurement management for overseas projects, areas of which witnessed remarkable progress.

### **3.2.4 The advantages of engineering technology innovation are obvious**

#### ***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 172 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 steadily moved forward. For “Solid Superacid C5, C6 Isomerization Technology Development and Industrial Test”, we have completed the steam opening and calibration of the plant in Zhanjiang, and passed the acceptance of Sinopec Science and Technology Department on 1 December; for the key environmental protection research project “Research and Demonstration of Packaged Technologies for Safe and Reliable Large-flux Plasma Treatment of VOCs”, we have completed the construction, commissioning and calibration of the plant in Jingmen, and achieved the target for key problem tackling. For other key environmental protection projects, such as “Development and Industrial Application of Second-Generation High Efficiency Environmental-friendly Aromatics Packaged Technology” and “Integration and Development of Heavy Oil Catalytic Cracking Technology with High Slag Content and Low Emission”, we have completed the plant construction, commissioning and calibration work in Hainan and Jingmen respectively as scheduled, and the progress of scientific research projects is under overall control.

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

During the Reporting Period, the Group completed 660 new patent applications, among which, 401 or 60.8% applications were invention patents applications. The Group also had 361 newly licensed patents, 131 of which were invention patents.

During the Reporting Period, the Group received a total of 81 scientific advancement awards in scientific innovation and engineering construction fields at the provincial and above level. Among these awards, “development and application of packaged technologies for ultra-low sulfur emission and resource utilization of sulfur-containing waste gas from refining and chemical industry” won the second prize of National Scientific and Technological Progress Award; further, there were 24 provincial and ministerial scientific advancement awards, 2 provincial and ministerial invention awards, 2 national excellent design awards, 8 national high quality projects awards, and 35 provincial and ministerial high quality projects awards.

### **3.2.5 New breakthroughs have been made in digital engineering construction**

During the Reporting Period, the Group vigorously promoted digital transformation and intelligent upgrading. According to the model of “data + platform + application”, we sorted out the “three-in-one” scenario of whole business life cycle flow, phased management process flow and production tool flow, compiled the information and digital development planning framework under the “14th Five-Year Plan”, and comprehensively developed the overall planning and action roadmap of the Group’s digital transformation. During the Reporting Period, the Group strengthened the pilot application of and promotion of the “Implementation Detailed Rules for Digital Delivery of Petrochemical Engineering”, upgraded the engineering data transfer system and ensured the progress and quality of digital delivery of key projects; focused on smart factory services, deepened the application of engineering master data, explored and studied the integrated application of equipment domain, participated in the construction of petrochemical intelligent cloud, and won the bid for the MIIT’s project of design simulation industrial software adaptation and verification center.

### **3.2.6 Environmental protection and low-carbon business continued to expand**

During the Reporting Period, the Group continued to expand its energy saving and environmental protection business, and signed a series of contracts such as delayed coking unit closed decoking renovation project, low temperature methanol washing (rectisol) system tail gas treatment project, waste residue landfill site restoration project and circulating water system energy saving renovation project. In the field of energy conservation, the Group actively promoted the existing contracted energy management projects and carbon footprint evaluation services, undertook a number of research work on energy conservation issues, and promoted the construction projects of photovoltaic power stations in gas stations and oil depots. In the field of soil remediation, the Group closely followed the remediation projects of contaminated sites in many areas within the territory of China, and organized partners to participate in the bidding of KOC crude oil contaminated soil remediation project in Kuwait.

As of the date of the 2020 Annual Report, in order to promote the research on the strategic path of “carbon peaking and carbon neutrality”, the Group has established a joint research and development center for carbon neutrality green technology by working with the Institute of Process Engineering, Chinese Academy of Sciences and Yanshan Petrochemical Company. In the future, the Group will give full play to its experience and advantages in engineering technology innovation and engineering transformation, boost the transformation of scientific and technological achievements, and make continuous contributions to energy conservation and emission reduction in both China and the world.

### **3.2.7 The quality and safety responsibility system is consistently implemented**

During the Reporting Period, under the difficult conditions of double superposition of epidemic risk and safety production, 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, continuously promoted the construction of dual preventive mechanisms of hierarchical risk control and hidden danger investigation and management, 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”, innovatively carried out remote video inspection, 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 domestic and overseas projects, so as to ensure the successful implementation of domestic and overseas projects.

### **3.2.8 Deepening reform and promoting sustainable development**

Adhering to the vision of “building the world’s leading technology-oriented engineering company”, the Group comprehensively promoted enterprise resource optimization, reform and restructuring in accordance with the development model of “integrated operation and group-wide management and control”, and made great efforts to achieve internationalized layout, differentiated development, digital transformation and intelligent upgrading, striving to build a brand of “Integrated Service Provider with Whole Industry Chain and Whole Life Cycle in Energy and Chemical Industry”. The Group promoted the Company 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 promote and improve the reform of the Company’s information technology branch. At present, the top-level design of the information technology branch has been promoted as a whole, the key points have been broken through for market development, and various production and operation tasks has been steadily pushed forward. During the Reporting Period, the Group has established the Russian subsidiary of Refining & Chemical Engineering Group to provide more efficient service to overseas projects and owners.

### 3.3 Business Prospects

Looking forward to 2021, without ignoring any kinds of derivative risks under the impact of the epidemic, we realize that the world political and economic situation is still complicated and grim. However, with the recovery of global trade demand, the restoration of economic growth momentum, and the construction of a new domestic and international dual-cycle development pattern, China's economic growth is expecting a continuous steady improvement in quality and efficiency. In the future, it is predictable that the epidemic will reshape the global energy pattern, the growth rate of crude oil demand will be weaker than supply, and the international oil price will rise to a limited margin; the newly-built refining and chemical production capacity in China will be released intensively, the market players are becoming diversified, the replacement of new energy is accelerated, the green and low-carbon standards are upgraded, and opportunities and challenges coexist.

2021 is the first year of the "14th Five-Year Plan". China's energy and chemical industry is moving towards a new stage of high-quality development. China will continue to exert its strength in accelerating energy transformation, improving energy security, accelerating technological innovation and releasing the vitality of the industry, and will promote the development of the industry to a higher level. Multiple petrochemical projects in the PRC continue to advance, private enterprises keep active investment, international giants such as ExxonMobil, BASF and Saudi Aramco actively deploy their resources in the Chinese market, and the refining and chemical engineering market remains to be the arena full of opportunities and challenges. For the situation overseas, emerging economies and developing countries still have greater demand for energy and basic chemical materials. With the expansion of vaccination scale, the recovery of economy after the alleviation of global epidemic is expected to drive the overseas engineering market to revive.

In 2021, the Group will adhere to the development orientation of "Integrated Service Provider with Whole Industry Chain and Whole Life Cycle in Energy and Chemical Industry", base itself on the energy and chemical engineering construction industry, continuously broaden its business scope, extend its value chain, strengthen engineering innovation and value creation, and provide customers with high-quality one-stop overall solutions. In 2021, the Group's target of domestic new contract value is RMB49 billion, and the target of overseas new contract value is USD1.5 billion.

### **3.3.1 Join hands with stakeholders to overcome difficulties and start a new journey of the 14th Five-Year Plan**

2021 is the year when the “14th Five-Year Plan” sets sail, and it is also a new starting point for China’s petrochemical industry to move towards a new stage of high-quality development. Faced with new opportunities, new challenges, new patterns and new requirements, the Group will anchor the development vision of “building the world’s leading technology-oriented engineering company” and the development orientation of “Integrated Service Provider with Whole Industry Chain and Whole Life Cycle in Energy and Chemical Industry”, base itself on the energy and chemical engineering construction industry, broaden its business scope, extend its value chain, and comprehensively enhance the safety, efficiency and intelligence of its business chain through “differentiated development, international operation, digital transformation and intelligent upgrading”.

In the future, the Group will focus on “engineering innovation” and “value creation”. The Group will continuously strengthen its engineering innovation capability, build an engineering innovation platform with engineering technology as the guide, engineering consultation as the link, engineering design as the main body and engineering construction as the support, give full play to the advantages of integration of engineering transformation and engineering implementation, and cultivate, lead and drive the market and serve customers with innovation. The Group will focus on value creation, explore and establish a new format of collaborative work based on digital engineering, create a collaborative consortium integrating all links in the whole life cycle of the project, strive to build an efficient value chain in which service demand and interests of relevant parties are coupled with each other, and enhance the value creation ability of the whole industry chain.

### **3.3.2 Adhere to technological innovation and empower high-quality development**

Innovation is the first driving force for development. In 2021, the Group will focus on building an innovation system with technological innovation as the core, make more efforts in independent innovation, strengthen the optimization and integration of internal and external scientific research resources, and strengthen cooperative innovation with open thinking; seek to lead the market expansion, enhance competitive strength and promote value increase through technological innovation. At the same time, the Group will promote innovation in terms of development concept, system and mechanism, business model and corporate culture, so as to provide assurance for improving innovation efficiency and achieving high-quality development.

### **3.3.3 Focusing on energy transformation and upgrading, creating new highlights of performance growth**

In 2021, the Group will adhere to customer-centered service pattern, keep close to customer needs, coordinate internal resources and integrate external resources, strengthen and extend the business chain of engineering service while expanding the energy and chemical industry business chain, and do its best to serve the transformation and upgrading of the energy and chemical industry. Make more efforts of overall development in traditional fields such as refining and chemical integration, comprehensive utilization of light hydrocarbons, new coal chemicals and LNG, and accelerate the growth of the Company's business scale and efficiency.

In 2021, the Group will also strengthen market research on new energy, new materials and new economy, continuously promote the development of new markets for clean energy, new materials, energy conservation and environmental protection, promote the scale growth of energy conservation business and soil remediation business, and extend business chains in digital delivery, intelligent factories and other fields to accelerate the formation of new performance growth points.

### **3.3.4 Turning crisis into opportunity, we are making steady progress in global business development**

In 2021, the Group will strengthen and optimize the global deployment, give full play to the advantages of integration, and comprehensively enhance the internationalization capability of the Company. Maintain the dominant position in traditional regional markets such as the Middle East, Central Asia, Russia and Southeast Asia, do a good job in bidding and quotation of key projects. Actively cultivate new regional markets such as Africa, South Asia and South America, expand market development channels and models, actively cultivate "one-stop overall solutions", strive to provide customers with all-round high-quality services, and continuously improve the level of internationalized business operation.



### **3.3.5 Strengthen the construction of digital engineering and promote the engineering digital twin planning as a whole**

In 2021, the Group will strengthen the top-level design of digital transformation and comprehensively develop the overall arrangement and action plan of digital transformation. The Group will continue to promote the construction of digital engineering system, strengthen system construction and system integration by taking customer demand as the starting point, promote process reengineering, integrate all links in the whole life cycle of the projects, realize information management and intelligent association in the process of engineering construction, and automatically collect digital information in the whole process of engineering construction, so as to realize digital twinning of petrochemical engineering at a higher level. The Group will speed up the research and development of core key technologies of desktop refining and chemical plants, realize the dynamic correlation of technological processes, provide customers with high-quality real-time optimization and remote diagnosis services, and interconnect with plant operation and maintenance data on this basis, providing important support for further promoting the digital transformation and intelligent manufacturing of refining and chemical enterprises.

### **3.3.6 Strengthen project process management, take various measures to enhance cost efficiency**

In 2021, 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 centralized procurement, emphasise inventory and contract asset management, strengthen the process management of project implementation, confirm the progress and contract changes in time, and further reduce costs and increase efficiency.

### **3.3.7 Promote the innovation of human resource management system**

In 2021, the Group will strengthen the in-depth integration of corporate strategy, corporate culture and human resources management, promote the continuous deepening and innovation of the reform of the HR strategy management system, and create a driving force and atmosphere for innovation and creation. The Group will continue to improve the value creation and sharing mechanism of the whole industrial chain, promote the reform of the three systems of labor, personnel and remuneration, further improve the market-oriented employment mechanism, and attract more and better talents to support the Company's development and value creation. Aiming at improving overall operational efficiency and enhancing input-output efficiency, the Group will further give play to the governance advantages of listed companies, establish a more flexible and diverse incentive system, and stimulate the enthusiasm and initiative of all employees to create value.

## **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 2020 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 was RMB52.353 billion, representing an increase of 0.2% on a year-on-year basis.

#### **4.1.2 Cost of sales**

The cost of sales of the Group decreased by 0.3% from RMB46.778 billion for the year ended 31 December 2019 to RMB46.639 billion for the year ended 31 December 2020.

#### **4.1.3 Gross profit**

The gross profit of the Group increased by 4.2% from RMB5.483 billion for the year ended 31 December 2019 to RMB5.714 billion for the year ended 31 December 2020, the gross profit margin increased from 10.5% for the same period of last year to 10.9%, which was mainly due to the Company's successive efforts to tackle key problems and create efficiency, resulting in a year-on-year increase in gross profit and gross profit margin.

#### **4.1.4 Other income**

The other income of the Group increased by 81.9% from RMB255 million for the year ended 31 December 2019 to RMB464 million for the year ended 31 December 2020, a year-on-year increase of RMB209 million. The main reason is that during the reporting period, we received the proceeding of government subsidies for enterprise's electricity supply, water supply, heat supply and property management cost.

#### **4.1.5 Selling and marketing expenses**

The selling and marketing expenses of the Group were RMB135 million, which remained broadly stable on a year-on-year basis.

#### **4.1.6 Administrative expenses**

The administrative expenses of the Group were RMB1.256 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 were RMB2.175 billion, which remained broadly stable on a year-on-year basis.

#### **4.1.8 Other operating expenses**

Other operating expenses of the Group increased by 120.1% from RMB191 million for the year ended 31 December 2019 to RMB421 million for the year ended 31 December 2020. Main reasons were the impairment allowance and the exchange loss in the Reporting Period.

#### **4.1.9 Other gains - net**

The net other gains of the Group decreased by 33.9% from RMB20 million for the year ended 31 December 2019 to a gain of RMB13 million for the year ended 31 December 2020, which was mainly due to the year-on-year decline in asset disposal gain.

#### **4.1.10 Operating profit**

Due to the above reasons, the operating profit of the Group increased by 9.3% from RMB2.017 billion for the year ended 31 December 2019 to RMB2.204 billion for the year ended 31 December 2020.

#### **4.1.11 Finance income - net**

The net finance income of the Group was RMB791 million, which remained broadly stable on a year-on-year basis.

#### **4.1.12 Income tax expense**

The Group's income tax expense was RMB628 million, which remained broadly stable on a year-on-year basis. The effective income tax rate decreased from 22.8% to 20.9% 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 9.1% from RMB2.184 billion for the year ended 31 December 2019 to RMB2.382 billion for the year ended 31 December 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:

	<b>As at 31 December 2020 (RMB' 000)</b>	<b>As at 31 December 2019 (RMB' 000)</b>	<b>Change (%)</b>
Engineering, consulting and licensing	8,636,102	8,192,663	5.4
EPC Contracting	76,223,009	72,662,664	4.9
Construction	20,003,498	13,653,862	46.5
Equipment manufacturing	791,998	484,371	63.5
<b>Total</b>	<b>105,654,607</b>	<b>94,993,560</b>	<b>11.2</b>

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:

	<b>As at 31 December 2020 (RMB' 000)</b>	<b>As at 31 December 2019 (RMB' 000)</b>	<b>Change (%)</b>
Oil refining	30,826,320	28,201,648	9.3
Petrochemicals	27,071,948	28,285,500	(4.3)
New coal chemicals	11,582,761	13,394,670	(13.5)
Other industries	36,173,578	25,111,742	44.1
<b>Total</b>	<b>105,654,607</b>	<b>94,993,560</b>	<b>11.2</b>

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

	<b>As at 31 December 2020 (RMB' 000)</b>	<b>As at 31 December 2019 (RMB' 000)</b>	<b>Change (%)</b>
PRC	79,977,151	74,754,485	7.0
Overseas	<u>25,677,456</u>	<u>20,239,075</u>	26.9
Total	<u><u>105,654,607</u></u>	<u><u>94,993,560</u></u>	11.2

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:

	<b>As at 31 December 2020 (RMB' 000)</b>	<b>As at 31 December 2019 (RMB' 000)</b>	<b>Change (%)</b>
Sinopec Group and its associates	58,420,185	49,789,049	17.3
Non-Sinopec Group and its associates	<u>47,234,422</u>	<u>45,204,511</u>	4.5
Total	<u><u>105,654,607</u></u>	<u><u>94,993,560</u></u>	11.2

As at 31 December 2020, the Group's backlog was RMB105.655 billion, representing an increase of 11.2% compared to that as at 31 December 2019, and 2.02 times of the total revenue of RMB52.353 billion in 2020.

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:

	<b>Year ended 31 December</b>		<b>Change</b>
	<b>2020</b>	<b>2019</b>	
	(RMB' 000)	(RMB' 000)	(%)
Engineering, consulting and licensing	4,046,963	2,713,103	49.2
EPC Contracting	37,138,017	31,208,711	19.0
Construction	21,154,013	18,142,304	16.6
Equipment manufacturing	<u>674,638</u>	<u>255,029</u>	164.5
Total	<u><u>63,013,631</u></u>	<u><u>52,319,147</u></u>	20.4

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

	<b>Year ended 31 December</b>		<b>Change</b>
	<b>2020</b>	<b>2019</b>	
	(RMB' 000)	(RMB' 000)	(%)
Oil refining	14,566,521	14,058,072	3.6
Petrochemicals	28,626,388	24,035,891	19.1
New coal chemicals	1,837,419	7,012,922	(73.8)
Other industries	<u>17,983,303</u>	<u>7,212,262</u>	149.3
Total	<u><u>63,013,631</u></u>	<u><u>52,319,147</u></u>	20.4

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

	<b>Year ended 31 December</b>		<b>Change</b>
	<b>2020</b>	<b>2019</b>	
	(RMB' 000)	(RMB' 000)	(%)
PRC	52,852,315	45,585,147	15.9
Overseas	<u>10,161,316</u>	<u>6,734,000</u>	50.9
Total	<u><u>63,013,631</u></u>	<u><u>52,319,147</u></u>	20.4

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

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2019</b>	<b>Change</b>
	<b>(RMB' 000)</b>	<b>(RMB' 000)</b>	<b>(%)</b>
Sinopec Group and its associates	41,745,969	29,195,571	43.0
Non-Sinopec Group and its associates	<u>21,267,662</u>	<u>23,123,576</u>	(8.0)
<b>Total</b>	<b><u>63,013,631</u></b>	<b><u>52,319,147</u></b>	<b>20.4</b>

During the Reporting Period, the value of the Group's new contracts was RMB63.014 billion, representing an increase of 20.4% on a year-on-year basis.

### 4.3 Assets, Liabilities, Equity and Cash Flows

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

#### 4.3.1 Assets, Liabilities and Equity

Units: RMB' 000

	<b>As at 31 December 2020</b>	<b>As at 31 December 2019</b>	<b>Changes</b>
Total assets	71,465,327	67,873,748	3,591,579
Current assets	64,055,416	60,616,791	3,438,625
Non-current assets	7,409,911	7,256,957	152,954
Total liabilities	43,209,289	40,603,207	2,606,082
Current liabilities	40,672,278	37,791,658	2,880,620
Non-current liabilities	2,537,011	2,811,549	(274,538)
Net assets	28,256,038	27,270,541	985,497
Share capital	4,428,000	4,428,000	–
Reserves	23,823,172	22,837,976	985,196
Equity attributable to			
equity holders of the Company	28,251,172	27,265,976	985,196
Non-controlling interests	4,866	4,565	301

As at the end of the Reporting Period, the total assets of the Group were RMB71.465 billion, the total liabilities were RMB43.209 billion, the non-controlling interests were RMB5 million, and the equity attributable to the equity holders of the Company was RMB28.251 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 RMB71.465 billion, increased by RMB3.592 billion as compared with that as at the end of 2019. In particular, the current assets were RMB64.055 billion, increased by RMB3.439 billion as compared with that as at the end of 2019, which was mainly due to the increase of RMB2 billion in loans receivable from the ultimate holding company as compared with the beginning of the year, an increase of RMB1.187 billion in time deposits as compared with the beginning of the year, an increase of RMB1.041 billion in prepayments and other receivables, an increase of RMB740 million in contract assets as compared with the beginning of the year, a decrease of RMB1.495 billion in cash and cash equivalents as compared with the beginning of the year, a decrease of RMB189 million in notes and trade receivables; non-current assets amounted to RMB7.410 billion, an increase of RMB153 million over the end of 2019, which was mainly due to an increase of RMB284 million in property, plant and equipment.

As at the end of the Reporting Period, the total liabilities were RMB43.209 billion, increased by RMB2.606 billion as compared with that as at the end of 2019. In particular, the current liabilities were RMB40.672 billion, increased by RMB2.881 billion as compared with that as at the end of 2019, which was mainly due to the increase of contract liabilities by RMB2.196 billion, the increase of other payables by RMB888 million and the decrease of notes and trade payables by RMB438 million. The non-current liabilities were RMB2.537 billion, decreased by RMB275 million as compared with that as at the end of 2019, which was mainly due to a decrease of RMB236 million in retirement and other supplementary benefit obligations.

The equity attributable to equity holders of the Company was RMB28.251 billion, increased by RMB985 million as compared with that as at the end of 2019, which was mainly due to the increase in retained earnings in the Reporting Period.



### 4.3.2 Cash Flows

During the Reporting Period, the net decrease in cash and cash equivalents was RMB1.250 billion and net cash generated from operating activities was RMB2.957 billion. The following table sets forth the main items and their changes in the Group's consolidated cash flow statements for the year ended 31 December 2020 and 2019, respectively.

Units: RMB' 000

Major items of cash flow	Year ended 31 December	
	2020	2019
Net cash generated from operating activities	2,956,836	300,047
Net cash used in from investing activities	(2,951,614)	(5,889,979)
Net cash used in financing activities	(1,255,306)	(1,505,020)
Net decrease in cash and cash equivalents	<u>(1,250,084)</u>	<u>(7,094,952)</u>

During the Reporting Period, the profit before taxation was RMB3.011 billion, and the profit was RMB3.197 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 RMB650 million; gains on disposal of property, plant, equipment and land use rights of RMB18 million; provision for ECL on trade and other receivables and contract assets of 225 million; exchange losses of RMB138 million, net interest income and expenditure of RMB791 million. Changes in working capital increased cash inflows of RMB203 million, which were mainly shown in: the increase in trade and other receivables balance which caused the cash outflow from operating activities of RMB1.230 billion; the increase in contract assets which caused the cash inflow from operating activities of RMB762 million; the increase in inventory balance which caused the cash outflow from operating activities of RMB155 million; the increase in trade and other payables balance which caused the cash inflow from operating activities of RMB152 million; the increase in contract liabilities which caused cash inflow from operating activities of RMB2.196 billion. After adjusting non-cash expense items, receivables and payables for the profit before taxation, deducting the income tax paid amounting to RMB565 million, and increasing inflow of received interest by RMB122 million, the net cash generated from operating activities was RMB2.957 billion.

Net cash used in investing activities was RMB2.952 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 RMB1.255 billion, which was mainly due to the dividend distribution 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:

<b>Main financial ratios</b>	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
Net profit margin (%)	4.6	4.2
Return on assets (%) <sup>(1)</sup>	3.4	3.1
Return on equity (%) <sup>(2)</sup>	8.4	8.0
Return on invested capital (%) <sup>(3)</sup>	8.6	8.3

<b>Main financial ratios</b>	<b>As at 31 December 2020</b>	<b>As at 31 December 2019</b>
Gearing ratio (%) <sup>(4)</sup>	1.1	0.7
Net debt to equity ratio (%) <sup>(5)</sup>	Net cash	Net cash
Current ratio <sup>(6)</sup>	1.6	1.6
Quick ratio <sup>(7)</sup>	1.5	1.6

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

### **Return on assets**

During the Reporting Period, the Group's return on assets increased to 3.4% from 3.1% for the same period in 2019, mainly due to the increase in the profit during the Reporting Period.

### **Return on equity**

The Group's return on equity increased to 8.4% from 8.0% 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 8.6% from 8.3% for the same period in 2019 for the same reason as the increase in return on equity.

### **Gearing ratio**

The Group's gearing ratio increased to 1.1% from 0.7% at the end of 2019, mainly due to the increase in interest-bearing borrowings at the end of the Reporting Period.

### **Net debt to equity ratio**

The Group maintained positive net cash as at 31 December 2019 and as at 31 December 2020.

### **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 1.5, which was basically the same as at the end of 2019.

## **5 Significant Events**

### **5.1 Dividends**

In accordance with the Company Law and other relevant laws and regulations, the Company attaches great importance to the reasonable return on investment to investors and ensures the continuity and stability of the Company's profit distribution policy. The Company's distributable profits in the form of cash each year shall be no less than 30% of the net profits attributable to the Company's shareholders in the year, under the circumstances that there are net profits attributable to the Company's shareholders and accumulated undistributable profits, and that the Company's investment plan and cash expenses can be satisfied. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on, among other things, the Company's results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or IFRS (whichever is lower), the Articles of Association, the Company Law and any other applicable PRC law and regulations and other relevant requirements of the supervisory authorities of the place where the Company is listed.

At the annual general meeting for the year 2019 convened on 8 May 2020, an ordinary resolution was passed to approve the authorisation to the Board to determine the interim profit distribution plan for the year 2020. The dividend distribution plan of RMB0.113 per share (inclusive of applicable tax) for the six months ended 30 June 2020 was approved at the twelfth meeting of the Third Session of the Board convened on 21 August 2020. The dividend distribution plan was implemented.

The fifteenth meeting of the third session of the Board approved the dividend distribution plan for the year ended 31 December 2020. A final cash dividend of RMB0.187 (inclusive of applicable taxes) per share 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 31 December 2020. The above dividend distribution plan will be implemented after being reviewed and approved at the annual general meeting to be held by the Company on 10 May 2021.

The final dividend for the year of 2020 will be paid on or before Monday, 19 July 2021 to all Shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 20 May 2021. 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 Friday, 14 May 2021 for registration. For the purpose of ascertaining Shareholders who qualify for the dividend, the register of members for H Shares will be closed from Saturday, 15 May 2021 to Thursday, 20 May 2021 (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 10 May 2021.

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 Thursday, 20 May 2021.

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 or 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**

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 has not progressed for a long time. At present, the Company has submitted an application for formal withdrawal to the court, waiting for the court to hear the application.

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 2020 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 2020 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 25 years of experience in auditing, internal control and consultancy.

## **5.6 Significant events affecting the Group after the Reporting Period**

From 31 December 2020 and up to the date of this announcement, the Group has no other significant events.

## **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 2020 of the Group, prepared in accordance with the IFRS and contained in the Annual Report, have been audited by BDO 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 2020 Annual Report.



### 7.3 Financial Statements

The financial statements prepared in accordance with the IFRS for the year ended 31 December 2020:

#### 7.3.1 Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	<b>2020</b>	<b>2019</b>
	RMB' 000	RMB' 000
<b>Revenue</b>	52,352,584	52,261,051
Cost of sales	<u>(46,638,512)</u>	<u>(46,778,318)</u>
<b>Gross profit</b>	5,714,072	5,482,733
Other income	463,852	254,958
Selling and marketing expenses	(134,841)	(131,243)
Administrative expenses	(1,255,804)	(1,281,950)
Research and development costs	(2,175,183)	(2,136,152)
Other operating expenses	(420,877)	(191,263)
Other gains – net	<u>13,160</u>	<u>19,924</u>
<b>Operating profit</b>	2,204,379	2,017,007
Finance income	881,495	897,375
Finance expenses	<u>(90,390)</u>	<u>(111,130)</u>
Finance income – net	791,105	786,245
Share of (loss)/profit of a joint arrangement	(41)	650
Share of profit of associates	<u>15,119</u>	<u>23,498</u>
<b>Profit before taxation</b>	3,010,562	2,827,400
Income tax expense	<u>(628,356)</u>	<u>(643,881)</u>
<b>Profit for the year</b>	<u>2,382,206</u>	<u>2,183,519</u>

	2020 RMB' 000	2019 RMB' 000
<b>Other comprehensive income for the year, net of tax</b>		
<b>Item that may be reclassified subsequently to profit or loss:</b>		
Exchange differences arising on translation of foreign operations	(54,247)	95,848
<b>Item that will not be reclassified subsequently to profit or loss:</b>		
Gains on revaluation of retirement benefit plans obligations, net of income tax effect	90,278	35,650
<b>Other comprehensive income for the year, net of tax</b>	36,031	131,498
<b>Total comprehensive income for the year</b>	<u>2,418,237</u>	<u>2,315,017</u>
<b>Profit attributable to:</b>		
Equity holders of the Company	2,381,905	2,183,457
Non-controlling interests	301	62
<b>Profit for the year</b>	<u>2,382,206</u>	<u>2,183,519</u>
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Company	2,417,936	2,314,955
Non-controlling interests	301	62
<b>Total comprehensive income for the year</b>	<u>2,418,237</u>	<u>2,315,017</u>
	RMB	RMB
<b>Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share) – Basic and diluted</b>	<u>0.54</u>	<u>0.49</u>

### 7.3.2 Consolidated Statement of Financial Position

As at 31 December 2020

	2020	2019
	RMB' 000	RMB' 000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	3,881,466	3,597,352
Right-of-use assets	2,448,301	2,523,770
Intangible assets	218,959	233,315
Investment in a joint arrangement	2,475	2,516
Investment in associates	149,680	161,952
Deferred income tax assets	709,030	738,052
<b>Total non-current assets</b>	<b>7,409,911</b>	<b>7,256,957</b>
<b>Current assets</b>		
Inventories	1,348,122	1,193,480
Notes and trade receivables	8,424,388	8,613,198
Prepayments and other receivables	7,705,785	6,664,671
Contract assets	8,826,268	8,085,951
Loans due from the ultimate holding company	21,000,000	19,000,000
Restricted cash	36,661	38,087
Time deposits	8,273,435	7,086,066
Cash and cash equivalents	8,440,757	9,935,338
<b>Total current assets</b>	<b>64,055,416</b>	<b>60,616,791</b>
<b>Total assets</b>	<b>71,465,327</b>	<b>67,873,748</b>

	2020	2019
	RMB' 000	RMB' 000
<b>EQUITY</b>		
Share capital	4,428,000	4,428,000
Reserves	23,823,172	22,837,976
Equity attributable to equity holders of the Company	28,251,172	27,265,976
Non-controlling interests	4,866	4,565
<b>Total equity</b>	28,256,038	27,270,541
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Lease liabilities	97,629	125,678
Retirement and other supplemental benefit obligations	2,252,789	2,488,926
Provision for litigation claims	186,593	196,945
<b>Total non-current liabilities</b>	2,537,011	2,811,549
<b>Current liabilities</b>		
Notes and trade payables	21,675,887	22,114,039
Other payables	2,897,093	2,008,917
Loan due to a fellow subsidiary	163,123	—
Contract liabilities	15,511,149	13,314,941
Lease liabilities	66,314	55,275
Current income tax liabilities	358,712	298,486
<b>Total current liabilities</b>	40,672,278	37,791,658
<b>Total liabilities</b>	43,209,289	40,603,207
<b>Total equity and liabilities</b>	71,465,327	67,873,748
<b>Net current assets</b>	23,383,138	22,825,133
<b>Total assets less current liabilities</b>	30,793,049	30,082,090

## 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:

	2020 RMB' 000	2019 RMB' 000
Engineering, consulting and licensing	3,603,524	2,317,552
EPC Contracting	33,577,673	32,438,087
Construction	14,804,376	17,219,628
Equipment manufacturing	367,011	285,784
	<u>52,352,584</u>	<u>52,261,051</u>

### 7.4.2 Income Tax Expense

	2020 RMB' 000	2019 RMB' 000
<b>Current tax</b>		
PRC enterprise income tax	520,989	392,908
Overseas enterprise income tax	106,628	170,023
(Over)/under provision for income tax in prior years	(8,981)	49,232
	<u>618,636</u>	<u>612,163</u>
<b>Deferred tax</b>		
Origination of temporary differences	9,720	31,718
	<u>9,720</u>	<u>31,718</u>
<b>Income tax expense</b>	<u>628,356</u>	<u>643,881</u>

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 2020 and 2019 is 25%.

According to the normal statutory PRC corporate income tax and relevant rules, for the years ended 31 December 2020 and 2019, several 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:

	<b>2020</b>	<b>2019</b>
	RMB' 000	RMB' 000
Profit before taxation	<u>3,010,562</u>	<u>2,827,400</u>
Taxation calculated at the statutory tax rate	752,640	706,850
Income tax effects of:		
Preferential income tax treatments of certain companies	(217,349)	(195,910)
Difference in overseas profits tax rates	(31,415)	(63,675)
Non-deductible expenses	133,938	167,333
Income not subject to tax	(24,014)	(46,836)
Unrecognised tax losses	35,717	31,789
Utilisation of previously unrecognised tax losses	(12,180)	(4,902)
(Over)/under provision for income tax in prior years	<u>(8,981)</u>	<u>49,232</u>
Income tax expense	<u>628,356</u>	<u>643,881</u>
Effective income tax rate	<u>20.9%</u>	<u>22.8%</u>

### 7.4.3 Earnings Per Share

#### (a) Basic

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

	2020	2019
Profit attributable to equity holders of the Company (RMB' 000)	2,381,905	2,183,457
Weighted average number of ordinary shares in issue	4,428,000,000	4,428,000,000
Basic earnings per share (RMB)	<u>0.54</u>	<u>0.49</u>

#### (b) Diluted

As the Company had no dilutive shares for the each of the years ended 31 December 2020 and 2019, dilutive earnings per share for the years ended 31 December 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 years ended 31 December 2020 and 2019.

	2020 RMB' 000	2019 RMB' 000
Interim dividends of RMB0.113 (2019: RMB0.108) per ordinary share <sup>(1)</sup>	500,364	478,224
Proposed final dividends of RMB0.187 (2019: RMB0.212) per ordinary share <sup>(2)</sup>	<u>828,036</u>	<u>938,736</u>

Notes:

- (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 year ended 31 December 2020 of RMB0.113 (2019: RMB0.108) per share totalling RMB500,364,000 (2019: RMB478,224,000).
- (2) Pursuant to the board of Directors' meeting on 20 March 2021, the Directors recommended to declare the final dividends for the year ended 31 December 2020 of RMB0.187 (2019: RMB0.212) per share totalling RMB828,036,000 (2019: RMB938,736,000). Such recommendation is to be approved by the shareholders at the Annual General Meeting. Dividends declared after the year 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  
22 March 2021

*As at the date of this announcement, directors of the Company are: SUN Lili<sup>#</sup>, XIANG Wenwu<sup>#</sup>, JIANG Dejun<sup>#</sup>, WU Wenxin<sup>\*</sup>, HUI Chiu Chung, Stephen<sup>+</sup>, JIN Yong<sup>+</sup> and YE Zheng<sup>+</sup>.*

<sup>#</sup> *Executive Directors*

<sup>\*</sup> *Non-executive Director*

<sup>+</sup> *Independent non-executive Directors*

*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).*