中石化煉化工程（集團）股份有限公司
SINOPEC ENGINEERING (GROUP) CO., LTD.
Stock Code: 2386

Embrace challenges with FULL CONFIDENCE

INTERIM REPORT **2016**

IMPORTANT NOTICE

The board of directors (the "Board") and the directors (the "Directors") of SINOPEC ENGINEERING (GROUP) CO., LTD. ("SINOPEC SEG" or the "Company") warrant that there are no false representations, misleading statements, or material omission contained in this interim report, and hereby are jointly and severally liable for the authenticity, accuracy and completeness of the content hereof. Directors of SINOPEC SEG, Mr. ZHANG Jianhua, Mr. Yan Shaochun and Mr. WU Derong were not able to attend the fifth meeting of the Second Session of the Board (the "Meeting") due to official duties. Directors, Mr. ZHANG Jianhua and Mr. YAN Shaochun separately authorised Director, Mr. LU Dong, and Director, Mr. WU Derong authorised Director, Ms. SUN Lili to represent them and vote on their behalves at the Meeting. Chairman of the Board of SINOPEC SEG, Mr. ZHANG Jianhua, Director and President, Mr. YAN Shaochun, Chief Financial Officer, Mr. JIA Yiqun, and head of the finance department, Mr. WANG Yi, warrant the authenticity and completeness of the financial statements contained in this interim report.

The interim financial statements for the six months ended 30 June 2016 (the "Reporting Period") of SINOPEC SEG and its subsidiaries (the "Group"), prepared in accordance with the International Financial Reporting Standards, were audited by Grant Thornton Hong Kong Limited, which has issued standard unqualified audit report.

This interim report contains forward-looking statements. All statements (other than statements of historical facts) that address business activities, events or developments that the Company expects or anticipates will or may occur in the future (including but not limited to projections, targets, estimates and business plans) are considered forward-looking statements. The Company's actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties. The forward-looking statements referred to herein are made by the Group as at 19 August 2016 and, unless otherwise required by regulatory authorities, the Company undertakes no obligation or responsibility to update these forward-looking statements.


SINOPEC
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SINOPEC
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COMPANY PROFILE

The Group is an international engineering corporation, with the leading edge in the PRC. The Group provides engineering services for a broad range of industries including oil refining, petrochemicals, new coal chemicals, inorganic chemicals, pharmaceutical chemicals, clean energy, storage and transportation engineering, environmental protection and energy saving engineering, with a complete service chain involving research, development and licensing, preliminary consultation, financing assistance, design, procurement, construction, large equipment lifting and transportation, and pre-commissioning/ start-up services. With its industry experience of more than 60 years and continual innovation in technical expertise, the Group has achieved great success in the design and construction of large-scale and complex oil refining, petrochemical, new coal chemical, natural gas processing and storage and transportation engineering projects, and possesses strong competitiveness.

The Group will focus on development strategies which are "energy and chemical-oriented, innovation-driven, globalisation-targeted and value-focused", and strive to achieve a corporate vision of "building a world-class engineering company".

BASIC INFORMATION OF THE COMPANY

LEGAL NAME

中石化煉化工程 (集團) 股份有限公司

CHINESE ABBREVIATION

中石化煉化工程

ENGLISH NAME

SINOPEC ENGINEERING (GROUP) CO., LTD.

ENGLISH ABBREVIATION

SINOPEC SEG

LEGAL REPRESENTATIVE

Mr. ZHANG Jianhua

AUTHORISED REPRESENTATIVES

Mr. YAN Shaochun

Mr. SANG Jinghua

SECRETARY TO THE BOARD

Mr. SANG Jinghua

REGISTERED ADDRESS

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Website designated by The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"):

http://www.hkex.com.hk

The Company's Website:

http://www.segroup.cn

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Office of the Board

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Tower B, No.19, Anyuan, Anhui Beili, Chaoyang District, Beijing, the PRC

PLACE OF LISTING OF SHARES, STOCK NAME AND STOCK CODE

H Shares: the Hong Kong Stock Exchange

Stock name: SINOPEC SEG

Stock code: 2386

ENTERPRISE LEGAL BUSINESS LICENSE REGISTRATION NO.

100000000041054

TAXATION REGISTRATION NO.

110105710934908

ORGANISATION CODE

71093490-8

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Kirkland & Ellis

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15 Queen's Road Central, Hong Kong

PRINCIPAL FINANCIAL DATA AND INDICATORS

Principal Financial Data and Indicators

Summary of Financial Data and Indicators Prepared in Accordance with International Financial Reporting Standards ("IFRS")

Unit: RMB'000

Items	As at 30 June 2016	As at 31 December 2015	Changes from the end of 2015 (%)
Total assets	55,984,600	58,404,370	(4.1)
Total equity attributable to equity holders of the Company	24,907,208	24,634,775	1.1
Net assets per share attributable to equity holders of the Company (RMB)	5.62	5.56	1.1

Unit: RMB'000

Items	For the six months ended 30 June		Changes over the same period of 2015 (%)
	2016	2015	
Revenue	17,734,811	20,905,016	(15.2)
Gross profit	2,208,763	3,020,616	(26.9)
Operating profit	1,159,354	1,922,471	(39.7)
Profit before taxation	1,381,625	2,118,858	(34.8)
Net profit attributable to equity holders of the Company	1, 079,124	1,710,683	(36.9)
Basic earnings per share (RMB)	0.24	0.39	(36.9)
Net cash flow (used in)/generated from operating activities	(1,189,570)	766,066	N/A
Net cash flow (used in)/generated from operating activities per share (RMB)	(0.27)	0.17	N/A

Items	For the six months ended 30 June 2016	2015
Gross profit margin (%)	12.5	14.4
Net profit margin (%)	6.1	8.2
Return on assets (%)	1.9	3.2
Return on equity (%)	4.3	7.2
Return on invested capital (%)	4.4	7.4

Items	As at 30 June 2016	As at 31 December 2015
Asset-liability ratio (%)	55.5	57.8

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS


安全发展
清洁发展

Changes in Share Capital and Shareholdings of Substantial Shareholders

1 Changes in the Share Capital of the Company

Unit: Share

	As at 31 December 2015		Increase/Decrease during the Reporting Period (+, -)			As at 30 June 2016	
	Number	Percentage (%)	New shares issued	Others	Subtotal	Number	Percentage (%)
Promoter shares (Domestic Shares)	2,967,200,000	67.01	—	—	—	2,967,200,000	67.01
Foreign shares listed overseas (H Shares)	1,460,800,000	32.99	—	—	—	1,460,800,000	32.99
Total number of shares	4,428,000,000	100.00	—	—	—	4,428,000,000	100.00

2 Shareholdings of Substantial Shareholders

As at the end of the Reporting Period, there were a total of 1,177 shareholders of the Company. The public float of the Company satisfied the minimum requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

(1) Shareholdings of the top ten shareholders

Unit: Share

Name of Shareholders	Increase/ Decrease during the Reporting Period (+,-)	Number of Domestic Shares held at the end of the Reporting Period	Number of H Shares held at the end of the Reporting Period	Percentage at the end of the Reporting Period	
				In total share capital (%)	In relevant class of shares (%)
China Petrochemical Corporation [1]	0	2,967,200,000	—	67.01	100.00
HKSCC NOMINEES LIMITED	-1,556,000	—	1,438,368,400	32.48	98.46
HIGH SUMMIT GROUP LIMITED	0	—	5,000,000	0.11	0.34
TANG KEUNG LAM	+1,000,000	—	5,000,000	0.11	0.34
TANG'S INVESTMENTS LIMITED	0	—	3,000,000	0.07	0.21
HUNG LAI SHUEN	0	—	2,000,000	0.05	0.14
ZHANG SAIYU	+500,000	—	1,700,000	0.04	0.12
TANG CHEUK LOI	0	—	1,000,000	0.02	0.07
TANG HIU TUNG	0	—	1,000,000	0.02	0.07
TANG YAT FEI	0	—	1,000,000	0.02	0.07
Statement on the connected relationship or action in concert among or between the aforementioned shareholders	The Company is not aware of any connection or action in concert among or between the aforementioned top ten shareholders.				

(2) Information disclosed according to the Securities and Futures Ordinance

Except for the information disclosed below, as at the end of the Reporting Period, so far as is known to the Board of the Company, no person (other than a Director, chief executive of the Company or supervisor (the "Supervisor") of the Company) had an interest or short position in the shares or underlying shares and debentures of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO") or, was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of any other member of the Company:

Name of Shareholders	Class of shares	Capacity	Number of Shares with interests held or regarded as being held (Share)	Percentage in shares of the Company of the same class (%) [8]	Percentage in the total share capital of the Company (%) [9]
China Petrochemical Corporation [1]	Domestic Share	Beneficial owner/Interests of controlled corporation	2,967,200,000(L)	100(L)	67.01(L)
National Council for Social Security Fund of the PRC [2]	H Share	Beneficial owner	131,468,000(L)	9.00(L)	2.97(L)
State Administration of Foreign Exchange of the PRC [3]	H Share	Interests of controlled corporation	131,756,000(L)	9.02(L)	2.98(L)
JPMorgan Chase & Co. [4]	H Share	Trustee/Interests of controlled corporation	116,895,920 (L) 1,236,000 (S) 110,680,535 (P)	8.00(L) 0.08(S) 7.57(P)	2.64(L) 0.03(S) 2.50(P)
Value Partners Group Limited [5]	H Share	Interests of controlled corporation	99,250,000 (L)	6.79(L)	2.24(L)
Templeton Global Advisors Limited [6]	H Share	Investment manager	78,865,000 (L)	5.40(L)	1.78(L)
Value Partners High-Dividend Stocks Fund [7]	H Share	Interests of controlled corporation	73,980,500(L)	5.06(L)	1.67(L)

Notes: (L): long position; (S): short position; (P): lending pool.

Note:

(1) China Petrochemical Corporation ("Sinopec Group") directly and/or indirectly holds 2,967,200,000 Domestic Shares, representing 100% of the Domestic Shares and approximately 67.01% of the total share capital of the Company, respectively. Sinopec Assets Management Co., Ltd. is a wholly-owned subsidiary of Sinopec Group and directly holds 59,344,000 Domestic Shares, representing 2.00% of the Domestic Shares and approximately 1.34% of the total share capital of the Company, respectively. For the purposes of the SFO, Sinopec Group is also deemed to be interested in the Domestic Shares held by Sinopec Assets Management Co., Ltd.

(2) The information is based on the Corporate Substantial Shareholders Notice dated 19 November 2013 and filed by the National Council for Social Security Fund of the PRC with the Hong Kong Stock Exchange.

(3) According to the Corporate Substantial Shareholders Notices dated 4 June 2013 and filed by the State Administration of Foreign Exchange of the PRC ("SAFE") with the Hong Kong Stock Exchange, Metroson Holdings Corporation Limited (都盛控股有限公司) directly holds 131,756,000 H shares. As each of Pagoda Tree Investment Company Limited (中國華馨投資有限公司), Compass Investment Company Limited (博遠投資有限公司), GUOXIN International Corporation Limited (國新國際投資有限公司) and Metroson Holdings Corporation Limited is a subsidiary directly or indirectly controlled by SAFE, each of SAFE, Pagoda Tree Investment Company Limited, Compass Investment Company Limited and GUOXIN International Investment Corporation Limited is deemed to be interested in the long positions held by Metroson Holdings Corporation Limited for the purposes of the SFO.

(4) The information is based on the Corporate Substantial Shareholders Notice dated 4 July 2016 and filed by JPMorgan Chase & Co. with the Hong Kong Stock Exchange.

(5) The information is based on the Corporate Substantial Shareholders Notice dated 28 August 2015 and filed by Value Partners Group Limited with the Hong Kong Stock Exchange.

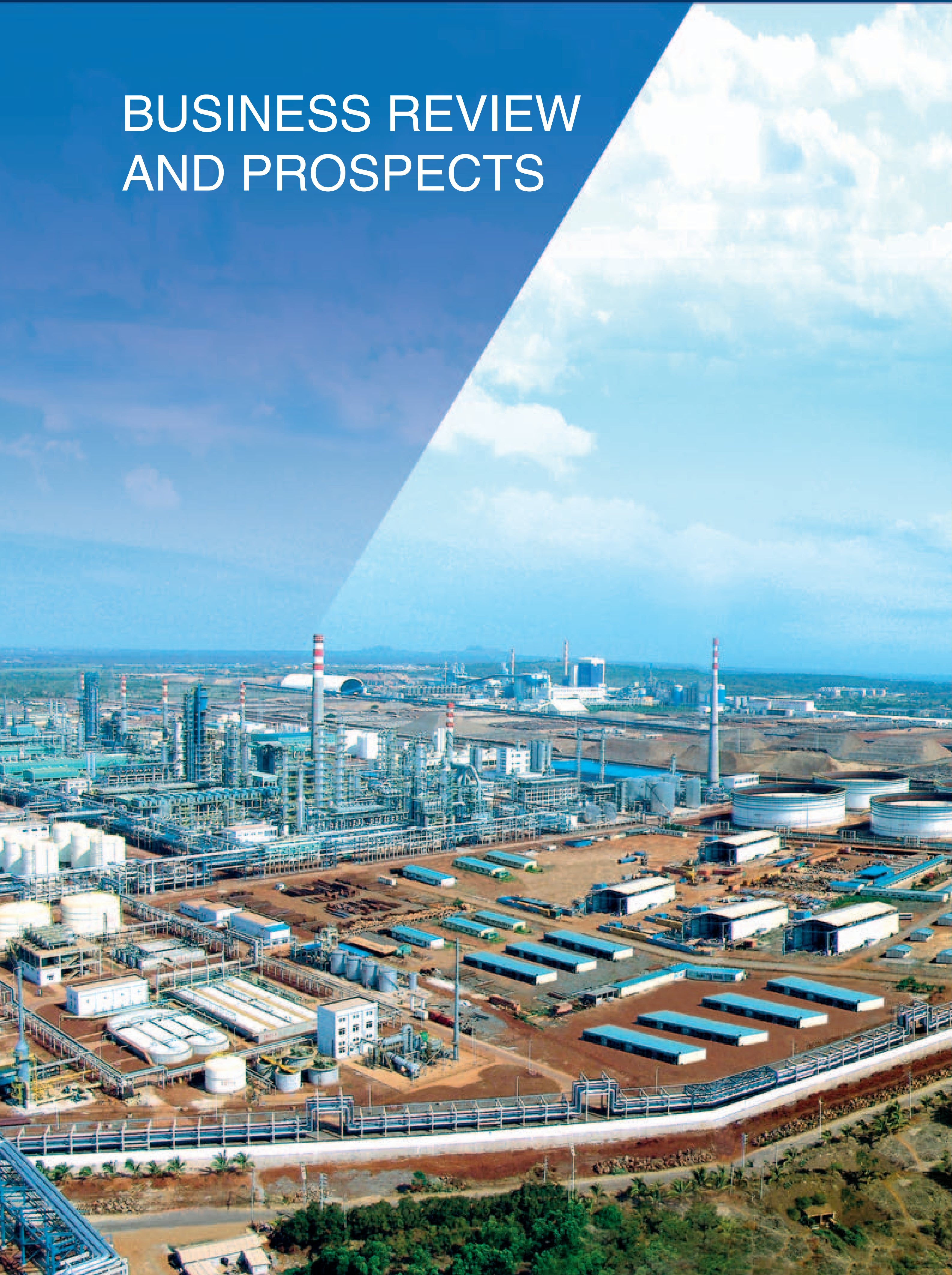
(6) The information is based on the Corporate Substantial Shareholders Notice dated 1 April 2015 and filed by Templeton Global Advisors Limited with the Hong Kong Stock Exchange.

(7) The information is based on the Corporate Substantial Shareholders Notice dated 11 September 2015 and filed by Value Partners High-Dividend Stocks Fund with the Hong Kong Stock Exchange.

(8) It is calculated on the basis that the Company has issued 2,967,200,000 Domestic Shares or 1,460,800,000 H Shares.

(9) It is calculated on the basis that the Company has issued 4,428,000,000 shares in total.

BUSINESS REVIEW AND PROSPECTS



During the first half of 2016, faced with unfavourable external environment, the Group further increased its efforts in market development, strengthened its control over project process, implemented special cost-cutting and benefit-enhancing actions, and has achieved hard-won performance under relatively difficult circumstances. During the Reporting Period, the Group recognised a revenue of RMB17.735 billion, with the Group's profit attributable to shareholders being RMB1.079 billion, the value of new contracts entered into by the Company reaching RMB8.397 billion. As at the end of the Reporting Period, the Group's backlog was RMB90.647 billion; the projects being implemented by the Group are progressing smoothly, the safety, quality and schedule of which are fully under control. During the second half of the year, while consolidating its market edge in conventional industries, e.g. the oil refining and petrochemical industry, the Group will continue to build integrated solutions for industries such as the natural gas industry, the new coal chemical industry, the environmental protection and energy saving industries, to create an innovation system focusing on technology innovation power, and to further promote specialised reconstruction, standardise internal transactions and optimise allocation of resources; to make full use of all beneficial policies provided in support of the strategic development of "belt and road initiative", to further consolidate existing market and actively explore the market of countries alongside, and to continuously enhance the overall profitability and risk management ability of the Group's overseas business operation.

1 Business Review

(1) Market Environment

In the first half of 2016, the world economic environment was complex and varied, and the general situations were not optimistic. The exchange rates of major countries changed frequently, the price of bulk commodities fluctuated, trade barriers and disputes occurred frequently, and the road to economy recovery was flexuous and difficult. In the first half of 2016, international crude oil price demonstrated an overall tendency of "hitting an all-time low" followed by a gradual rise. At the beginning of this year, the international crude oil price dropped below USD 30/barrel for the first time in 12 years, and under the influence of factors such as decreases in the crude oil output and the number of oil well drillings in the USA, international oil price exceeded USD 50/barrel in the first 10 days of June, before it seesawed due to the impacts of factors such as supply surplus, increasing crude oil stockpile and slow global economy recovery, etc.

In the first half of 2016, the Chinese economy was still in a key phase of structural adjustment, with the GDP growth rate reaching up to 6.7%, and the overall operation of the national economy was stable. In the first half of 2016, the "Outline of the Thirteenth Five-year Plan for National Economic and Social Development of the People's Republic of China" was issued, clearly stating that the annual average growth rate of GDP is to be maintained above 6.5% in the next 5 years, and setting out the six major science and technology projects of science and technology innovation in 2020 and nine major engineering projects, which include clean and efficient utilisation of coal, research, development and application of key new materials, and comprehensive management of the environment, etc. Furthermore, National Development and Reform Commission and Ministry of Industry and Information Technology issued the "Notice Regarding the Implementation of Major Projects Package for the Upgrade and Reconstruction of the Manufacturing Industry", stating the focus in the construction of seven major petrochemical industry bases in Caojing of Shanghai, Huizhou of Guangdong, Zhenhai (Zhoushan) of Ningbo, Changxing Island of Dalian (Xizhong Island), Caofeidian of Hebei, Lianyungang of Jiangsu and Gulei of Fujian, and the promotion of integration of refinery and chemical, ethane and aromatics projects and construction of industrial park facilities, so as to enhance supply capacity of high-profile chemical new materials and promote green, safe and efficient development of the petrochemical industry.

In the first half of 2016, the growth rate of domestic investment in fixed assets continued to decline, and investment in the petroleum and petrochemical industry dropped prominently. Under the influence of factors such as aggravated production capacity surplus in the refinery industry, serious homogenisation of chemical products and prominent decrease in the profitability of new coal chemical industry, the level of oil refinery and chemical enterprises' willingness to invest declined, resulting in a prominent decrease in the number of new projects, intensifying the fierce competition within oil refinery and chemical engineering industry, which further exerted downward pressure on the performance of engineering companies. In the first half of 2016, the geopolitical environment of the Middle East, where the international business of the Group is concentrated, was complicated, and the regional situations were still turbulent; currency depreciation of central-Asian countries and Russia was substantial, and economic system transformation was very difficult; political situations of countries in southeast Asia were generally stable, and the economic growth rate was relatively optimistic. Due to shortage of development funds in countries and regions along "one belt and one road", the implementation of China's "belt and road initiative" strategy will inject momentum to the development of the region, and bring new development opportunity for the Group.

(2) Operation Overview

During the Reporting Period, the Group's total revenue and net profits attributable to the Company's shareholders were RMB17.735 billion and RMB1.079 billion, respectively. The value of new contracts entered into during the Reporting Period was RMB8.397 billion. As a result of the persistence of low international crude oil price, new coal chemical enterprises do not have strong willingness to invest, which has led to change order for or suspension of some new coal chemical projects. The Group re-evaluated such projects, and decided to take a prudent stance and deduct, from the Group's backlog, the backlog for domestic new coal chemical Engineering, Procurement and Construction Contracting ("EPC Contracting") projects with a total value of RMB11.115 billion. After the deduction, the Group's backlog at the end of the Reporting Period was RMB90.647 billion. For details on the Group's backlog during the Reporting Period, please refer to the section headed "Management Discussion and Analysis - 4. Discussion on the backlog and new contracts" in this interim report.

The business of the Group is mainly comprised of four segments: (1) Engineering, consulting and licensing; (2) EPC Contracting; (3) Construction; and (4) Equipment manufacturing.

The following table sets forth the revenue generated from each of the segments and their respective percentage (before inter-segment elimination) of the Group's total revenue during the periods indicated:

	For the six months ended 30 June				
	2016		2015		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB'000)	(%)	(RMB'000)	(%)	(%)
Engineering, consulting and licensing	**795,630**	**4.2**	1,337,392	5.9	(40.5)
EPC Contracting	**9,285,236**	**49.5**	12,891,709	57.0	(28.0)
Construction	**8,515,410**	**45.4**	8,008,090	35.4	6.3
Equipment manufacturing	**173,152**	**0.9**	388,814	1.7	(55.5)
Subtotal	**18,769,428**	**100.0**	22,626,005	100.0	(17.0)
Total after inter-segment elimination (1)	**17,734,811**	**N/A**	20,905,016	N/A	(15.2)

Note:
(1) The 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.

During the Reporting Period, the total revenue of the Group was RMB17.735 billion, representing a decrease of 15.2% from the same period of the previous year. The main reasons are as follows: 1) some large-scale EPC Contracting projects were in preliminary or completion stage; 2) during the Reporting Period, the revenue generated from the new coal chemical industry significantly decreased on a period-on-period basis. During the Reporting Period, the Group derived its revenue mainly from projects such as Coal Chemical Complex of Zhongtian Hechuang Energy Co., Ltd. ("Zhongtian Hechuang Coal Chemical Project"), Petronas RAPID project of Malaysia's Petroliam Nasional Berhad ("Malaysia RAPID Oil Refining Project"), and Saudi Phosphoric Acid Utility Project.

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

	For the six months ended 30 June				
	2016		2015		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB'000)	(%)	(RMB'000)	(%)	(%)
Oil refining	4,393,661	24.8	2,421,511	11.6	81.4
Petrochemicals	5,595,034	31.5	5,999,942	28.7	(6.7)
New coal chemicals	4,924,443	27.8	8,492,715	40.6	(42.0)
Other industries	2,821,673	15.9	3,990,848	19.1	(29.3)
Subtotal	17,734,811	100.0	20,905,016	100.0	(15.2)

The Group derived its revenue mainly from services provided to clients in the oil refining, petrochemical and new coal chemical and other industries. During the Reporting Period, due to the impact of entering into the peak period of procurement or construction of EPC Contracting projects in the oil refining industry such as Malaysia RAPID Oil Refining Project and FCC Project of Kazakhstan Atyrau Refinery, the Company's revenue from the oil refining industry was RMB4.394 billion, representing an increase of 81.4% on a period-on-period basis; due to the impact of the decrease in business volume from new coal chemicals, petrochemicals and other industries, the revenue derived from the petrochemical industry was RMB5.595 billion, representing a decrease of 6.7% on a period-on-period basis, the revenue derived from the new coal chemical industry was RMB4.924 billion, representing a decrease of 42.0% on a period-on-period basis. The revenue derived from other industries was RMB2.822 billion, representing a decrease of 29.3% on a period-on-period basis.

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

	For the six months ended 30 June				
	2016		2015		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB'000)	(%)	(RMB'000)	(%)	(%)
PRC	11,484,100	64.8	18,062,063	86.4	(36.4)
Overseas	6,250,711	35.2	2,842,953	13.6	119.9
Subtotal	17,734,811	100.0	20,905,016	100	(15.2)

During the Reporting Period, the Group continued to steadily expand its overseas business, and the revenue generated overseas was RMB6.251 billion, representing an increase of 119.9% as compared with that of the same period of the previous year. This was mainly attributable to the entering into the execution peak period of certain overseas projects, such as Malaysia RAPID Oil Refining Project, Saudi Phosphoric Acid Utility Project and FCC Project of Kazakhstan Atyrau Refinery.

During the Reporting Period, the value of new contracts entered into by the Group amounted to RMB8.397 billion, representing a decrease of 69.9% as compared with that of the same period of the previous year, mainly due to the influence of economic recession and low oil price, with capital expenditure of large Chinese petroleum companies in oil refinery and petrochemical projects experiencing further downward tendency; domestic new coal chemical industry faced serious challenges, most of the investment plans of projects under tracking were delayed, and market was quickly shrinking; fewer overseas projects under tracking entered bidding stage, and substantially fewer new contracts were signed.

During the Reporting Period, the Group entered into the following representative domestic projects: the EPC Contracting project of Dongjiakou crude oil commercial reservation base of SINOPEC Pipeline Storage & Transportation Company ("Dongjiakou Crude Oil Commercial Reservation Base Project"), with the contract value being RMB1.1 billion; EPC Contracting project of Anqing 1 Mtpa catalytic diesel hydrogenation transformation (RLG) of SINOPEC, with the contract value being RMB540 million; EPC Contracting project of 300 Ktpa alkylation unit of gasoline quality upgrade project of SINOPEC Tianjin Company ("Tianjin Gasoline Quality Upgrade Project"), with the contract value being RMB523 million; EPC Contracting project of additional 140 Ktpa cracking furnace of SINOPEC-SK (Wuhan) Petrochemical Ltd., with the contract value being RMB180 million; EPC Contracting project of refinery/chemical raw coal conveying and coal preparation unit of Huizhou branch of CNOOC, with the contract value being RMB175 million; and phase I engineering design project of 40 Mtpa refinery and chemical integration project of Zhejiang Petrochemical Co., Ltd., with the contract value being RMB156 million. During the Reporting Period, the representative overseas projects entered into by the Group include the procurement and construction project of utility loading and unloading platform for the phosphate project of Saudi Maaden Company, with the contract value being approximately USD26.57 million. In addition to the above projects, the Group has also tracked some oil refining, petrochemical engineering, new coal chemical, environmental protection and energy saving projects, on which contracts may be signed in the future.

During the Reporting Period, the Group's capital expenditure was approximately RMB231 million, which was mainly used in the construction of information system and the purchase of construction equipment and professional engineering software.

(3) Business Highlights

Successful Implementation of Major Projects

Zhongtian Hechuang Coal Chemical Project: Please refer to the announcement dated 26 December 2013 issued by the Company for further details. As at the end of the Reporting Period, over nine tenths of the overall progress of the project was completed, and the project entered the completion stage.

Guangxi LNG Project: Please refer to the announcement dated 1 July 2015 issued by the Company for further details. As at the end of the Reporting Period, intermediate handover of the project was completed.

Tianjin LNG Project: Please refer to the announcement dated 1 July 2015 issued by the Company for further details. As at the end of the Reporting Period, approximately eight tenths of the overall progress of the project was completed. The design work is coming to an end, the procurement work has entered the final stage, and the construction has progressed smoothly.

Dongjiakou Crude Oil Commercial Reservation Base Project: Please refer to the announcement dated 15 April 2016 issued by the Company for further details. As at the end of the Reporting Period, the design work of the project fully commenced.

Tianjin Gasoline Quality Upgrade Project: Please refer to the announcement dated 15 April 2016 issued by the Company for further details. As at the end of the Reporting Period, the design work of the project fully commenced.

Kuwait Oil Refining Project: Please refer to the announcement dated 14 October 2015 issued by the Company for further details. As at the end of the Reporting Period, the design work of the project fully commenced, the procurement of key equipment began, and all works of the project were carried out in sequence as planned.

Malaysia RAPID Oil Refining Project: Please refer to the announcement dated 29 August 2014 issued by the Company for further details. As at the end of the Reporting Period, over four tenths of the overall progress of the project was completed. The design work was almost completed, over half of the procurement work was completed, and the onsite construction fully commenced.

FCC Project of Kazakhstan Atyrau Refinery: The scope of work under the contract for this project mainly includes EPCC of 13 process units including 2.43 Mtpa FCC units, and 47 utilities units. As at the end of the Reporting Period, the design work of the project was completed, over eight tenths of the procurement work was completed and over half of the construction was completed. Approximately seven tenths of the overall progress was completed.

Effective Implementation of Special Cost-cutting and Benefit-enhancing Actions

In response to the influence of severe market conditions and the decline in operating efficiency, since the beginning of 2016, the Group has implemented special cost-cutting and benefit-enhancing actions, so as to realise the targets of low-cost operation and enhancement of labour productivity and profitability through improving delicacy management. The Group has formulated work program for special cost-cutting and benefit-enhancing actions, clearly setting out the work scope, measures to be adopted and targets to be reached for cost cut and efficiency enhancement of the Group throughout the year. Main work focuses include keeping pace with international advanced engineering companies, further optimising design, material and equipment procurement and subcontracting business management and control, so as to cut cost for engineering projects and increase their gross profits; refine administrative management targets and accountability, so as to cut down administrative expenses; through innovation and progress in resources, technologies and information technology construction, to enhance delicacy management and investment efficiency, etc. All subsidiaries in the Group have actively participated in the special actions and have each set out its own detailed rules for the implementation of the special cost-cutting and benefit-enhancing actions, and formulated specific targets and action plans for cost cut and efficiency enhancement. Through monthly inspection and report, the Group has monitored the implementation of the special cost-cutting and benefit-enhancing actions, and will assess and evaluate at the end of this year to grant special award to subsidiaries that have reached the relevant targets. Currently, all relevant work is carried out smoothly.

Continue to promote innovation and technology advancement

Significant progress in the research and development of major technologies developed along with the key projects.

- The engineering construction of technology development projects such as technology development and industrial application of Yuanba natural gas purification, packaged technology development and application of hydroisomerising dewaxing production of high class base oil, industrial test of FHUDS series low-cost diesel hydrogenation catalyst for long-term production of China V diesel, technology development and application research of poor quality slurry oil for production of high quality needle coke, and industrial test of RS-2200 low cost diesel hydrogenation catalyst for long-term production of China V diesel were completed and the projects entered the production test phase by the end of the Reporting Period.

- The detailed design of the packaged technology development of large liquefied natural gas receiving station project was completed and the project entered the construction phase.
- The fundamental design of the packaged technology development and industrial application of SE coal water slurry gasification and enhanced treatment technology for sewage discharge of petrochemical enterprises was completed and the project entered the detailed engineering design phase.
- For technology research and development projects such as the technology development and industrial application of new type of sulfuric acid alkylation, work such as compilation of technique package were completed, and the projects entered the engineering design phase.
- A batch of new topics such as the technology development and application of low energy consumption super strong acid C5/C6 large isomerisation project and enhanced treatment technology for sewage discharge of petrochemical enterprises passed the feasibility research stage and entered the technique package compilation phase.

Accelerate and propel the research and development of environmental protection and energy saving technologies

- Introduction of new research and development topics with significant environmental protection value: for a batch of new environmental protection research and development projects such as comprehensive control and nearly-zero discharge technologies of coal chemical sewage, control technology of aerosol in ammonia process of desulfurisation and soil remediation thermal desorption technologies integration, key problem-tackling groups were established and milestone plans of research and development were formulated.
- The development of partial environmental protection research and development technologies such as waste dry fermentation treatment and production of bio natural gas were completed and the technologies entered the appraisal phase.
- The construction and intermediate handover of the Jiujiang sludge drying project were completed and the project was put into production operation.

Collaborative research and development has opened a new horizon.

In 2016, Luoyang Technical Research and Development Centre of Sinopec Engineering (Group) Co., Ltd. (the "Research and Development Centre") carried out a total of 58 research and development projects, making important technological progress in key technology research and development projects such as the technology development and industrial test of advanced delayed coking process with higher liquid yield (ADCP), technique optimisation and engineering technology development of millisecond catalytic cracking, technique package development for coupling and cracking of methanol and light hydrocarbon to olefins, technical research of corrosion proof for unit for synthetic gas to ethylene glycol; major technological advancement was made in environmental protection projects such as soil remediation platform construction and thermal desorption integration technologies optimisation, technology research of corrosion mechanism and reasonable material selection in flue gas purification process, and development of packaged technologies for renewable wet process flue gas desulfurisation, etc.

Good momentum kept in patent applications.

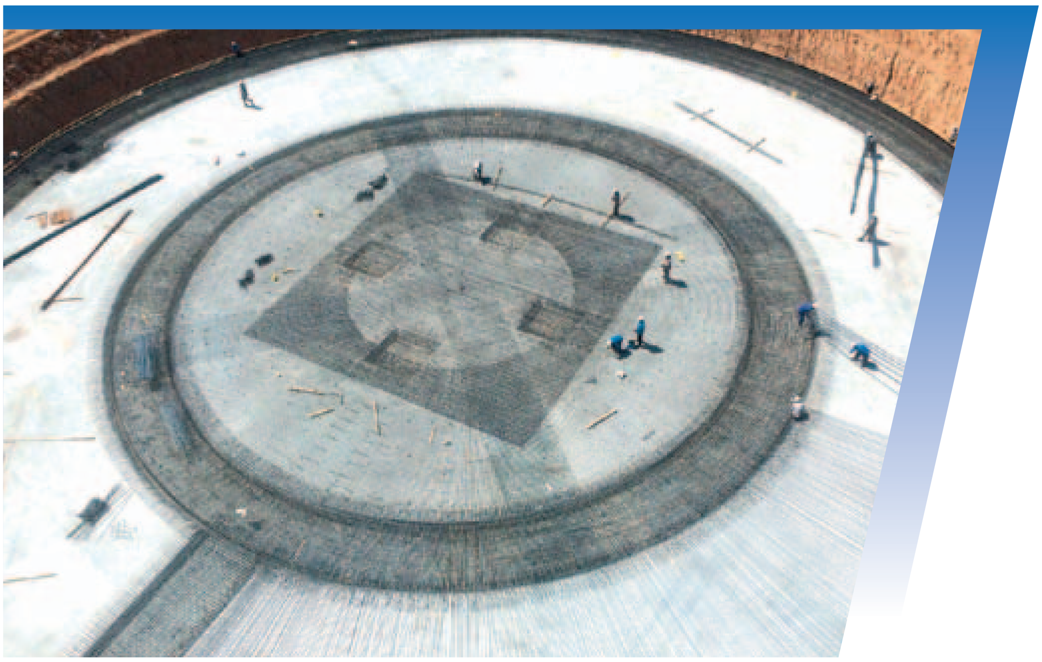
During the Reporting Period, the Group completed 236 new patent applications (including 122 invention patents) and licensing of 305 patents. The proportion of invention patent applications increased substantially.

Continuously Achieving Numerous Fruitful Results in Technology Innovation.

During the Reporting Period, the Group was awarded with 91 items (times) of various prizes for scientific and technological advancement above provincial/ministerial levels, including 1 special prize for scientific and technological advancement at each of national level and provincial/ministerial level, 5 first-class prizes for scientific and technological advancement at provincial/ministerial level, 1 gold prize for national outstanding engineering design, 1 special prize and 3 first-class prizes for outstanding engineering design at provincial/ministerial level, and 2 gold prizes for national outstanding engineering design.

Continuous expansion of the environmental protection and energy saving business

Attaching great importance to the development of the environmental protection and energy saving market, the Group has integrated its own technical advantages and cooperated with well-known domestic and international technology patent licensors. The scope of the Group's business now covers multiple fields such as flue gas desulfurisation and denitration, VOCs control, sewage treatment, slurry reduction and drying, soil remediation, CO_2 recovery and low temperature waste heat power generation, etc. The Group was actively involved in Sinopec's "Clear Water & Blue Sky Plan" and "Energy Efficiency Doubling Plan", and explored to implement new business models for contractual energy management and contractual environmental protection management, providing energy saving diagnosis and optimisation services for enterprises, further developing the Group's environmental protection and energy saving business. During the Reporting Period, the Group signed new environmental protection business contracts valued at approximately RMB238 million, which was mainly from flue gas desulfurisation and denitrification projects, and new energy saving business contracts valued at approximately RMB33.74 million, which was mainly from energy saving reform projects.



Attaching great importance to the development of the energy saving and environmental protection business, the Group has continuously promoted the application of low temperature waste heat power generation in refinery and chemical fields in collaboration with business partners. Leveraging on its abundant experience in refinery and chemical units design and construction, the Group explored to cooperate with several domestic enterprises with capital and technological advantages, so as to promote the implementation of energy saving projects of refinery and chemical enterprises in accordance with the mode of contractual energy management to expand the Group's business scope. The Group actively explores the soil remediation market, and is conducting research and planning for soil remediation projects after relocation of refineries, such as Gaoqiao Petrochemical and Xi'an Petrochemical, etc. Meanwhile, paying great attention to cooperative development of CO_2 utilisation technology, the Group has discussed technology cooperation with multiple foreign companies, so as to optimise the technology chain of the Group and grasp decisive opportunities in the future market.

Continuous promotion of production safety

During the Reporting Period, the Group further optimised the QHSE management system and continuously improved its QHSE management and control capability. Guided by the quality safety culture, the Group promoted safe development, scientific development and harmonious development. The Group implemented overall accountability for quality and production safety, and made efforts to establish long-term management mechanism of production safety. The Group propelled HSE standardisation management, strengthened intrinsic safety management of engineering design, and continuously focused on the construction of the core capability of HSE management, so as to build engineering projects featuring intrinsic safety. The Group regularly conducted risk identification, investigation and elimination work, made full use of the two-level supervision team, implemented overall and full-coverage supervision, inspection and observation actions, and optimised QHSE supervision in direct operation procedures, so as to promote quality and safety of projects under construction and overseas public safety. As at the end of the Reporting Period, the Group had 707 projects under construction both domestically and overseas, and realised 112.56 million safe man hours in accumulation.

2 Business Prospects

Looking to the second half of 2016, the world economic environment will continue to be complicated and changing, and economic recovery will face severe challenges and is subject to the influence of numerous uncertain factors such as US dollar interest rate raise, Brexit and geopolitics, etc. The development of the Chinese economy has entered the "New Normal", and the economic growth rate will be maintained within a reasonable range. In the second half of 2016, it is predicated that as a result of the influence of adverse factors such as low international crude oil price and shrinking industrial investment, the production and operation situations of the refinery and chemical engineering industry will become increasingly severe, market competition will become fiercer, and engineering companies will face higher downward performance pressure. 2016 is the first year of China's "13th Five-year Plan", and opportunities coexist with challenges. The Group will proactively deal with adverse situations, make full use of its advantages such as collectivisation, integration and economies of scale, continuously enhance its core competition edge, propel its sustainable and healthy development and make efforts to become a "national business card" of the Chinese oil refinery and chemical engineering industry.

In terms of market development, with the gradual recovery of the oil refinery and petrochemical market, a batch of large refinery and chemical projects is expected to be launched. The Group will make full use of its overall advantages, focus on propelling the overall development of key projects in fields such as oil refining, petrochemicals, new coal chemicals, environmental protection and energy saving, actively propel the negotiation and signing of key contracts, and make efforts to realise the annual target of new contract value of this year. Furthermore, as most nuclear-related secondary sanctions which had targeted certain activities by non-U.S. persons relating to Iran have been lifted during this Reporting Period, the Group plans to gradually do businesses in Iran in the future under the prerequisite that risk can be controlled. Please refer to the voluntary announcement entitled "Update on Iran Sanctions Developments" issued by the Company on 30 June 2016 for details.

In terms of project management, the Group will strengthen delicacy management and further reinforce project process management and control through focusing on project settlement and inventory management, so as to ensure the timeliness of progress confirmation of all items during project implementation. The Group will also strengthen change order management at both owner and subcontractor levels, fully implement project risk management and enhance project profitability.

In terms of cost cut and efficiency enhancement, the Group will implement cost-cutting and benefit-enhancing actions, carefully analyse the current cost management to understand the key factors in cost management, refine cost accounting units, set reasonable cost plans and targets, improve cost analysis and control method, and strive to meet the annual cost targets by adopting all kinds of cost-control measures.

In terms of technology research and development, the Group will ensure its long-term development through enhancing technology innovation capability. Oriented by market needs, the Group will make full use of scientific research resources of SINOPEC and the society, and ensure the well implementation of major technology cooperation and technology innovation projects. The Group will also construct research and development centres, make full use of characteristic advantages of engineering technology development of research and development centres, and strengthen cooperation with globally well-known patent licensors, so as to propel and facilitate the realisation of the Group's target to lead market development through technology.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the Group's audited financial statements and the accompanying notes contained in this interim report. Parts of the financial data below, unless otherwise stated, were extracted from the Group's audited financial statements prepared according to the IFRS.

1 Consolidated Results of Operations

The following table sets forth the consolidated statement of comprehensive income of the Group for the indicated periods:

	For the six months ended 30 June				Change
	2016		2015		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB'000)	(%)	(RMB'000)	(%)	(%)
Revenue	17,734,811	100.0	20,905,016	100.0	(15.2)
Cost of sales	(15,526,048)	(87.5)	(17,884,400)	(85.6)	(13.2)
Gross profit	2,208,763	12.5	3,020,616	14.4	(26.9)
Other income	260,763	1.5	51,978	0.2	401.7
Selling and marketing expenses	(41,314)	(0.2)	(42,196)	(0.2)	(2.1)
Administrative expenses	(421,572)	(2.4)	(473,621)	(2.3)	(11.0)
Research and development costs	(398,853)	(2.2)	(459,712)	(2.2)	(13.2)
Other operating expenses	(448,618)	(2.5)	(175,148)	(0.8)	156.1
Other gains - net	185	0.0	554	0.0	(66.6)
Operating profit	1,159,354	6.5	1,922,471	9.2	(39.7)
Finance income	254,570	1.4	238,615	1.1	6.7
Finance expenses	(37,427)	(0.2)	(47,570)	(0.2)	(21.3)
Finance income - net	217,143	1.2	191,045	0.9	13.7
Share of losses of joint arrangements	(601)	(0.0)	(265)	(0.0)	126.8
Share of profits of associates	5,729	0.0	5,607	0.0	2.2
Profit before taxation	1,381,625	7.8	2,118,858	10.1	(34.8)
Income tax expense	(302,795)	(1.7)	(408,070)	(2.0)	(25.8)
Profit for the period	1,078,830	6.1	1,710,788	8.2	(36.9)
Gains/(Losses) on revaluation of retirement benefit plans obligations	20,707	0.1	(19,044)	(0.1)	—
Exchange differences arising on translation of foreign operations	(17,074)	(0.1)	(563)	(0.0)	2,932.7
Total comprehensive income for the period	1,082,463	6.1	1,691,181	8.1	(36.0)

(1) Revenue

The revenue of the Group decreased by 15.2% from RMB20.905 billion for the six months ended 30 June 2015 to RMB17.735 billion for the six months ended 30 June 2016, which is mainly attributable to the decrease in the business volume in the new coal chemicals and other industries.

(2) Cost of sales

The cost of sales of the Group decreased by 13.2% from RMB17.884 billion for the six months ended 30 June 2015 to RMB15.526 billion for the six months ended 30 June 2016, which is mainly due to the decreases in the procurement costs and sub-contracting costs of equipment and materials as a result of the decrease in revenue.

(3) Gross profit

The gross profit of the Group decreased by 26.9% from RMB3.021 billion for the six months ended 30 June 2015 to RMB2.209 billion for the six months ended 30 June 2016, and the gross profit margin decreased from 14.4% for the same period of the previous year to 12.5%. This is mainly attributable to the decrease in the revenue generated from the Engineering, Consulting and Licensing segment and EPC Contracting segment with relatively higher gross profit margin.

(4) Other income

Other income of the Group increased by 401.7% from RMB52 million for the six months ended 30 June 2015 to RMB261 million for the six months ended 30 June 2016, mainly due to the increase in income generated from foreign exchange transactions.

(5) Selling and marketing expenses

The selling and marketing expenses of the Group was RMB41 million, which remained almost the same as that for the same period of the previous year.

(6) Administrative expenses

The administrative expenses of the Group decreased by 11.0% from RMB474 million for the six months ended 30 June 2015 to RMB422 million for the six months ended 30 June 2016, as a result of the Group's increasing efforts in cost management and control, which led to a decrease in expenses such as travel expenses and office expenses.

(7) Research and development costs

The research and development costs of the Group decreased by 13.2% from RMB460 million for the six months ended 30 June 2015 to RMB399 million for the six months ended 30 June 2016, mainly due to the decrease in research and development investment.

(8) Other operating expenses

Other operating expenses of the Group increased by 156.1% from RMB175 million for the six months ended 30 June 2015 to RMB449 million for the six months ended 30 June 2016, mainly as a result of the increase in provision for impairment on receivables, etc..

(9) Other gains - net

The net other gains of the Group decreased from RMB0.554 million for the six months ended 30 June 2015 to RMB0.185 million for the six months ended 30 June 2016.

(10) Operating profit

As a result of the foregoing, the operating profit of the Group decreased by 39.7% from RMB1.922 billion for the six months ended 30 June 2015 to RMB1.159 billion for the six months ended 30 June 2016.

(11) Finance income - net

The net finance income of the Group increased by 13.7% from RMB191 million for the six months ended 30 June 2015 to RMB217 million for the six months ended 30 June 2016, mainly due to the increase in interest income and the decrease in net interest on actuarial liabilities.

(12) Income tax expenses

The Group's income tax expenses decreased by 25.8% from RMB408 million for the six months ended 30 June 2015 to RMB303 million for the six months ended 30 June 2016, and the consolidated income tax rate increased from 19.3% for the same period of last year to 21.9%.

(13) Profit for the period

Due to the above reasons, the net profit for the Reporting Period of the Group decreased by 36.9% from RMB1.711 billion for the six months ended 30 June 2015 to RMB1.079 billion for the six months ended 30 June 2016.

(14) Total comprehensive income for the period

As a combined result of the foregoing and the effect of other comprehensive income of the Group, the total amount of the comprehensive income for the Reporting Period of the Group decreased by 36.0% from RMB1.691 billion for the six months ended 30 June 2015 to RMB1.082 billion for the six months ended 30 June 2016.

2 Discussion on the Results by Business Segments

The following table sets forth the revenue, gross profit, gross profit margin, operating profit and operating profit margin of each of our business segments for the periods indicated:

	Segment revenue		Segment gross profit		Segment gross profit margin		Segment operating profit		Segment operating profit margin	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	(RMB'000)		(RMB'000)		(%)		(RMB'000)		(%)	
Engineering, consulting and licensing	**795,630**	1,337,392	**151,319**	603,474	**19.0**	45.1	**(115,596)**	264,718	**(14.5)**	19.8
EPC Contracting	**9,285,236**	12,891,709	**1,606,641**	1,893,835	**17.3**	14.7	**1,027,185**	1,352,580	**11.1**	10.5
Construction	**8,515,410**	8,008,090	**442,874**	504,222	**5.2**	6.3	**205,775**	278,414	**2.4**	3.5
Equipment manufacturing	**173,152**	388,814	**7,929**	19,085	**4.6**	4.9	**(13,510)**	781	**(7.8)**	0.2
Unallocated	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**55,500**	25,978	**N/A**	N/A
Subtotal	**18,769,428**	22,626,005	**2,208,763**	3,020,616	**N/A**	N/A	**1,159,354**	1,922,471	**N/A**	N/A
Total after inter-segment elimination [3]	**17,734,811**	20,905,016	**2,208,763**	3,020,616	**12.5**[1]	14.4[1]	**1,159,354**	1,922,471	**6.5**[2]	9.2[2]

(1) Total gross profit margin is calculated based on total gross profit divided by total revenue, and total revenue is the gross earnings generated after inter-segment elimination in all the business segments.

(2) Total operating profit margin of the segment is calculated based on the total operating profit of the segment divided by total revenue, and total revenue is the gross earnings generated after inter-segment elimination in all the business segments.

(3) Inter-segment elimination is mainly caused by the inter-segment sales made by the Construction and Equipment Manufacturing segments to the EPC Contracting segment. Other information on inter-segment sales is set out in Note 7 to the Financial Statements contained in this interim report.

Engineering, Consulting and Licensing

The operating results of the Group's Engineering, Consulting and Licensing business are as follows:

	For the six months ended 30 June			
	2016		2015	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(RMB'000)	(%)	(RMB'000)	(%)
Revenue	795,630	100.0	1,337,392	100.0
Cost of sales	(644,311)	(81.0)	(733,918)	(54.9)
Gross profit	151,319	19.0	603,474	45.1
Selling and marketing expenses	(3,391)	(0.4)	(2,577)	(0.2)
Administrative expenses	(35,112)	(4.4)	(39,786)	(3.0)
Research and development costs	(223,676)	(28.1)	(285,920)	(21.4)
Other income and expenses	(4,736)	(0.6)	(10,473)	(0.8)
Operating (loss)/profit	(115,596)	(14.5)	264,718	19.8

(1) Revenue

The revenue generated from the Group's Engineering, Consulting and Licensing segment decreased by 40.5% from RMB1.337 billion for the six months ended 30 June 2015 to RMB796 million for the six months ended 30 June 2016, which was mainly due to the decrease in the workload of design business.

(2) Cost of sales

The cost of sales of the Group's Engineering, Consulting and Licensing segment decreased by 12.2% from RMB734 million for the six months ended 30 June 2015 to RMB644 million for the six months ended 30 June 2016, as a result of the decrease in revenue.

(3) Gross profit

The gross profit of the Group's Engineering, Consulting and Licensing segment decreased by 74.9% from RMB603 million for the six months ended 30 June 2015 to RMB151 million for the six months ended 30 June 2016; and the gross profit margin decreased from 45.1% for the same period of the previously year to 19.0% for the Reporting Period. This is mainly due to two reasons: (1) there was a decrease in revenue of this segment; and (2), due to the impact of the fixed cost, the decrease in cost of sales of this segment was less than that in revenue.

(4) Selling and marketing expenses

The selling and marketing expenses of the Group's Engineering, Consulting and Licensing segment increased by 31.6% from RMB2.577 million for the six months ended 30 June 2015 to RMB3.391 million for the six months ended 30 June 2016. The total expenditure increased slightly as compared with that for the same period of the previous year.

(5) Administrative expenses

The administrative expenses of the Group's Engineering, Consulting and Licensing segment decreased by 11.7% from RMB40 million for the six months ended 30 June 2015 to RMB35 million for the six months ended 30 June 2016, as a result of the Group's increasing efforts in cost management and control, which led to a decrease in expenses such as office expenses and travel expenses.

(6) Research and development costs

The research and development costs of the Group's Engineering, Consulting and Licensing segment decreased by 21.8% from RMB286 million for the six months ended 30 June 2015 to RMB224 million for the six months ended 30 June 2016, mainly due to the decrease in new projects and the decrease in relevant research and development expenses.

(7) Operating loss

Due to the above reasons, the operating loss of the Group's Engineering, Consulting and Licensing segment was RMB116 million.

EPC Contracting

The operating results of the Group's EPC Contracting business are as follows:

	For the six months ended 30 June			
	2016		2015	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(RMB'000)	(%)	(RMB'000)	(%)
Revenue	9,285,236	100.0	12,891,709	100.0
Cost of sales	(7,678,595)	(82.7)	(10,997,874)	(85.3)
Gross profit	1,606,641	17.3	1,893,835	14.7
Selling and marketing expenses	(22,482)	(0.2)	(24,683)	(0.2)
Administrative expenses	(199,246)	(2.1)	(232,778)	(1.8)
Research and development costs	(156,082)	(1.7)	(160,349)	(1.2)
Other income and expenses	(201,646)	(2.2)	(123,445)	(1.0)
Operating profit	1,027,185	11.1	1,352,580	10.5

(1) Revenue

The revenue generated from the Group's EPC Contracting segment decreased by 28.0% from RMB12.892 billion for the six months ended 30 June 2015 to RMB9.285 billion for the six months ended 30 June 2016, which was mainly attributable to the decrease in EPC Contracting business volume in the new coal chemicals and other industries.

(2) Cost of sales

The cost of sales of the Group's EPC Contracting segment decreased by 30.2% from RMB10.998 billion for the six months ended 30 June 2015 to RMB7.679 billion for the six months ended 30 June 2016, which was mainly due to the decreases in the sub-contracting costs and materials and equipment costs as a result of the decrease in revenue.

(3) Gross profit

The gross profit of the Group's EPC Contracting segment decreased by 15.2% from RMB1.894 billion for the six months ended 30 June 2015 to RMB1.607 billion for the six months ended 30 June 2016, mainly due to the decrease in revenue. The gross profit margin of the segment increased from 14.7% in the same period of the previous year to 17.3%. This was mainly attributable to the fact that some of the EPC Contracting projects entered the settlement stage, which led to a higher gross margin.

(4) Selling and marketing expenses

The selling and marketing expenses of the Group's EPC Contracting segment decreased by 8.9% from RMB25 million for the six months ended 30 June 2015 to RMB22 million for the six months ended 30 June 2016.

(5) Administrative expenses

The administrative expenses of the Group's EPC Contracting segment decreased by 14.4% from RMB233 million for the six months ended 30 June 2015 to RMB199 million for the six months ended 30 June 2016, as a result of the Group's increasing efforts in cost management and control, which led to a decrease in expenses such as office expenses and travel expenses.

(6) Research and development costs

The research and development costs of the Group's EPC Contracting segment was RMB156 million, which remained almost the same as that for the same period of the previous year.

(7) Operating profit

Due to the above reasons, the operating profit of the Group's EPC Contracting segment decreased by 24.1% from RMB1.353 billion for the six months ended 30 June 2015 to RMB1.027 billion for the six months ended 30 June 2016.

Construction

The operating results of the Group's Construction business are as follows:

	For the six months ended 30 June			
	2016		2015	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(RMB'000)	(%)	(RMB'000)	(%)
Revenue	8,515,410	100.0	8,008,090	100.0
Cost of sales	(8,072,536)	(94.8)	(7,503,868)	(93.7)
Gross profit	442,874	5.2	504,222	6.3
Selling and marketing expenses	(13,508)	(0.2)	(13,390)	(0.2)
Administrative expenses	(178,455)	(2.1)	(188,687)	(2.4)
Research and development costs	(19,095)	(0.2)	(13,156)	(0.2)
Other income and expenses	(26,041)	(0.3)	(10,575)	(0.1)
Operating profit	205,775	2.4	278,414	3.5

(1) Revenue

The revenue generated from the Group's Construction segment increased by 6.3% from RMB8.008 billion for the six months ended 30 June 2015 to RMB8.515 billion for the six months ended 30 June 2016. This was mainly attributable to the fact that some construction projects such as Saudi Phosphoric Acid Utility Project entered the construction peak period.

(2) Cost of sales

The cost of sales of the Group's Construction segment increased by 7.6% from RMB7.504 billion for the six months ended 30 June 2015 to RMB8.073 billion for the six months ended 30 June 2016, mainly due to the increase in construction volume.

(3) Gross profit

The gross profit of the Group's Construction segment decreased by 12.2% from RMB504 million for the six months ended 30 June 2015 to RMB443 million for the six months ended 30 June 2016. The gross profit margin decreased from 6.3% for the six months ended 30 June 2015 to 5.2% for the six months ended 30 June 2016, mainly due to the intensified fierce market competition and the narrowed profit margins.

(4) Selling and marketing expenses

The selling and marketing expenses of the Group's Construction segment was RMB14 million, which remained almost the same as that for the same period of the previous year.

(5) Administrative expenses

The administrative expenses of the Group's Construction segment decreased by 5.4% from RMB189 million for the six months ended 30 June 2015 to RMB178 million for the six months ended 30 June 2016, as a result of the Group's increasing efforts in cost management and control, which led to a decrease in expenses such as office expenses and travel expenses.

(6) Research and development costs

The research and development costs of the Group's Construction segment increased by 45.1% from RMB13 million for the six months ended 30 June 2015 to RMB19 million for the six months ended 30 June 2016, mainly due to the Group's increased investment in the research and development of construction technology.

(7) Operating profit

Due to the above reasons, the operating profit of the Group's Construction segment decreased by 26.1% from RMB278 million for the six months ended 30 June 2015 to RMB206 million for the six months ended 30 June 2016.

Equipment Manufacturing

The operating results of the Group's Equipment Manufacturing business are as follows:

	For the six months ended 30 June			
	2016		2015	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(RMB'000)	(%)	(RMB'000)	(%)
Revenue	173,152	100.0	388,814	100.0
Cost of sales	(165,223)	(95.4)	(369,729)	(95.1)
Gross profit	7,929	4.6	19,085	4.9
Selling and marketing expenses	(1,933)	(1.1)	(1,546)	(0.4)
Administrative expenses	(8,759)	(5.1)	(12,370)	(3.2)
Research and development costs	—	—	(287)	(0.1)
Other income and expenses	(10,747)	(6.2)	(4,101)	(1.1)
Operating (loss)/profit	(13,510)	(7.8)	781	0.2

(1) Revenue

The revenue generated from the Group's Equipment Manufacturing segment decreased by 55.5% from RMB389 million for the same period of the previous year to RMB173 million, mainly due to the decrease in the business volume as a result of the lack of orders in hand in this segment.

(2) Cost of sales

The cost of sales of the Group's Equipment Manufacturing segment decreased by 55.3% from RMB370 million for the same period of the previous year to RMB165 million, mainly due to the decrease in the business volume.

(3) Gross profit

The gross profit of the Group's Equipment Manufacturing segment decreased by 58.5% from RMB19 million for the same period of the previous year to RMB8 million, and the gross profit margin decreased from 4.9% for the same period of the previous year to 4.6%, mainly because the decrease in cost of sales of this segment was less than that in revenue as a result of the impact of the fixed cost.

(4) Selling and marketing expenses

The selling and marketing expenses of the Group's Equipment Manufacturing segment were RMB2 million. The total expenditure remained almost the same on a period-on-period basis.

(5) Administrative expenses

The administrative expenses of the Group's Equipment Manufacturing segment were RMB9 million. The total expenditure remained almost the same on a period-on-period basis.

(6) Research and development costs

There were no research and development costs in the Group's Equipment Manufacturing segment during the Reporting Period.

(7) Operating loss

Due to the above reasons, the operating loss of the Group's Equipment Manufacturing segment was RMB14 million.

3 Discussion on the results by other classification

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

	For the six months ended 30 June				
	2016		2015		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB'000)	(%)	(RMB'000)	(%)	(%)
Oil refining	4,393,661	24.8	2,421,511	11.6	81.4
Petrochemicals	5,595,034	31.5	5,999,942	28.7	(6.7)
New coal chemicals	4,924,443	27.8	8,492,715	40.6	(42.0)
Other industries	2,821,673	15.9	3,990,848	19.1	(29.3)
Subtotal	17,734,811	100.0	20,905,016	100.0	(15.2)

From the above revenue generated from the different industries, during the Reporting Period, since EPC Contracting projects in the oil refining industry such as Malaysia RAPID Oil Refining Project and FCC Project of Kazakhstan Atyrau Refinery entered into the peak period of procurement or construction, the revenue derived from the oil refining industry was RMB4.394 billion, representing an increase of 81.4% on a period-on-period basis. Due to the impact of the decrease in business volume in new coal chemicals, petrochemicals and other industries, the revenue derived from the petrochemical industry was RMB5.595 billion, representing a decrease of 6.7% on a period-on-period basis; the revenue derived from the new coal chemical industry was RMB4.924 billion, representing a decrease of 42.0% on a period-on-period basis; the revenue derived from other industries was RMB2.822 billion, representing a decrease of 29.3% on a period-on-period basis.

The following table sets forth the revenue generated from different regions where the Group's clients operate:

	For the six months ended 30 June				
	2016		2015		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB'000)	(%)	(RMB'000)	(%)	(%)
PRC	11,484,100	64.8	18,062,063	86.4	(36.4)
Overseas	6,250,711	35.2	2,842,953	13.6	119.9
Subtotal	17,734,811	100.0	20,905,016	100.0	(15.2)

During the Reporting Period, the Group generated revenue of RMB11.484 billion in the PRC, which constituted 64.8% of the total revenue, representing a decrease of 36.4% on a period-on-period basis; the Group's revenue generated overseas increased faster, amounting to RMB6.251 billion, which constituted 35.2% of the total revenue, representing an increase of 119.9% on a period-on-period basis.

The following table sets forth the revenue generated from services provided by the Group for (i) Sinopec Group and its associates, and (ii) non-Sinopec Group and its associates:

	For the six months ended 30 June				
	2016		2015		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB'000)	(%)	(RMB'000)	(%)	(%)
Sinopec Group and its associates	6,977,386	39.3	9,353,922	44.7	(25.4)
Non-Sinopec Group and its associates	10,757,425	60.7	11,551,094	55.3	(6.9)
Subtotal	17,734,811	100.0	20,905,016	100.0	(15.2)

During the Reporting Period, the revenue from Sinopec Group and its associates was RMB6.977 billion, which constituted 39.3% of the Group's total revenue, representing a decrease of 25.4% as compared with that for the same period of the previous year; the revenue from non-Sinopec Group and its associates was RMB10.757 billion, which constituted 60.7% of the Group's total revenue, representing a decrease of 6.9% as compared with that for the same period of the previous year.

4 Discussion on the backlog and new contracts

Backlog represents the total estimated contract value of work that remains to be completed pursuant to outstanding contracts as at a certain date, net of estimated value added tax and is based on the Group's assumption that the relevant contracts will be performed in accordance with their terms. Backlog is not a measure defined by generally accepted accounting principles. Any modification, termination or suspension of these contracts by the Group's clients may have a substantial and immediate effect on the Group's backlog. Projects may also remain in the Group's backlog for an extended period of time beyond what was initially anticipated due to various factors beyond the Group's control.

As a result of the persistence of low international crude oil price, new coal chemical enterprises do not have strong willingness to invest, which has led to change order for or suspension of some new coal chemical projects. The Group re-evaluated such projects, and decided to take a prudent stance and deduct, from the Group's backlog, the backlog for domestic new coal chemical EPC Contracting projects with a total value of RMB11.115 billion (the "Deducted Backlog") and to adjust the respective total value of the backlog as at 30 June 2016 and 31 December 2015 accordingly.

During the Reporting Period, Qinghai Damei Coal Chemicals Project and Zhong'An Lianhe Coal Chemical Project (the "Postponed Projects") continued to be postponed as per the request of project owners. As at the end of the Reporting Period, the value of the backlog for the Postponed Projects was RMB12.100 billion. According to the Group's overall assessment, the Postponed Projects will continue to be counted as the Group's backlog. Apart from the Postponed Projects, all other projects in hand are implemented smoothly.

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 2016 (RMB'000)	As at 31 December 2015 (RMB'000)	Change (%)
Engineering, consulting and licensing	7,284,903	6,935,838	5.0
EPC Contracting	73,350,949	78,661,105	(6.8)
Construction	9,890,282	14,273,326	(30.7)
Equipment manufacturing	120,721	114,615	5.3
Total	90,646,855	99,984,884	(9.3)

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

	As at 30 June 2016 (RMB'000)	As at 31 December 2015 (RMB'000)	Change (%)
Oil refining	31,252,307	32,951,451	(5.2)
Petrochemicals	19,543,829	22,730,572	(14.0)
New coal chemicals	22,139,800	26,230,973	(15.6)
Other industries	17,710,919	18,071,888	(2.0)
Total	90,646,855	99,984,884	(9.3)

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

	As at 30 June 2016 (RMB'000)	As at 31 December 2015 (RMB'000)	Change (%)
PRC	59,957,942	63,303,344	(5.3)
Overseas	30,688,913	36,681,540	(16.3)
Total	90,646,855	99,984,884	(9.3)

The following table sets forth the total value of backlog categorised by the clients of each of (i) Sinopec Group and its associates; and (ii) non-Sinopec Group and its associates as at the dates indicated:

	As at 30 June 2016 (RMB'000)	As at 31 December 2015 (RMB'000)	Change (%)
Sinopec Group and its associates	40,125,810	42,242,637	(5.0)
Non-Sinopec Group and its associates	50,521,045	57,742,247	(12.5)
Total	90,646,855	99,984,884	(9.3)

As at the end of the Reporting Period, the value of the Group's backlog totaled RMB90.647 billion, representing a decrease of 9.3% from that as at 31 December 2015 and 2.0 times of the total revenue of RMB45.498 billion in 2015.

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

	For the six months ended 30 June		Change
	2016	2015	
	(RMB'000)		(%)
Engineering, consulting and licensing	1,144,695	1,722,360	(33.5)
EPC Contracting	3,975,080	18,724,200	(78.8)
Construction	3,204,935	7,379,209	(56.6)
Equipment manufacturing	72,074	25,940	177.8
Total	8,396,784	27,851,709	(69.9)

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:

	For the six months ended 30 June		Change
	2016	2015	
	(RMB'000)		(%)
Oil refining	2,694,518	1,727,736	56.0
Petrochemicals	2,408,291	5,243,943	(54.1)
New coal chemicals	833,270	4,591,085	(81.9)
Other industries	2,460,705	16,288,945	(84.9)
Total	8,396,784	27,851,709	(69.9)

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

	For the six months ended 30 June		
	2016	2015	Change
	(RMB'000)		(%)
PRC	8,138,700	21,394,409	(62.0)
Overseas	258,084	6,457,300	(96.0)
Total	8,396,784	27,851,709	(69.9)

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

	For the six months ended 30 June		
	2016	2015	Change
	(RMB'000)		(%)
Sinopec Group and its associates	4,860,560	16,703,736	(70.9)
Non-Sinopec Group and its associates	3,536,224	11,147,973	(68.3)
Total	8,396,784	27,851,709	(69.9)

During the Reporting Period, the value of the Group's new contracts was RMB8.397 billion, representing a decrease of 69.9% as compared with that for the same period of the previous year. This is mainly because capital expenditure of large Chinese petroleum companies in oil refinery and petrochemical projects experienced further downward tendency, most of the investment plans of the projects in new coal chemical industry under tracking were delayed, and fewer overseas projects under tracking entered bidding stage.

5 Assets, Liabilities, Equity and Cash Flows

The Group's funds mainly come from operating activities and are primarily used for operating expenses, capital expenditure and dividend distribution.

(1) Assets, Liabilities and Equity

Units: RMB'000

	As at 30 June 2016	As at 31 December 2015	Changes
Total assets	**55,984,600**	58,404,370	(2,419,770)
Current assets	**48,171,096**	50,464,917	(2,293,821)
Non-current assets	**7,813,504**	7,939,453	(125,949)
Total liabilities	**31,073,949**	33,765,858	(2,691,909)
Current liabilities	**28,242,963**	30,798,517	(2,555,554)
Non-current liabilities	**2,830,986**	2,967,341	(136,355)
Net assets	**24,910,651**	24,638,512	272,139
Consolidated equity attributable to the Company's equity holders	**24,907,208**	24,634,775	272,433
Share capital	**4,428,000**	4,428,000	–
Reserves	**20,479,208**	20,206,775	272,433
Minority interests	**3,443**	3,737	(294)

As at the end of the Reporting Period, the total assets of the Group were RMB55.985 billion, the total liabilities were RMB31.074 billion, the minority interests were RMB3 million, and the equity attributable to the Company's equity holders was RMB24.907 billion. The changes in the assets and liabilities as compared with that at the end of 2015 and the main reasons are as follows:

As at the end of the Reporting Period, the total assets were RMB55.985 billion, representing a decrease of RMB2.420 billion as compared with that at the end of 2015. In particular, the current assets were RMB48.171 billion, representing a decrease of RMB2.294 billion as compared with that at the end of 2015, mainly due to a decrease of RMB2.874 billion in cash and cash equivalents, a decrease of RMB1.757 billion in notes and trade receivables, an increase of RMB1.351 billion in contract work receivables from customers, an increase of RMB1 billion in receivable loans from the ultimate holding company. The non-current assets were RMB7.814 billion, representing a decrease of RMB126 million as compared with that at the end of 2015, mainly due to the depreciation and amortization of the non-current assets.

As at the end of the Reporting Period, the total liabilities were RMB31.074 billion, representing a decrease of RMB2.692 billion as compared with that at the end of 2015. In particular, the current liabilities were RMB28.243 billion, representing a decrease of RMB2.556 billion as compared with that at the end of 2015, mainly due to a decrease of RMB3.406 billion in notes and trade payables, an increase of RMB1.210 billion in contract work payables to customers; the non-current liabilities were RMB2.831 billion, representing a decrease of RMB136 million as compared with that at the end of 2015, mainly due to a decrease in actuarial liabilities.

As at the end of the Reporting Period, the total equity attributable to the Company's equity holders was RMB24.907 billion, increasing by RMB272 million as compared with that at the end of 2015, mainly due to the increase in the retained earnings.

(2) Cash Flows

During the Reporting Period, the net decrease in cash and cash equivalents was RMB3.043 million and net cash generated from operating activities was RMB1.190 billion. The following table sets forth the main items and their changes in the Group's consolidated cash flow statements for the six months ended 30 June 2016 and for the six months ended 30 June 2015.

Units: RMB'000

Major items of cash flow	For the six months ended 30 June	
	2016	2015
Net cash (used in)/generated from operating activities	(1,189,570)	766,066
Net cash (used in)/generated from investing activities	(1,042,877)	954,179
Net cash used in financing activities	(810,480)	(830,075)
Net (decrease)/increase in cash and cash equivalents	(3,042,927)	890,170

During the Reporting Period, the profit before taxation was RMB1.382 billion, and the profit was RMB1.522 billion after adjusting the items in expenses that did not affect the cash flow in operating activities and was mainly reflected in: an increase of RMB337 million in depreciation and amortisation, an increase of RMB223 million in impairment of trade and other receivables, a decrease of RMB255 million in interest income, an increase of RMB37 million in interest expense, a decrease of RMB197 million in exchange earnings. The changes in working capital, which caused a cash outflow of RMB2.306 billion in operating activities, were mainly shown in: the decrease in the balance of trade and other account receivables through the strengthening of the settlement of trade debts, causing the cash inflow of RMB1.198 billion from operating activities; the decrease in the balance of stock through inventory management, affecting cash inflow of RMB314 million from operating activities; the decrease in the balance of trade and other account payables, causing cash outflow of RMB3.667 billion from operating activities; and the increase in under-construction contract work, affecting cash outflow by RMB141 million from operating activities.

After adjusting non-cash items, receivables and payables for the profit before taxation, and after adding cash inflow of RMB61 million for interest received and deducting cash outflow of RMB467 million for paid income tax, the net cash generated from operating activities was RMB1.190 billion.

Net cash used in investing activities was RMB1.043 billion, mainly due to the increase in the net outflow of the Group's loans to the ultimate holding company.

Net cash used in financing activities was RMB810 million, mainly due to the 2015 final dividend distribution.

Based on the cash flows during the Reporting Period, the Group's current working capital can ensure normal production and operation. The Group will continue to strengthen the settlement of trade debts, limit the use of working capital in operating activities and further improve cash flows from operating activities. The Group will also continue to effectively manage the investment risk, reasonably control the scale of investment and improve the return on capital.

(3) Summary of Financial Ratios

The following table sets forth the Group's key financial ratios for the periods indicated:

Key financial ratios	For the six months ended 30 June	
	2016	2015
Net profit margin (%)	6.1	8.2
Return on assets (%) (1)	1.9	3.2
Return on equity (%) (2)	4.3	7.2
Return on invested capital (%) (3)	4.4	7.4

Key financial ratios	As at 30 June 2016	As at 31 December 2015
Gearing ratio (%) (4)	0.0	0.0
Net debt to equity ratio (%) (5)	Net cash	Net cash
Current ratio (%) (6)	1.7	1.6
Quick ratio (%) (7)	1.7	1.6

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

(2) $$\text{Return on equity} = \frac{\text{Profit for the period}}{\text{Total equity at the end of the period}}$$

(3) $$\text{Return on invested capital} = \frac{\text{Earnings before interest and tax (EBIT) x (1 - effective tax rate)}}{\text{Total interest bearing debt - Credit loans + Total equity at the end of period}}$$

(4) $$\text{Gearing ratio} = \frac{\text{Total interest bearing debt}}{\text{Total interest bearing debt + Total equity at the end of period}}$$

(5) $$\text{Net debt to equity ratio} = \frac{\text{Net debt at the end of period}}{\text{Total equity at the end of period}}$$

(6) $$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

(7) $$\text{Quick ratio} = \frac{\text{Current assets - Inventories}}{\text{Current liabilities}}$$

Return on assets

During the Reporting Period, the Group's return on assets decreased to 1.9% from 3.2% for the same period of the previous year, mainly due to the decrease in net profit during the Reporting Period and the increase in average assets at the end of the Reporting Period.

Return on equity

The Group's return on equity decreased to 4.3% from 7.2% for the same period of the previous year, mainly due to the decrease in net profit during the Reporting Period and increase in equity at the end of the Reporting Period.

Return on invested capital

The Group's return on invested capital decreased to 4.4% from 7.4% for the same period of the previous year, for the same reason as the decrease in return on equity as above.

Gearing ratio

The Group's gearing ratio is 0, which remained the same as compared with that as at 30 June 2015, since the Group did not have any borrowings as at the end of the Reporting Period.

Net debt to equity ratio

The Group maintained positive net cash as at 30 June 2016 and 31 December 2015.

Current ratio

The Group's current ratio increased to 1.7 from 1.6 at the end of 2015, mainly because the decrease in current assets was less than the decrease in current liabilities during the Reporting Period.

Quick ratio

The Group's quick ratio increased to 1.7 from 1.6 at the end of 2015, for the same reason as the increase in current ratio as above.

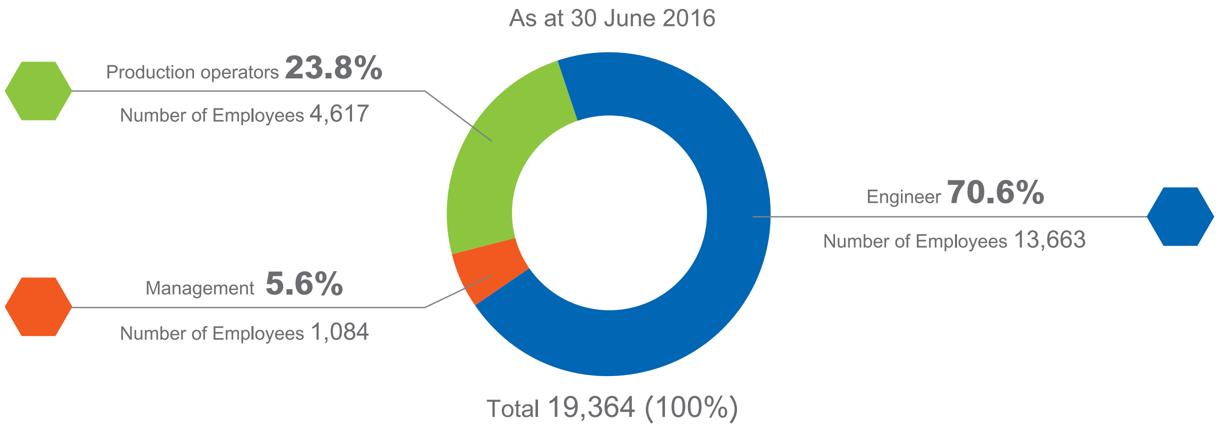
6 Foreign exchange risk

The Group continued to operate some engineering business overseas and formed foreign currency-denominated receivables, payables and cash balances. In addition, the Company raised funds denominated in foreign currencies by issuing H shares. During the Reporting Period, foreign currencies held by the Group were primarily U.S. dollars, Euros and Saudi riyals. In the future, changes in foreign exchange rates may affect the pricing of the Group's services, as well as its expenditure on the purchase of materials in foreign currency. Fluctuations in foreign exchange rates may affect the Group's business performance and financial position.

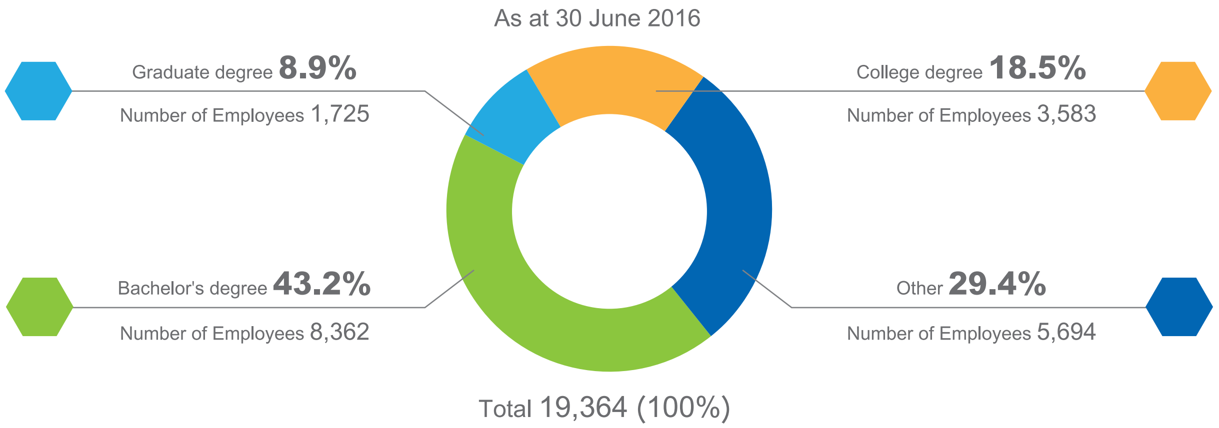
7 Employees and remuneration policy

As at the end of the Reporting Period, the Group had a total of 19,364 employees.

The following table sets forth the details of employees based on the different areas of practice as at 30 June 2016.



The following table sets forth the details of employees in accordance with the employees' level of education as at 30 June 2016.



During the Reporting Period, the Group maintained good labour relations. The remuneration package of the Group's employees mainly includes salaries, discretionary bonuses and contributions to mandatory social security funds. As required by PRC regulations, the Group has to participate in various pension schemes, as well as supplemental pension schemes for its employees, including those organised by provincial or municipal governments. The amount of bonuses paid is normally based on the overall performance of the Group's business. During the six months ended 30 June 2016 and 30 June 2015, the Group incurred staff costs of approximately RMB2.183 billion and RMB2.219 billion, respectively.

SIGNIFICANT EVENTS

1 Corporate governance

During the Reporting Period, the Company complied with all provisions in the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and did not conduct any acts which deviated from such provisions

2 The dividend distribution plan for the six months ended 30 June 2016

The fifth meeting of the Second Session of the Company's Board of Directors approved that an interim cash dividend of RMB0.072 (inclusive of applicable taxes) per share would be distributed based on 4,428,000,000 shares, being the total share capital of the Company as at 30 June 2016. Since shareholders of the Company have authorised the Board of Directors to decide the interim profit distribution plan of 2016 by ordinary resolution in the 2015 annual general meeting held on 6 May 2016, the above dividend distribution plan is not required to be re-submitted to the general meeting of shareholders for review and approval.

The dividend will be denominated and declared in RMB. The holders of Domestic Shares will be paid in RMB and the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to RMB as announced by the People's Bank of China during the five business days prior to the date of declaration of the dividend.

In accordance with the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法) and its implementation regulations which came into effect on 1 January 2008, 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, will be deemed as shares held by non-resident enterprise shareholders. Therefore, enterprise income tax will be withheld from dividends payable to such shareholders. If holders of H Shares intend to change its shareholder status, please enquire about the relevant procedures with your agents or trustees. The Company will strictly comply with the law or the requirements of the relevant government authority and withhold and pay enterprise income tax on behalf of the relevant Shareholders based on the register of members for H shares as at the Record Date.

If the individual holders of H Shares are Hong Kong or Macau residents or residents of the countries which have an agreed tax rate of 10% for the cash dividends to them with the PRC under the relevant tax agreements, the Company will 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% with the PRC under the relevant tax agreement, the Company will 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 want a refund of 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 evidence required by the notice of the tax agreement to the H share registrar of the Company. The Company will assist with the tax refund after receiving 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% with the PRC under the tax agreements, the Company will withhold and pay the individual income tax at the agreed actual rate in accordance with the relevant tax agreement. In the case that the individual holders of H Shares are residents of the countries which have an agreed tax rate of 20% with the PRC, or which have not entered into any tax agreement with the PRC, or otherwise, the Company will 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 (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 the Shanghai Branch of China Securities Depository and Clearing Corporation Limited, pursuant to which, the Shanghai Branch of China Securities Depository and Clearing Corporation Limited, as the nominee of the investors of H Shares of the Company 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 the Company of Southbound Trading through its depositary and clearing system. The cash dividends for the investors of H Shares of the Company 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) (《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)), for dividends received by domestic investors from investing in H shares listed on the Hong Kong Stock Exchange through Shanghai-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, 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.

For details, please refer to the announcement on “Distribution of 2016 Interim Dividend and Closure of Register of Members for H Shares” dated 22 August 2016.

3 Connected Transactions

Continuing Connected Transactions between the Group and Sinopec Group

During the Reporting Period, there was a series of continuing connected transactions or agreements between the Group and Sinopec Group, in particular such connected transactions include the following:

(1) the Engineering and Construction Services Framework Agreement and the supplemental agreement;

(2) the Financial Services Framework Agreement and the supplemental agreement;

(3) the Technology R&D Framework Agreement and the supplemental agreement;

(4) the General Services Framework Agreement and the supplemental agreement;

(5) the Land Use Right and Property Lease Framework Agreement;

(6) the Counter-guarantees provided by Sinopec Group;

(7) the Safe Production Insurance Fund; and

(8) the Trademark Licensing Agreement.

For further details, please refer to the section headed “Connected Transactions” in the Company’s prospectus issued on 10 May 2013, the Company’s announcement entitled “Continuing Connected Transactions - Financial Services Framework Agreement” issued on 19 August 2013, the contents related to the Financial Services Framework Agreement in the Company’s circular to its shareholders issued on 10 September 2013 and the Company’s announcement entitled “Adjustments to Annual Caps for Continuing Connected Transactions under the Technology R&D Framework Agreement” issued on 17 March 2014, the contents in relation to the Financial Services Framework Agreement and the Engineering Services Framework Agreement in the Company’s circular to its shareholders issued on 15 September 2015, the Company’s announcement entitled “Renewal of Technology R&D Framework Agreement, Financial Services Framework Agreement and Engineering and Construction Services Framework Agreement and the Annual Caps” issued on 31 August 2015, and the Company’s announcement entitled “Renewal of Technology R&D Framework Agreement, Financial Services Framework Agreement and Engineering and Construction Services Framework Agreement and the Annual Caps and the Continuing Connected Transactions and Major Transactions under the Financial Services Framework Agreement” issued on 15 September 2015.

The Group's Connected Transactions

During the Reporting Period, the aggregate amount of connected transactions incurred on the Group was RMB7.840 billion. In particular, the expenses amounted to RMB654 million and the revenue amounted to RMB7.186 billion (including RMB6.985 billion from the sale of products and services and RMB201 million from interest income), thus satisfying the exemption requirements specified by the Hong Kong Stock Exchange.

During the Reporting Period, the engineering and construction services (supply of equipment and materials, procurement services and equipment leasing, technology licensing and other engineering-related services) provided by Sinopec Group to the Group amounted to RMB648 million, which was within the annual cap. The engineering and construction services (preliminary consulting, technology licensing, engineering design, EPC Contracting, construction and equipment manufacturing, etc.) provided by the Group to Sinopec Group amounted to RMB6.944 billion, which was within the annual cap.

During the Reporting Period, the expenses relating to the settlement and other financial services between the Group and Sinopec Finance Co., Ltd. and Sinopec Century Bright Capital Investment Limited were RMB471,000, which was within the annual cap. The daily maximum balance of deposits and interest income was RMB6.213 billion, which was within the annual cap. The daily maximum balance of entrusted loans was RMB14.100 billion, which was within the annual cap.

During the Reporting Period, the technology research and development services provided by the Group to Sinopec Group amounted to RMB39 million, which was within the annual cap.

During the Reporting Period, the counter-guarantees provided by Sinopec Group to the Group amounted to USD52 million, which was within the annual cap.

During the Reporting Period, the general services provided by Sinopec Group to the Group amounted to RMB4 million, which was within the annual cap.

During the Reporting Period, the land use right and property lease contracts provided by the Group to Sinopec Group amounted to RMB3 million, which was within the annual cap.

During the Reporting Period, the land use right and property lease contracts provided by Sinopec Group to the Group amounted to RMB1 million, which was within the annual cap.

In terms of the premium payable under the documents on safe production funds, the amount payable by the Group shall not be less than the amount specified in these documents.

For more information on the transactions related to the major related parties (including the connected transactions above) during the Reporting Period, please refer to Note 39 of the Financial Report prepared in accordance with the IFRS in this interim report.

Views of Independent Non-executive Directors on the above-mentioned Continuing Connected Transactions (including Deposits and Entrustment Loan Transactions under the Financial Services Framework Agreement)

The independent non-executive directors of the Company reviewed the nature, the implementation of the annual caps, pricing policy and internal control procedures of the above-mentioned continuing connected transactions (including deposits and entrustment loans under the Financial Services Framework Agreement), and confirmed as follows:

(a) the transactions were entered into in the ordinary and usual course of business of the Group;

(b) one of the following items was met:

  i the transactions were entered into on normal commercial terms;

  ii if there were not sufficient comparable transactions to judge whether the transactions were on normal commercial terms, the transactions under the relevant agreements were entered into on terms no less favourable to the Company than terms available to or from independent third parties (as the case may be); or

  iii if there were no appropriate assessments to determine whether the transactions met the conditions under (i) and (ii) above, the transactions were entered into on terms that were fair and reasonable to the shareholders of the Company; and

(c) according to the agreement governing the transactions on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

4 Material Litigation or Arbitration Events

During the Reporting Period, the Company had an ongoing litigation concerning claims which arose in connection with the collapse of a partially completed oil storage tank of the oil and gas storage tank project in Alberta, Canada on 24 April 2007, which resulted in the deaths of two workers and injuries of four others. The case is still in the evidence exchange and cross-examination phase.

Prior to the date of issuing this interim report, Sinopec Ningbo Engineering Company Limited, a wholly-owned subsidiary of the Company, and INEOS USA LLC ("INEOS") had reached a comprehensive and final settlement in connection with the request for arbitration submitted by INEOS to Arbitration Institute of Stockholm Chamber of Commerce (the "Arbitration Request"), and INEOS has withdrawn the Arbitration Request.

There were no other material litigation or arbitration events during the Reporting Period.

5 Other Material Contracts

The Group had no other contracts of significance which should be disclosed, during the Reporting Period.

6 Repurchase, Sale and Redemption of Shares

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

7 Reserves

During the Reporting Period, movements in the reserves of the Group were set out in the Consolidated Statement of Changes in Shareholders' Equity of the financial report, which was prepared in accordance with the IFRS, in this interim report.

8 Use of IPO Proceeds

During the Reporting Period, the Group's total amount of proceeds used was RMB4 million, mainly for the research and development centre for engineering technology, modular construction base, machinery manufacturing project and construction of information system. As at the end of the Reporting Period, the Group's total amount of proceeds used was RMB3.101 billion, and as at the end of the Reporting Period, the remaining net balance of proceeds was approximately HKD9.439 billion.

9 Assets Transactions

During the Reporting Period, the Group had no significant assets transactions other than in the ordinary and usual course of business.

10 Insolvency and Restructuring

During the Reporting Period, the Group was not involved in any insolvency or restructuring matters.

11 Significant Trusteeship, Contracting and Lease

During the Reporting Period, the Group was not involved in significant trusteeship, contracting or lease of any other company's assets, nor placing its assets to or under any other companies' trusteeship, contracting or lease which would require disclosure.

12 Significant Acquisitions and Disposal

During the Reporting Period, the Group had no substantial acquisition or disposal.

13 Financial Derivatives for Hedging Purposes

During the Reporting Period, there were no financial derivatives for hedging purposes of the Group.

14 Pledged Assets

During the Reporting Period, the Group had no pledged assets.

15 Debt

There were no interest-bearing debts as at the end of the Reporting Period.

16 Review of interim report

The audit committee of the Company (the "Audit Committee") has reviewed this interim report. The Audit Committee has not expressed any dissent concerning the financial statements in this interim 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 20 years of experience in auditing, internal control and consultancy.

17 Other important matters

During the Reporting Period, none of the Company, the Directors or the Supervisors was punished by administrative means or criticised through circular by the Hong Kong Securities and Futures Commission or publicly condemned by the Hong Kong Stock Exchange.

DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT MEMBERS

As at 30 June 2016, members of the Company's Board of Directors, Supervisory Committee and other senior management members are as follows:

1 Directors

The members of the Second Session of the Board of Directors

Name	Gender	Age	Position in the Company	Term of Office as Director
ZHANG Jianhua	Male	51	Chairman of the Board and Non-executive Director	October 2015 - October 2018
LU Dong	Male	53	Vice Chairman of the Board and Executive Director	October 2015 - October 2018
YAN Shaochun	Male	51	Executive Director and President	October 2015 - October 2018
LI Guoqing	Male	58	Non-executive Director	October 2015 - October 2018
SUN Lili	Female	54	Executive Director	October 2015 - October 2018
WU Derong	Male	55	Executive Director	October 2015 - October 2018
HUI Chiu Chung, Stephen	Male	69	Independent non-executive Director	October 2015 - October 2018
JIN Yong	Male	80	Independent non-executive Director	October 2015 - October 2018
YE Zheng	Male	51	Independent non-executive Director	October 2015 - October 2018

2 Supervisors

The members of the Second Session of the Supervisory Committee

Name	Gender	Age	Position in the Company	Term of Office as Supervisor
DENG Qunwei	Female	45	Chairman of the Supervisory Committee	October 2015 - October 2018
ZHOU Yingguan	Male	47	Supervisor	October 2015 - October 2018
WANG Guoliang	Male	56	Supervisor	October 2015 - October 2018
WANG Cunting	Male	49	Supervisor	October 2015 - October 2018
ZHU Fei	Male	51	Employee Representative Supervisor	October 2015 - October 2018
JIANG Dejun	Male	50	Employee Representative Supervisor	October 2015 - October 2018
XU Yijun	Male	52	Employee Representative Supervisor	October 2015 - October 2018

3 Other senior management members

Other senior management members

Name	Gender	Age	Position in the Company	Date of Taking Office
YAN Shaochun	Male	51	President and Executive Director	April 2013
XIAO Gang	Male	57	Vice President	August 2012
XIANG Wenwu	Male	50	Vice President	August 2012
GUAN Qingjie	Male	57	Chairman of Trade Union	August 2012
QI Guosheng	Male	55	Vice President	November 2014
JIA Yiqun	Male	48	Chief Financial Officer	August 2012
SANG Jinghua	Male	48	Vice President Secretary to the Board Company Secretary	May 2014 August 2012 December 2012
SUN Xiaobo	Male	55	Vice President	May 2014

Equity capital of directors, supervisors and members of senior management of the Company

During the Reporting Period, so far as was known to the directors of the Company, none of the directors, supervisors, other members of senior management and their respective associates had any interests or short positions in any shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) under Appendix 10 to the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange. After specific inquiries made by the Company, all directors and supervisors confirmed that they complied with the standards of the Model Code during the Reporting Period.

FINANCIAL STATEMENTS

Grant Thornton
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Independent Auditor's Report

To the Shareholders of SINOPEC Engineering (Group) Co., Ltd.

(Established in the People's Republic of China with limited liability)

We have audited the consolidated interim financial statements of SINOPEC Engineering (Group) Co., Ltd. (the "Company") and its subsidiaries set out on pages 64 to 127, which comprise the consolidated statement of financial position as at 30 June 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated interim financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and for such internal control as the directors determine is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated interim financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated interim financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated interim financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated interim financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated interim financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated interim financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated interim financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 30 June 2016, and of their financial performance and cash flows for the six-month period then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

19 August 2016

Shaw Chi Kit

Practising Certificate No.: P04834

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
Revenue	6	17,734,811	20,905,016
Cost of sales		(15,526,048)	(17,884,400)
Gross profit		2,208,763	3,020,616
Other income	8	260,763	51,978
Selling and marketing expenses		(41,314)	(42,196)
Administrative expenses		(421,572)	(473,621)
Research and development costs		(398,853)	(459,712)
Other operating expenses		(448,618)	(175,148)
Other gains - net	9	185	554
Operating profit		1,159,354	1,922,471
Finance income	10	254,570	238,615
Finance expenses	10	(37,427)	(47,570)
Finance income - net		217,143	191,045
Share of losses of joint arrangements	19(a)	(601)	(265)
Share of profits of associates	19(b)	5,729	5,607
Profit before taxation	11	1,381,625	2,118,858
Income tax expense	12	(302,795)	(408,070)
Profit for the period		1,078,830	1,710,788

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

	Note	Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(17,074)	(563)
Item that will not be reclassified subsequently to profit or loss:			
Profits/(losses) on revaluation of retirement benefit plans obligations		20,707	(19,044)
Other comprehensive income/(expense) for the period, net of tax		3,633	(19,607)
Total comprehensive income for the period		1,082,463	1,691,181
Profit attributable to:			
Equity holders of the Company		1,079,124	1,710,683
Non-controlling interests		(294)	105
Profit for the period		1,078,830	1,710,788
Total comprehensive income attributable to:			
Equity holders of the Company		1,082,757	1,691,076
Non-controlling interests		(294)	105
Total comprehensive income for the period		1,082,463	1,691,181
		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	13	0.24	0.39

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2016	As at 31 December 2015
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	3,969,921	4,013,878
Land use rights	17	2,709,921	2,740,597
Intangible assets	18	293,153	327,104
Investment in joint arrangements	19(a)	7,530	8,131
Investment in associates	19(b)	130,916	125,187
Available-for-sale financial assets	20	2,750	2,750
Deferred income tax assets	35	699,313	721,806
Total non-current assets		7,813,504	7,939,453
Current assets			
Inventories	24	1,515,655	1,829,647
Notes and trade receivables	21	10,113,417	11,870,863
Prepayments and other receivables	22	6,081,685	5,818,509
Amounts due from customers for contract work	23	8,011,133	6,660,306
Loans due from the ultimate holding company	25	12,100,000	11,100,000
Restricted cash	26	27,072	17,932
Time deposits	27	1,790,943	1,762,100
Cash and cash equivalents	28	8,531,191	11,405,560
Total current assets		48,171,096	50,464,917
Total assets		55,984,600	58,404,370

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Note	As at 30 June 2016	As at 31 December 2015
		RMB'000	RMB'000
EQUITY			
Share capital	29	4,428,000	4,428,000
Reserves		20,479,208	20,206,775
Consolidated equity attributable to equity holders of the Company		24,907,208	24,634,775
Non-controlling interests		3,443	3,737
Total equity		24,910,651	24,638,512
LIABILITIES			
Non-current liabilities			
Retirement and other supplemental benefit obligations	31	2,537,595	2,696,264
Provision for litigation claims	32	261,327	239,013
Deferred income tax liabilities	35	32,064	32,064
Total non-current liabilities		2,830,986	2,967,341
Current liabilities			
Notes and trade payables	33	13,273,478	16,679,058
Other payables	34	6,743,729	6,918,895
Amounts due to customers for contract work	23	8,148,818	6,939,052
Current income tax liabilities		76,938	261,512
Total current liabilities		28,242,963	30,798,517
Total liabilities		31,073,949	33,765,858
Total equity and liabilities		55,984,600	58,404,370
Net current assets		19,928,133	19,666,400
Total assets less current liabilities		27,741,637	27,605,853

Director: **LU Dong** Director, President: **YAN Shaochun** Chief Financial Officer: **JIA Yiqun**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital	Capital reserve	Statutory surplus reserve	Specific reserve	Exchange translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000 (Note 29)	RMB'000 (Note 30(ii))	RMB'000 (Note 30(i))	RMB'000 (Note 30(iii))	RMB'000 (Note 30(iv))	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	4,428,000	10,119,313	364,707	152,695	5,115	7,799,286	22,869,116	3,458	22,872,574
Profit for the period	—	—	—	—	—	1,710,683	1,710,683	105	1,710,788
Other comprehensive income:									
Defined benefits obligation revaluation of actuarial gain and loss - gross	—	—	—	—	—	(23,644)	(23,644)	—	(23,644)
Defined benefits obligation revaluation of actuarial gain and loss - tax	—	—	—	—	—	4,600	4,600	—	4,600
Exchange differences arising on translation of foreign operations	—	—	—	—	(563)	—	(563)	—	(563)
Total comprehensive income	—	—	—	—	(563)	1,691,639	1,691,076	105	1,691,181
Transactions with owners:									
Final dividends for 2014	—	—	—	—	—	(828,036)	(828,036)	—	(828,036)
Appropriation of specific reserve	—	—	—	53,279	—	(53,279)	—	—	—
Utilisation of specific reserve	—	—	—	(30,770)	—	30,770	—	—	—
Total transactions with owners	—	—	—	22,509	—	(850,545)	(828,036)	—	(828,036)
At 30 June 2015	4,428,000	10,119,313	364,707	175,204	4,552	8,640,380	23,732,156	3,563	23,735,719

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

	Attributable to equity holders of the Company								
	Share capital	Capital reserve	Statutory surplus reserve	Specific reserve	Exchange translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000 (Note 29)	RMB'000 (Note 30(ii))	RMB'000 (Note 30(i))	RMB'000 (Note 30(iii))	RMB'000 (Note 30(iv))	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	4,428,000	10,119,313	570,410	179,068	2,581	9,335,403	24,634,775	3,737	24,638,512
Profit for the period									
Other comprehensive income:	—	—	—	—	—	1,079,124	1,079,124	(294)	1,078,830
Defined benefits obligation revaluation of actuarial gain and loss - gross	—	—	—	—	—	25,281	25,281	—	25,281
Defined benefits obligation revaluation of actuarial gain and loss - tax	—	—	—	—	—	(4,574)	(4,574)	—	(4,574)
Exchange differences arising on translation of foreign operations	—	—	—	—	(17,074)	—	(17,074)	—	(17,074)
Total comprehensive income	—	—	—	—	(17,074)	1,099,831	1,082,757	(294)	1,082,463
Transactions with owners:									
Final dividends for 2015	—	—	—	—	—	(810,324)	(810,324)	—	(810,324)
Appropriation of specific reserve	—	—	—	30,344	—	(30,344)	—	—	—
Utilisation of specific reserve	—	—	—	(19,299)	—	19,299	—	—	—
Total transactions with owners	—	—	—	11,045	—	(821,369)	(810,324)	—	(810,324)
At 30 June 2016	4,428,000	10,119,313	570,410	190,113	(14,493)	9,613,865	24,907,208	3,443	24,910,651

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	37	(783,571)	1,278,476
Income tax paid		(466,830)	(553,020)
Interest received		60,831	40,610
Net cash (used in)/generated from operating activities		(1,189,570)	766,066
Cash flows from investing activities			
Purchase of property, plant and equipment		(231,121)	(125,740)
Purchase of intangible assets		(7,057)	(7,601)
Purchase of land use rights		(177)	(127)
Investment in joint arrangements		—	(750)
Interest income on the loans to the ultimate holding company		193,739	198,005
Proceeds from disposal of property, plant and equipment		1,739	1,161
Proceeds from disposal of land use rights		—	596
Dividends received from joint arrangements		—	746
Net increase in time deposits		—	(112,111)
Loans to the ultimate holding company		(5,600,000)	(5,600,000)
Repayments of loans from the ultimate holding company		4,600,000	6,600,000
Net cash (used in)/generated from investing activities		(1,042,877)	954,179
Cash flows from financing activities			
Borrowings from fellow subsidiaries		130,904	490,660
Repayments of borrowings from fellow subsidiaries		(130,904)	(490,660)
Interest paid		(156)	(2,039)
Dividends paid		(810,324)	(828,036)
Net cash used in financing activities		(810,480)	(830,075)
Net (decrease)/increase in cash and cash equivalents		(3,042,927)	890,170
Cash and cash equivalents at beginning of period		11,405,560	9,181,852
Exchange gains/(losses) on cash and cash equivalents		168,558	(19,693)
Cash and cash equivalents at end of period	28	8,531,191	10,052,329

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six-month period ended 30 June 2016

1. Principal Activities, Organisation and Reorganisation

1.1 Principal activities

SINOPEC Engineering (Group) Co., Ltd. (中石化煉化工程(集團)股份有限公司, the "Company") and its subsidiaries (together, the "Group") is principally engaged locally and overseas in (1) engineering, consulting and licensing, (2) EPC Contracting, (3) construction and (4) equipment manufacturing in respect of oil refining, petrochemical engineering, storage and transportation.

1.2 Organisation and reorganisation

The Company was established as a company with limited liability under the name of Sinopec Engineering Co., Ltd (中國石化集團煉化工程有限公司) in the People's Republic of China (the "PRC") on 24 July 2007 under the Company Law of the PRC. The address of the Company's registered office is A6 Huixindong Street, Chaoyang District, Beijing, the PRC.

The directors of the Company (the "Directors") regard China Petrochemical Corporation (中國石油化工集團公司, "Sinopec Group") as being the ultimate holding company of the Group, which is owned and controlled by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 19 August 2016.

Pursuant to a reorganisation of engineering, consulting and licensing, EPC Contracting, construction and equipment manufacturing in respect of oil refining, petrochemical engineering, storage and transportation of Sinopec Group in preparation for the primary listing (the "Listing") of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (the "Reorganisation"), Sinopec Group transferred the equity interests of its refining and engineering entities to the Company and the Company became the holding company of the subsidiaries now comprising the Group. Subsequent to the above reorganisation transactions which were completed in April 2012, the Company was transformed into a joint stock company with limited liability and renamed as SINOPEC Engineering (Group) Co., Ltd. (中石化煉化工程(集團)股份有限公司) on 28 August 2012.

The Company has completed its listing on the Main Board of the Hong Kong Stock Exchange on 23 May 2013.

2. Basis of Preparation

The interim financial statements set out in this report have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB"). These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5 below.

3. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of the consolidated interim financial statements are set out below.

3.1 New and revised IFRS

The IASB has issued a number of new and revised IFRS. The Group has adopted all these new and revised IFRSs, which are effective for the accounting period beginning on or after 1 January 2016:

Annual Improvements Project	Annual Improvements 2012-2014 Cycle
IAS 27 Amendment	Equity Method in Separate Financial Statements
Amendments to IAS 1	Disclosure Initiative
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception

The adoption of the revised IFRS had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

The revised accounting standards issued but not yet effective for the accounting period ended 30 June 2016 which are relevant to the Group but the Group has not early adopted are set out below:

IFRS 9 (2014)	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]

[1] Accounting periods beginning on or after 1 January 2018
[2] Accounting periods beginning on or after 1 January 2019

The directors of the Company anticipate that, except as described below, the application of other new and revised IFRSs will have no material impact on the results and the financial position of the Group.

IFRS 9 (2014) Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, IFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of IFRS 9 was issued in 2014 to incorporate all the requirements of IFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain financial assets. The finalized version of IFRS 9 also introduces an "expected credit loss" model for impairment assessments.

Key requirements of IFRS 9 (2014) are described as follows:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

3. Summary of Significant Accounting Policies (Continued)

3.1 New and revised IFRS (Continued)

IFRS 9 (2014) Financial Instruments (Continued)

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 (2014) requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

- IFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle based approach, IFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under IAS 39, it is necessary to exhibit eligibility and compliance with the requirements in IAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for IAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

IFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the adoption of IFRS 9 (2014) in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

3. Summary of Significant Accounting Policies (Continued)

3.1 New and revised IFRS (Continued)

IFRS 15 Revenue from Contracts with Customers

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, IFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

i) Identify the contract with the customer;

ii) Identify the performance obligations in the contract;

iii) Determine the transaction price;

iv) Allocate the transaction price to the performance obligations; and

v) Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

IFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted. The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 *Property, Plant and Equipment*, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will supersede the current lease standards including IAS 17 *Leases* and the related Interpretations when it becomes effective.

IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16. The directors of the Company are in the process of assessing their impact on the consolidated financial statements of these requirements. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

3. Summary of Significant Accounting Policies (Continued)

3.2 Consolidation

Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that the Group ceases control.

The transfer/acquisition of equity interests in subsidiaries which are regarded as common control combinations are accounted for in a manner similar to a uniting of interests. Assets and liabilities are transferred at book value, adjusted only to harmonise accounting policies, and no goodwill arises. Any difference between the consideration given and the aggregate book value of the assets and liabilities acquired (as of the date of the transaction) is included in equity. The financial statements incorporate the acquired entity's results as if both entities (acquirer and acquiree) had always been combined. Consequently, the financial statements reflects both entities' full year's results, even though the business combination may have occurred part of the way throughout the year. In addition, the corresponding amounts for the previous year also reflect the combined results of both entities, even though the transaction did not occur until the current year.

The acquisition method of accounting is used to account for business combinations other than common control combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the consideration transferred the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying value for the purposes of subsequent accounting for the retained interest as an associate, joint arrangement or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Joint Arrangements

A joint arrangement is an arrangement which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes the Group and other parties have joint control of the arrangement.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Assets, liabilities, revenue and expenses of a joint operation are apportioned between the joint operators in accordance with the agreement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Group recognises its interest in a joint venture using the equity method. The equity method is detailed in accounting policies of interests in associates. The unrealised gains and losses will be eliminated in accordance with the Group's share of the interests in the joint venture if the Group enters into transactions with the joint venture.

3. Summary of Significant Accounting Policies (Continued)

3.2 Consolidation (Continued)

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss (Note 3.8).

The Group's shares of its associates' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amounts of the investments. When the Group's share of losses in an associate equals or exceeds its interest in the associates (which includes any other unsecured receivables that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated statement of comprehensive income.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

3.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors and certain senior management (including chief financial officer) (together referred to as the "Senior Management") that makes strategic decisions.

3.4 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the entities within the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in RMB ("RMB"), which is the Group's functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other income" and "other operating expenses".

3. Summary of Significant Accounting Policies (Continued)

3.4 Foreign currency translation (Continued)

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

3.5 Property, plant and equipment

Property, plant and equipment, except for construction-in-progress ("CIP"), are stated at historical cost less accumulated depreciation and accumulated impairment loss. Historical cost includes expenditures that are directly attributable to the acquisition of the items, including the purchase price, import duties, non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings and other facilities	12-40 years
Plant and machinery, transportation equipment and other equipment	4-20 years

CIP represents buildings and plant under construction and is stated at cost less accumulated impairment loss. Cost includes costs of construction of buildings, cost of plant and other direct costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to the relevant asset categories and depreciated in accordance with the policy as stated above.

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.8).

Gains or losses on disposals are determined by comparing the proceeds on disposal with the carrying amount and are included within "net other gains" in the consolidated statement of comprehensive income.

3.6 Land use rights

Land use rights represent upfront prepayments made for the land use rights at historical cost, and are expensed in the consolidated statement of comprehensive income on a straight-line basis over the terms of the leases. Whenever there is impairment, the impairment is recognised in the consolidated statement of comprehensive income.

3. Summary of Significant Accounting Policies (Continued)

3.7 Intangible assets

Computer software

Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 4 to 6 years, and recorded in 'depreciation and amortisation' within operating expenses in the consolidated statement of comprehensive income.

Patent and proprietary technologies

Patents and proprietary technologies are initially recorded at cost. These intangibles assets are amortised on a straight-line basis over their estimated useful lives of 5 to 10 years.

3.8 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.9 Financial assets

Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Group's loans and receivables primarily include "Notes and trade receivables", "Other receivables", "Loans due from the ultimate holding company", "Restricted cash", "Time deposits" and "Cash and cash equivalents" in the statement of financial position.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months after the end of the reporting period.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition. An impairment loss is recognised in the consolidated statement of comprehensive income when there is objective evidence that the asset is impaired. Such impairment losses will not reverse in subsequent periods.

3. Summary of Significant Accounting Policies (Continued)

3.9 Financial assets (Continued)

Recognition and measurement (Continued)

Changes in the fair value of available-for-sale investments are recognised in other comprehensive income. When available-for-sale investments are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income when the right of the Group to receive payments is established. Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investments previously recognised in the consolidated statement of comprehensive income — is removed from equity and recognised in the consolidated statement of comprehensive income. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income. Impairment loss on the available-for-sale investment is measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the financial asset and settle the financial liability simultaneously. The legal enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

3.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Inventories are expensed to relevant operating expenses when used, sold or capitalised to property, plant and equipment when installed, as appropriate, using moving weighted average method. The cost of finished goods and work-in-progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

3.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amounts of the assets are reduced through the use of allowance accounts, and the amount of the provision is recognised in the consolidated statement of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of comprehensive income.

3. Summary of Significant Accounting Policies (Continued)

3.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

3.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has contractual or an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

3.15 Payables

Payables primarily include accounts payable and accrued liabilities, and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.16 Employee benefits

Pension obligations

The full-time employees of the Group in the PRC are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

The Group also provides supplementary pension subsidies to certain employees in the PRC. Such supplementary pension subsidies are considered to be defined benefit plans as the Group is obligated to provide post-employment benefits to these employees. The liability recognised in the consolidated statement of financial position in respect of these defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent qualified actuaries using the projected unit credit method. Net interests are recognised to the profit or loss and are calculated by the discount rate, which is determined by reference to the market yields of the high-quality government bonds at the end of the reporting period, multiplied the net defined benefit liabilities or assets at each of the beginning of the reporting period. The differences between the actual return on plan assets and with the passage of time in the plan assets are recognised in other comprehensive income.

The Group has various defined contribution plans in accordance with the local conditions and practices in the municipalities and provinces in which they operate. Defined contribution plans are pension and/or other social benefit plans under which the Group pay fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions are recognised as labour costs when they are due.

Other post-employment obligations

Some of the companies comprising the Group provide post-retirement medical benefits to their retired employees. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries.

3. Summary of Significant Accounting Policies (Continued)

3.16 Employee benefits (Continued)

Termination and early retirement benefits

Termination and early retirement benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination and early retirement benefits when it is demonstrably committed to either: (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy. The specific terms vary among the terminated and early retired employees depending on various factors including position, length of service and district of the employee concerned. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Housing benefits

The Group contributes to the state-prescribed housing fund. Such costs are charged to the consolidated statement of comprehensive income as incurred. Apart from those described above, the Group does not have other legal or constructive obligations over such benefits.

Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

3.17 Taxation

Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Income tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the income tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint arrangements and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and deferred income tax liabilities are offset when meeting all the conditions below:

- The Group has the legally enforceable right to settle current income tax assets and current income tax liabilities; and
- The deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3. Summary of Significant Accounting Policies (Continued)

3.17 Taxation (Continued)

Value-added taxation ("VAT")

Sales of goods and provision of engineering, consulting and licensing service of the Group are subjected to VAT. VAT payable is determined by applying 17% or 6% on the taxable revenue arising from sales of goods and provision of engineering, consulting and licensing service in certain regions after offsetting deductible input VAT of the period.

Business tax

Revenue resulting from providing construction services is subject to business tax at 3% of gross service income.

3.18 Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of the obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements unless the probability of outflow of resources embodying economic benefits is remote. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is not recognised in the financial statements unless virtually certain but disclosed when an inflow of economic benefits is probable.

3.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

3. Summary of Significant Accounting Policies (Continued)

3.21 Contract work

Contract costs are recognised as expense in the period in which they are incurred.

When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Variation in contract work, claims and incentive payments are included in the contract revenue to the extent that it is probable that they are capable of being reliably measured according to customers' agreements.

The Group uses the "percentage of completion method" to determine the appropriate amount of profit to be recognised in a given period. Depending on the nature of the contract, the stage of completion is based on (a) percentage of work performed to date as a percentage of total contract value, or (b) the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the period in connection with the future activity of a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories or prepayments, depending on their nature.

Contract work-in-progress is valued at the cost of the work done, plus the expected profit upon completion of the project in proportion to the progress made and less progress billings and provisions. Provisions are recognised for expected losses on contract work-in-progress, as soon as they are foreseen, and deducted from the cost. The cost includes direct project costs, materials costs, costs of subcontracted work, other directly attributable costs, rental charges and maintenance costs for the equipment used. The project progress is determined on the basis according to the preceding paragraph. Profits are not recognised unless a reliable estimate can be made of the result on completion of the project. The balance of the value of contract work-in-progress and progress billings is determined on a project to project basis.

Where contract costs incurred plus recognised profits less recognised losses exceed progress billings, "amounts due from customers for contract work" is accounted for as an asset.

For contracts where progress billings exceed contract costs incurred plus recognised profits less recognised losses, "amounts due to customers for contract work" is accounted for as a liability.

3.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the construction contracts and sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from construction and service contracts

When the outcome of a contract can be estimated reliably, revenue from construction and service contracts is recognised under the percentage of completion method. Depending on the nature of the contract, the stage of completion is based on (a) percentage of work performed to date as a percentage of total contract value, or (b) the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable and such contract costs is recognised as an expense in the period in which they are incurred.

Variation in contract work, claims and incentive payments are included in the contract revenue to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in the consolidated statement of comprehensive income in the period in which the circumstances that give rise to the revision become known by management.

3. Summary of Significant Accounting Policies (Continued)

3.22 Revenue recognition (Continued)

Services rendered

Revenue for services rendered mainly includes technological development, engineering, consultation and supervision is recognised when services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the entity.

Sales of products

Sales of products are recognised when significant risks and rewards of ownership of the goods are transferred to the customers, and the customer has accepted the products and collectability of the related receivables is reasonably assured.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

3.23 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(ii) management intends to complete the intangible asset and use or sell it;

(iii) there is an ability to use or sell the intangible asset;

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

3.24 Dividend distribution

Dividend distribution to the Group's equity holders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Group's equity holders or directors, where appropriate.

3.25 Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because of a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract is recognised initially at fair value, and subsequently measured (unless they are designated at fair value through profit or loss) at higher of (i) the amount determined in accordance with IAS 37, "Provision, Contingent Liabilities and Contingent Assets", and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

3. Summary of Significant Accounting Policies (Continued)

3.26 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

4. Financial and Capital Risks Management

The Group works out general principles for overall risk management, including management of financial risks, as well as management policies covering specific areas. In considering the importance of risks, the Group identifies and evaluates risks at head office and individual subsidiary level, and requires analysis and proper communication for the information collected periodically.

4.1 Financial risk management

The activities of the Group expose them to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management program of the Group focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance of the Group.

(a) Market risk

Foreign exchange risk

The functional currency of the entities within the Group is RMB and most of the transactions are settled in RMB.

The Group carries out operations outside the PRC where transactions are usually denominated in the United States Dollars ("USD") and Euro ("EUR") which are translated into RMB at the prevailing exchange rates on the dates of the transactions.

The Group is exposed to currency risk primarily through provision of engineering contracting services which give rise to trade and other receivables, trade and other payables, restricted cash, time deposits and cash and cash equivalents that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies that give rise to this risk are primarily in USD and EUR as at 30 June 2016 and 31 December 2015.

On the other hand, RMB is not a freely convertible currency and the PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. Changes in the foreign exchange control system may prevent the Group from satisfying sufficient foreign currency demands.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than RMB to which they relate.

At 30 June 2016	USD	EUR	Others
	RMB'000	RMB'000	RMB'000
Restricted cash, time deposits and cash and cash equivalents	7,439,855	141,108	269,794
Trade and other receivables	1,337,712	933	667,390
Trade and other payables	(538,101)	(10,787)	(862,881)
Net exposure in RMB	8,239,466	131,254	74,303

4. Financial and Capital Risks Management (Continued)

4.1 Financial risk management (Continued)

(a) Market risk (Continued)

At 31 December 2015	USD	EUR	Others
	RMB'000	RMB'000	RMB'000
Restricted cash, time deposits and cash and cash equivalents	7,044,245	155,333	187,497
Trade and other receivables	1,110,461	559	347,189
Trade and other payables	(268,715)	(9,743)	(818,408)
Net exposure in RMB	7,885,991	146,149	(283,722)

A 5% strengthening of RMB against the USD and EUR as at 30 June 2016 and 31 December 2015 would have changed the equity and net profit by the amounts shown below:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Decrease in equity and net profit		
– USD	(308,980)	(295,725)
– EUR	(4,922)	(5,481)

A 5% weakening of RMB as at 30 June 2016 and 31 December 2015 would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis at the relevant period.

Interest rate risk

The Group's ordinary income and operating cash flows are substantially independent of changes in market interest rates. The interests arise from the loans between the Group and the ultimate holding company and time deposits are mainly based on fixed interest rate.

Price risk

The Group is not exposed to equity securities price risk because the Group's equity securities investments are classified as available-for-sale financial assets which are stated at costs less any identified impairment losses.

(b) Credit risk

The Group's credit risk is primarily attributable to restricted cash, time deposits, cash and cash equivalents, trade and other receivables and other current assets.

Substantially all of the Group's time deposits and cash and cash equivalents are mainly deposited in the stated-owned/controlled PRC banks which the Directors have assessed the credit risk to be insignificant.

The Group has policies in place to ensure that services are rendered and products are sold to customers with appropriate credit history and the Group reforms periodic credit evaluations of its customers. Normally the Group does not require collaterals from trade debtors.

Regarding balances with related parties, the Group assesses the credibility of the related parties by reviewing the operating results and gearing ratios periodically.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

4. Financial and Capital Risks Management (Continued)

4.1 Financial risk management (Continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors the cash flow forecasts of the Group in meeting its liabilities.

The table below analyses the Group's non-derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period from the end of the reporting period to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Weighted average effective interest rate	Within 1 year	1-2 years	2-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 30 June 2016							
Trade and other payables	**N/A**	**14,210,154**	**—**	**—**	**—**	**14,210,154**	**14,210,154**

	Weighted average effective interest rate	Within 1 year	1-2 years	2-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2015							
Trade and other payables	N/A	17,636,716	—	—	—	17,636,716	17,636,716

4.2 Capital risk management

The objectives of the Group when managing capital are to safeguard the ability of the Group in continuing as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debts.

4. Financial and Capital Risks Management (Continued)

4.2 Capital risk management (Continued)

The Group monitors their capital structure on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debts are calculated as the total borrowings and other liabilities (including notes and trade payables, other payables (excluding contract deposits advance), as shown in the consolidated statement of financial position) less restricted cash, time deposits and cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debts less non-controlling interests.

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Total borrowings and other liabilities	14,210,154	17,636,716
Less: Restricted cash, time deposits and cash and cash equivalents	(10,349,206)	(13,185,592)
Net debt	3,860,948	4,451,124
Total equity (excluding non-controlling interests)	24,907,208	24,634,775
Total capital	28,768,156	29,085,899
Gearing ratio	13%	15%

4.3 Fair value estimation

Fair value measurements

The Company discloses fair value measurements of financial instruments by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2).
- Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs) (level 3).

Fair value disclosures

The carrying amounts of the Group's financial assets and liabilities including restricted cash, time deposits, cash and cash equivalents, trade and other receivables and trade and other payables approximate their fair values due to their short maturities. There are no financial assets and liabilities that are measured at fair value as at 30 June 2016 and 31 December 2015.

5. Critical Accounting Estimates and Judgement

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes accounting estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Construction contracts

Revenue from individual contracts is recognised under the percentage of completion method which requires estimations by management. Anticipated losses are fully provided on contracts when identified. Because of the nature of the activity undertaken in construction and engineering business, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs (including material costs) in the budget prepared for each contract as the contract progresses. Management regularly reviews the progress of the contracts and the corresponding costs of the contract. If circumstances arise that may change the original estimates of revenues, costs and extent of progress toward completion, estimates are revised. The revisions may result in increases or decreases in estimated revenues or costs and are reflected in the consolidated statement of comprehensive income in the year in which the circumstances that give rise to the revision become known by management.

(b) Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment (Note 16). This estimate is based on projected wear and tear incurred during the useful life of property, plant and equipment. This could change significantly as a result of technical renovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives or residual values vary with previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Provision for impairment on trade receivables

The Group determines the provision for impairment on trade receivables (Note 21). This estimate is based on the credit history of the customers and the current market condition. Management reassesses the adequacy of provision on a regular basis by reviewing the individual account based on past credit history and any prior knowledge of debtor insolvency or other credit risk which might not be easily accessible public information and market volatility might bear a significant impact which might not be easily ascertained.

(d) Current taxation and deferred taxation

The Group pays income tax in various regions. There are various uncertainties on the ultimate income tax treatments for many transactions and events arising from normal operating activities and overall assets transfers. The Group has to make critical accounting judgments when calculating income tax expense in different regions. In the event that the finalised amounts recognised for such tax events are different from those originally recorded, this could result in material adjustments to income tax expense and deferred income tax.

The estimates of deferred income tax assets (Note 35) require estimates over future taxable profit and corresponding applicable income tax rates of respective years. The change in future income tax rates and timing would affect income tax expense or benefit, as well as deferred income tax balance. The realisation of deferred income tax assets also depends on the realisation of sufficient profitability (taxable profit) of the Group. Deviation of future profitability from the estimate could result in material adjustments to the carrying amount of deferred income tax assets. Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimates are changed.

(e) Pension obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for provisions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of corporate securities which have maturity approximating to the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 31.

5. Critical Accounting Estimates and Judgement (Continued)

(f) Provision for litigation claims

The Group are from time to time involved in legal proceedings arising in the ordinary course of our business (Note 32). If the management believes that the legal proceedings may result claims for compensation to third parties against the Group. The best estimate of provision for litigation claims will be recognised. If the management believes that the legal proceedings may be more likely not to result claims for compensation to third parties against the Group. No provision will be recognised under any potential litigation claims. Except to the extent that the situations and uncertainties involved, that will be disclosed as contingent liabilities. To access the outcome of legal proceedings and any potential amount of litigation claims, significant judgement is required.

6. Revenue

The Group's revenue is set out below:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Engineering, consulting and licensing	795,630	1,337,392
EPC Contracting	9,285,236	12,891,709
Construction	7,587,978	6,633,842
Equipment manufacturing	65,967	42,073
	17,734,811	20,905,016

7. Segment Information

Management has determined the operating segments based on the reports reviewed by the Senior Management that are used to make strategic decisions.

The Senior Management considers the business from a product and service perspective, which mainly includes four reportable operating segments:

(i) Engineering, consulting and licensing – providing design, consulting, research and development, feasibility studies, compliance certification services to industries including oil refining and chemical industries;

(ii) EPC Contracting – providing integrated engineering, procurement, construction, maintenance and project management services to industries including oil refining and chemical industries;

(iii) Construction – providing infrastructure for industries including oil refining and chemical industries, oil and gas storage, pipelines transportation, construction, renovation, expansion, repair and maintenance services and large equipment lifting and transportation services in construction projects; and

(iv) Equipment manufacturing – providing design, development, manufacture and sales of oil refining equipment and spare parts for facilities including oil refining and chemical facilities.

Inter-segment sales were conducted at prices no less than cost and with terms mutually agreed among those business segments. Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared services which cannot be allocated to a specific segment and corporate expenses are included as unallocated costs.

Segment assets consist primarily of property, plant and equipment, land use rights, construction in progress, intangible assets, investment in joint arrangements and investment in associates, other non-current assets, inventories, trade receivables, bill receivables, prepayments and other receivables, restricted cash and cash and cash equivalents. Unallocated assets comprise items such as some of the time deposits, loans due from the ultimate holding company, deferred income tax assets and other unallocated assets.

Segment liabilities comprise operating liabilities and borrowings. Unallocated liabilities comprise items such as current income tax liabilities, deferred income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment (Note 16), land use rights (Note 17), intangible assets (Note 18) and other non-current assets.

7. Segment Information (Continued)

The segment information provided to the Senior Management for the reportable segments is as follow:

(i) As at and for the six months ended 30 June 2016:

The segment results for the six months ended 30 June 2016 are as follows:

	Engineering, consulting and licensing	EPC Contracting	Construction	Equipment manufacturing	Unallocated	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue and results							
Revenue from external customers	795,630	9,285,236	7,587,978	65,967	—	—	17,734,811
Inter-segment revenue	—	—	927,432	107,185	—	(1,034,617)	—
Segment revenue	795,630	9,285,236	8,515,410	173,152	—	(1,034,617)	17,734,811
Segment result	(115,596)	1,027,185	205,775	(13,510)	55,500	—	1,159,354
Finance income							254,570
Finance expenses							(37,427)
Share of losses of joint arrangements	(601)	—	—	—	—	—	(601)
Share of profits of associates	4,176	—	1,553	—	—	—	5,729
Profit before income tax							1,381,625
Income tax expense							(302,795)
Profit for the period							1,078,830
Other segment items							
Depreciation	47,918	36,837	170,239	10,543	—	—	265,537
Amortisation	34,607	23,714	12,625	915	—	—	71,861
Capital expenditures							
– Property, plant and equipment	8,607	10,198	204,922	—	—	—	223,727
– Land use rights	—	—	177	—	—	—	177
– Intangible assets	4,225	2,374	458	—	—	—	7,057
Provision for impairment on trade and other receivables	11,584	164,137	37,249	10,259	—	—	223,229

The segment assets and liabilities as at 30 June 2016 are as follows:

	Engineering, consulting and licensing	EPC Contracting	Construction	Equipment manufacturing	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets						
Segment assets	7,069,263	21,011,142	17,587,438	684,733	(5,096,678)	41,255,898
Investment in joint arrangements	7,530	—	—	—	—	7,530
Investment in associates	101,349	—	29,567	—	—	130,916
Other unallocated assets						14,590,256
Total assets						55,984,600
Liabilities						
Segment liabilities	2,241,935	19,821,710	13,826,835	171,145	(5,096,678)	30,964,947
Other unallocated liabilities						109,002
Total liabilities						31,073,949

7. Segment Information (Continued)

(ii) As at 31 December 2015 and six months ended 30 June 2015:

The segment results for the six months ended 30 June 2015 are as follows:

	Engineering, consulting and licensing	EPC Contracting	Construction	Equipment manufacturing	Unallocated	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue and results							
Revenue from external customers	1,337,392	12,891,709	6,633,842	42,073	—	—	20,905,016
Inter-segment revenue	—	—	1,374,248	346,741	—	(1,720,989)	—
Segment revenue	1,337,392	12,891,709	8,008,090	388,814	—	(1,720,989)	20,905,016
Segment result	264,718	1,352,580	278,414	781	25,978	—	1,922,471
Finance income							238,615
Finance expenses							(47,570)
Share of losses of joint arrangements	(265)	—	—	—	—	—	(265)
Share of profits of associates	4,613	—	994	—	—	—	5,607
Profit before income tax							2,118,858
Income tax expense							(408,070)
Profit for the period							1,710,788
Other segment items							
Depreciation	57,096	28,069	136,569	9,370	—	—	231,104
Amortisation	42,360	21,019	13,168	813	—	—	77,360
Capital expenditures							
– Property, plant and equipment	20,117	4,855	73,791	7,015	—	—	105,778
– Land use rights	—	—	127	—	—	—	127
– Intangible assets	4,026	3,317	258	—	—	—	7,601
Provision for impairment on trade and other receivables	9,760	127,210	11,861	5,752	—	—	154,583

The segment assets and liabilities as at 31 December 2015 are as follows:

	Engineering, consulting and licensing	EPC Contracting	Construction	Equipment manufacturing	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets						
Segment assets	6,583,123	22,103,381	17,410,697	762,962	(2,173,017)	44,687,146
Investment in joint arrangements	8,131	—	—	—	—	8,131
Investment in associates	97,174	—	28,013	—	—	125,187
Other unallocated assets						13,583,906
Total assets						58,404,370
Liabilities						
Segment liabilities	2,541,524	19,027,919	13,837,493	238,363	(2,173,017)	33,472,282
Other unallocated liabilities						293,576
Total liabilities						33,765,858

7. Segment Information (Continued)

Analysis of information by geographical regions:

The following table lists out the information about geographical regions. The geographical regions of the sales to external customers are based on the locations where the services are rendered or the places where the goods are delivered. The specific non-current assets include property, plant and equipment, land use rights, intangible assets, investment in joint arrangements and investment in associates, which the geographical regions are based on the places where the assets are located for property, plant and equipment and land use rights, the places where they are allocated to for intangible assets and the places where the business are conducted for joint arrangements and associates.

Revenue

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
The PRC	**11,484,100**	18,062,063
Other countries	**6,250,711**	2,842,953
	17,734,811	20,905,016

The customers accounted for more than 10% of the total revenue of the Group and revenue from it for the six months ended 30 June 2016 and 2015, is as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
A fellow subsidiary and its subsidiaries	**3,500,311**	4,086,613
An associate of fellow subsidiaries	**2,685,784**	—

The revenue from the customers is derived from the segments of engineering, consulting and licensing, EPC contracting, construction and equipment manufacturing:

Specified non-current assets

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
The PRC	**6,613,633**	6,819,822
Other countries	**497,808**	395,075
	7,111,441	7,214,897

8. Other Income

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Operating lease rental income on property, plant and equipment	**20,174**	20,807
Income from write-back long outstanding payables	**848**	3,523
Net foreign exchange gain	**151,057**	—
Government grants	**58,155**	12,866
Others	**30,529**	14,782
	260,763	51,978

9. Other Gains - Net

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Gains on disposal/write-off of property, plant and equipment	185	554

10. Finance Income and Finance Expenses

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Finance income		
Interest income from the ultimate holding company	181,177	198,005
Bank interest income	73,393	40,610
	254,570	238,615
Finance expenses		
Interest expenses to fellow subsidiaries on balances wholly repayable within 5 years	(156)	(2,039)
Interest expenses on retirement and other supplementary benefit obligation	(37,271)	(45,531)
	(37,427)	(47,570)
	217,143	191,045

11. Profit Before Taxation

Profit before taxation has been arrived at after charging/(crediting):

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Staff costs, including directors and supervisors emoluments (Note 15)	2,182,697	2,218,699
Retirement benefit plan contribution (including in the above mentioned staff costs)	288,045	340,204
Cost of goods sold	5,676,125	7,162,880
Subcontracting costs	6,811,487	7,041,032
Depreciation and amortisation		
– Property, plant and equipment	265,537	231,104
– Land use rights	30,853	30,759
– Intangible assets	41,008	46,601
Operating lease rentals		
– Property, plant and equipment	149,887	186,338
Provision for impairment of trade and other receivables	223,229	154,583
Rental income from property, plant and equipment after relevant expenses	(28,101)	(13,379)
Research and development costs	398,853	459,712
Gains on disposal/write-off of property, plant and equipment	(185)	(554)
Exchange (gains)/losses, net	(151,057)	11,199

12. Income Tax Expense

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Current tax		
PRC enterprise income tax	237,711	375,292
Overseas enterprise income tax	8,784	2,074
Under-provision for income tax in prior years	38,381	38,271
	284,876	415,637
Deferred tax		
Origination and reversal of temporary differences (Note 35)	17,919	(7,567)
Income tax expense	302,795	408,070

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the six months ended 30 June 2016 and 2015 is 25%.

According to the normal statutory PRC corporate income tax and relevant rules, apart from 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 2016 and 2015, the majority of the members of the Group is 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 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	
	2016	2015
	RMB'000	RMB'000
Profit before taxation	1,381,625	2,118,858
Taxation calculated at the statutory tax rate	345,406	529,715
Income tax effects of:		
Preferential income tax treatments of certain companies	(125,973)	(169,535)
Difference in overseas profits tax rates	(121)	(519)
Non-deductible expenses	44,694	11,833
Income not subject to tax	(795)	(840)
Unrecognised tax losses	1,682	1,140
Utilisation of previously unrecognised tax losses	(479)	(1,995)
Under provision for income tax in prior years	38,381	38,271
Income tax expense	302,795	408,070
Effective income tax rate	22%	19%

13. Earnings Per Share

(a) Basic

The basic earnings per share for each of the six months ended 30 June 2016 and 2015 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	
	2016	2015
Profit attributable to equity holders of the Company (RMB'000)	1,079,124	1,710,683
Weighted average number of ordinary shares in issue	4,428,000,000	4,428,000,000
Basic earnings per share (RMB)	0.24	0.39

(b) Diluted

As the Company had no dilutive shares for the each of the six months ended 30 June 2016 and 2015, diluted earnings per share for the six months ended 30 June 2016 and 2015 are the same as basic earnings per share.

14. Dividends

Dividends represented dividends declared by the Company during each of six months ended 30 June 2016 and 2015.

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Proposed interim dividends of RMB 0.072 per ordinary share (2015: RMB0.114) (1)	318,816	504,792

(1) Pursuant to the Directors' meeting on 19 August 2016, the Directors recommended to declare the interim dividends for the year ending 31 December 2016 of RMB0.072 (2015: RMB0.114) per share totalling RMB318,816,000 (2015: RMB504,792,000). Dividend proposed to be declared by the Directors' meeting after the end of the reporting period are not recognised as a liability at the end of the reporting period.

15. Employment Benefits

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Salaries, wages and bonuses	1,276,168	1,239,105
Retirement benefits [(1)]	306,450	292,344
Early retirement and supplemental pension benefit (Note31(b))		
– service cost	(55,676)	2,329
– interest cost	37,271	45,531
Housing fund [(2)]	137,698	128,413
Welfare, medical and other expenses	480,786	510,977
	2,182,697	2,218,699

Note:

(1) Retirement benefits

The Group is required to make specific contributions to the state-managed retirement plan at a rate of 14% to 21% of the specified salaries of the PRC employees for the six months ended 30 June 2016 and 2015. The PRC government is responsible for the pension liability to the retired employees. The PRC employees of the Group are entitled to a monthly pension upon their retirements.

(2) Housing fund

In accordance with the PRC housing reform regulations, the Group is required to make contributions to the state-managed housing fund at rates 12% of the specified salaries of the PRC employees. At the same time, the employees are required to make a contribution based on certain percentages. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. The Group has no further obligations for housing benefits beyond the contributions made above.

16. Property, Plant and Equipment

	Buildings and other facilities	Plant and machinery, transportation equipment and other equipment	Construction-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015				
Cost	3,457,699	3,686,318	66,638	7,210,655
Accumulated depreciation and impairment	(988,273)	(2,132,794)	—	(3,121,067)
Net book amount	2,469,426	1,553,524	66,638	4,089,588
Six months ended 30 June 2015				
Opening net book amount	2,469,426	1,553,524	66,638	4,089,588
Transfers	—	12,809	(12,809)	—
Additions	—	49,415	56,363	105,778
Depreciation	(66,691)	(164,413)	—	(231,104)
Disposals/write-off	(625)	(1,480)	—	(2,105)
Closing net book amount	2,402,110	1,449,855	110,192	3,962,157
At 30 June 2015				
Cost	3,456,772	3,726,576	110,192	7,293,540
Accumulated depreciation and impairment	(1,054,662)	(2,276,721)	—	(3,331,383)
Net book amount	2,402,110	1,449,855	110,192	3,962,157
At 1 January 2016				
Cost	3,511,071	3,915,154	72,166	7,498,391
Accumulated depreciation and impairment	(1,108,050)	(2,376,463)	—	(3,484,513)
Net book amount	2,403,021	1,538,691	72,166	4,013,878
Six months ended 30 June 2016				
Opening net book amount	2,403,021	1,538,691	72,166	4,013,878
Transfers	1,594	155,789	(157,383)	—
Additions	—	23,547	200,180	223,727
Depreciation	(65,869)	(199,668)	—	(265,537)
Disposals/write-off	(1,632)	(515)	—	(2,147)
Closing net book amount	2,337,114	1,517,844	114,963	3,969,921
At 30 June 2016				
Cost	3,509,920	4,057,922	114,963	7,682,805
Accumulated depreciation and impairment	(1,172,806)	(2,540,078)	—	(3,712,884)
Net book amount	2,337,114	1,517,844	114,963	3,969,921

16. Property, Plant and Equipment (Continued)

Depreciation expense recognised is analysed as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Cost of sales	226,129	206,916
Selling and marketing expenses	1,038	1,069
Administrative expenses	38,370	23,119
	265,537	231,104

17. Land Use Rights

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Beginning of the period	2,740,597	2,807,632
Additions	177	127
Amortisation	(30,853)	(30,759)
Disposals	—	(596)
End of the period	2,709,921	2,776,404

Land use rights represent prepayments made by the Group for the land use rights located in the PRC which are held on leases between 20 years to 50 years.

Amortisation recognised is analysed as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Cost of sales	15,877	15,374
Selling and marketing expenses	251	306
Administrative expenses	14,725	15,079
	30,853	30,759

18. Intangible Assets

	Patent	Computer software	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2015			
Cost	479,882	265,498	745,380
Accumulated amortisation	(165,577)	(194,956)	(360,533)
Net book amount	314,305	70,542	384,847
Six months ended 30 June 2015			
Opening net book amount	314,305	70,542	384,847
Additions	—	7,601	7,601
Amortisation	(27,596)	(19,005)	(46,601)
Closing net book amount	286,709	59,138	345,847
At 30 June 2015			
Cost	479,882	273,099	752,981
Accumulated amortisation	(193,173)	(213,961)	(407,134)
Net book amount	286,709	59,138	345,847
At 1 January 2016			
Cost	479,882	296,227	776,109
Accumulated amortisation	(219,721)	(229,284)	(449,005)
Net book amount	260,161	66,943	327,104
Six months ended 30 June 2016			
Opening net book amount	260,161	66,943	327,104
Additions	—	7,057	7,057
Amortisation	(26,490)	(14,518)	(41,008)
Closing net book amount	233,671	59,482	293,153
At 30 June 2016			
Cost	479,882	303,203	783,085
Accumulated amortisation	(246,211)	(243,721)	(489,932)
Net book amount	233,671	59,482	293,153

Amortisation recognised is analysed as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Cost of sales	19,065	20,050
Selling and marketing expenses	186	291
Administrative expenses	21,757	26,260
	41,008	46,601

19. Investment In Joint Arrangements and Associates

(a) Investment in joint arrangements

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Joint ventures		
Beginning of the period	8,131	7,812
Increase in investments	—	750
Share of total comprehensive expenses	(601)	(265)
Dividend distribution	—	(746)
End of the period	7,530	7,551

The Group's joint ventures, all of which are unlisted and established in a form of limited company, are as follows:

Name	Establishment/ Place of incorporation	Registered and fully paid capital		Indirect effective interest held	Principal activities and place of operations
		RMB'000	USD'000		
Hualu Construction Co., Ltd. (華魯工程有限公司)	The PRC	—	1,500(2015: 1,500)	50%	Engineering design contracting/The PRC
Hainan Great Wall Machinery Engineering Co., Ltd. (海南長城機械工程有限公司)	The PRC	3,000(2015: 3,000)	—	50%	Technical development, sales of equipments/ The PRC
Lanzhou Great Wall Touping Machinery Technology Development Co., Ltd. (蘭州長城透平機械技術開發成套公司)	The PRC	3,000(2015: 3,000)	—	50%	Technical development, equipment manufacturing/ The PRC

The above joint ventures are accounted for by using the equity method.

19. Investment In Joint Arrangements and Associates (Continued)

(a) Investment in joint arrangements (Continued)

The Group's share of the results of its joint ventures (in aggregate for all individually insignificant joint venture), its aggregated assets and liabilities, are as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Current assets	102,758	105,073
Non-current assets	2,898	3,065
Total assets	105,656	108,138
Current liabilities	(90,596)	(91,877)
Total liabilities	(90,596)	(91,877)
Equity	15,060	16,261
Share of equity by the Group (50%) (2015: 50%)	7,530	8,131

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Revenue	6,629	27,206
Losses and total comprehensive expenses for the period	(1,202)	(529)
Share of total comprehensive expenses (50%) (2015:50%)	(601)	(265)

There are no material contingent liabilities and commitments relating to the Group's interests in the joint ventures and no material contingent liabilities and commitments of the joint ventures themselves.

19. Investment In Joint Arrangements and Associates (Continued)

(b) Investment in associates

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Beginning of the period	125,187	105,213
Share of total comprehensive income	5,729	5,607
End of the period	130,916	110,820

The Group's associates, all of which are unlisted and established in a form of limited company, are as follows:

Name	Establishment/ Place of incorporation	Registered and fully paid capital	Indirect effective interest held	Principal activities and place of operations
		RMB'000		
China Petrochemical Technology Company Ltd. (中國石油化工科技開發有限公司) (1)	The PRC	50,000 (2015: 50,000)	35.00%	Technical development, technical service/ The PRC
Huizhou Tianxin Petrochemical Engineering Co., Ltd. (惠州天鑫石化工程有限公司) (2)	The PRC	15,000 (2015: 15,000)	40.00%	Construction contracting/ The PRC
Shanghai KSD Bulk Solids Engineering Co., Ltd. (上海金申德粉體工程有限公司) (3)	The PRC	5,500 (2015: 5,500)	36.36%	Powder engineering services/The PRC

The above associates are accounted for by using the equity method.

(1) The Group's share of the results of China Petrochemical Technology Company Ltd., its aggregated assets and liabilities, are as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Current assets	551,302	534,208
Non-current assets	34,128	35,016
Total assets	585,430	569,224
Current liabilities	(338,808)	(334,047)
Non-current liabilities	(22)	(21)
Total liabilities	(338,830)	(334,068)
Equity attributable to equity holders	236,840	228,653
Non- controlling interests	9,760	6,503
	246,600	235,156
Share of equity by the Group (35%) (2015: 35%)	82,894	80,028

19. Investment In Joint Arrangements and Associates (Continued)

(b) Investment in associates (Continued)

(1) The Group's share of the results of China Petrochemical Technology Company Ltd., its aggregated assets and liabilities, are as follows: (Continued)

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Revenue	169,316	44,754
Profit and total comprehensive income for the period attributable to equity holders	8,187	12,710
Share of total comprehensive income (35%) (2015: 35%)	2,865	4,448

(2) The Group's share of the results of Huizhou Tianxin Petrochemical Engineering Co., Ltd., its aggregated assets and liabilities, are as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Current assets	82,905	97,397
Non-current assets	42,858	34,301
Total assets	125,763	131,698
Current liabilities	(27,206)	(38,320)
Total liabilities	(27,206)	(38,320)
Equity	98,557	93,378
Share of equity by the Group (40%) (2015: 40%)	39,423	37,351

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Revenue	40,868	40,429
Profit and total comprehensive income for the period	5,179	3,313
Share of total comprehensive income (40%) (2015: 40%)	2,072	1,325

19. Investment In Joint Arrangements and Associates (Continued)

(b) Investment in associates (Continued)

(3) The Group's share of the results of Shanghai KSD Bulk Solids Engineering Co., Ltd., its aggregated assets and liabilities, are as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Current assets	126,934	154,435
Non-current assets	843	944
Total assets	127,777	155,379
Current liabilities	(104,122)	(133,902)
Non-current liabilities	(3)	(3)
Total liabilities	(104,125)	(133,905)
Equity	23,652	21,474
Share of equity by the Group (36.36%) (2015: 36.36%)	8,599	7,808

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Revenue	121,700	1,959
Profit/(Loss) and total comprehensive income/(expense) for the period	2,178	(457)
Share of total comprehensive income/(expense) (36.36%) (2015: 36.36%)	792	(166)

There are no material contingent liabilities and commitments relating to the Group's interests in the associates and no material contingent liabilities and commitments of the associates themselves.

20. Available-for-Sale Financial Assets

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
The beginning and ending of the period	2,750	2,750

Available-for-sale financial assets include the following:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Unlisted securities:		
Equity securities - PRC	2,750	2,750

The unlisted equity securities are carried at cost less impairment as these investments do not have a quoted market price and range of reasonable fair value estimate is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

All available-for-sale financial assets are denominated in RMB.

21. Notes and Trade Receivables

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Trade receivables		
Fellow subsidiaries	1,696,496	2,512,470
Joint ventures of fellow subsidiaries	352,562	346,785
Associates of fellow subsidiaries	1,072,433	2,048,086
Joint ventures	1,280	1,280
Third parties	6,121,120	6,627,077
	9,243,891	11,535,698
Less: Provision for impairment	(622,405)	(466,561)
Trade receivables - net	8,621,486	11,069,137
Notes receivables	1,491,931	801,726
Notes and trade receivables - net	10,113,417	11,870,863

The carrying amounts of the Group's notes and trade receivables as at 30 June 2016 and 31 December 2015 approximate their fair values.

All notes receivables of the Group are bank's acceptance bills and commercial's acceptance bills and usually collected within six months from the date of issue.

The Group usually provide customers with a credit term between 15 and 90 days. For the settlement of trade receivables from provision of services, the Group usually reaches an agreement on the term of each payment with the customer by taking into account of factors such as, among other things, the credit history of the customer, its liquidity position and the Group's working capital needs, which varies on a case-by-case basis that requires the judgment and experience of the management. The Group and the Company do not hold any collateral as security.

21. Notes and Trade Receivables (Continued)

Ageing analysis of impaired notes and trade receivables by invoice date is as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Within 1 year	8,055,959	10,077,190
Between 1 and 2 years	1,636,771	1,439,886
Between 2 and 3 years	308,613	211,157
Between 3 and 4 years	39,352	76,751
Between 4 and 5 years	62,727	49,312
Over 5 years	9,995	16,567
	10,113,417	11,870,863

Ageing analysis of impaired notes and trade receivables by due date is as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Not yet due	2,583,822	6,903,916
Over due within 3 months	2,027,285	1,226,148
Over due 3 months but within 6 months	2,614,526	1,503,487
Over due 6 months but within 1 year	1,160,335	1,323,121
Over due 1 year but within 2 years	1,407,750	726,780
Over due over 2 years	319,699	187,411
	10,113,417	11,870,863

The movements of provision for impairment on trade receivables are as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
At the beginning of the period	466,561	272,620
Provisions	202,288	116,643
Reversal	(46,444)	(43,037)
At the end of the period	622,405	346,226

The carrying amounts of the Group's notes and trade receivables are denominated in the following currencies:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
RMB	8,251,945	10,480,666
USD	1,248,470	1,088,911
SAR	597,993	291,896
Others	15,009	9,390
	10,113,417	11,870,863

22. PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Prepayments		
Prepayments for construction and materials:		
– Fellow subsidiaries	76,224	177,596
– Associates	2,422	2,422
Prepayments for construction	517,044	764,215
Prepayments for materials and equipments	2,504,299	2,312,393
Prepayments for labour costs	145,378	203,765
Prepayments for rent	1,290	2,219
Others	17,910	13,455
	3,264,567	3,476,065
Other receivables		
Amounts due from fellow subsidiaries (1)	398,708	467,700
Amounts due from associates (1)	60	40
Amounts due from joint ventures of fellow subsidiaries (1)	29,382	51,828
Amounts due from associates of fellow subsidiaries (1)	18,510	15,986
Dividends receivable	750	750
Interest receivable	18,658	17,812
Petty cash funds	45,042	29,545
Retention deposits	2,154,065	1,765,729
Other guarantee deposits and deposits	119,431	127,027
Payment in advance	195,865	129,280
Maintenance funds	77,965	77,880
Tax recoverable	126,912	—
Others	147,529	107,241
	3,332,877	2,790,818
Less: Provision for impairment	(515,759)	(448,374)
Prepayments and other receivables - net	6,081,685	5,818,509

(1) The amounts due from related parties are unsecured, interest free and repayable on demand.

The carrying amounts of the Group's prepayments and other receivables as at 30 June 2016 and 31 December 2015 approximate their fair values.

22. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

The movements of provision for impairment on other receivables are as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
At the beginning of the period	448,374	360,041
Provisions	189,708	89,915
Reversal	(122,323)	(8,938)
At the end of the period	515,759	441,018

23. CONTRACT WORK-IN-PROGRESS

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Contract cost incurred plus recognised profit less recognised losses	176,646,831	163,283,346
Less: Progress billings	(176,784,516)	(163,562,092)
Contract work-in-progress	(137,685)	(278,746)
Representing:		
Amounts due from customers for contract work	8,011,133	6,660,306
Amounts due to customers for contract work	(8,148,818)	(6,939,052)
	(137,685)	(278,746)

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Contract revenue recognised as revenue in the period	16,873,214	19,525,551

24. INVENTORIES

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Raw materials	1,202,119	1,276,563
Turnover materials	65,382	57,504
Goods in transit	248,154	495,580
	1,515,655	1,829,647

As at 30 June 2016 and 31 December 2015, no provision for impairment on inventories of the Group has been made.

For the six months ended 30 June 2016 and 2015, the cost of inventories recognised as expense and included in “cost of sales” amounted to RMB5,676,125,000 and RMB7,162,880,000 respectively.

25. LOANS DUE FROM THE ULTIMATE HOLDING COMPANY

Loans due from the ultimate holding company are unsecured, repayable within one year and interest bearings as follows:

	As at 30 June 2016	As at 31 December 2015
Loans due from the ultimate holding company	2.50% - 4.25%	2.70% - 4.25%

26. Restricted Cash

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Restricted cash		
– RMB	26,182	17,190
– AED	91	—
– KZT	799	742
	27,072	17,932

Restricted cash mainly represented bank deposits for guarantees and deposit for farmers' salaries.

As at 30 June 2016 and 31 December 2015, the weighted average effective interest rates per annum on restricted cash with maturities ranging from one to twelve months was determined in accordance with the interest rate per annum of bank current account.

The maximum exposure to credit risk approximates to carrying amounts of the Group's restricted cash at the end of the respective reporting periods.

27. Time Deposits

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Time deposits with initial term over three months:		
Time deposits in banks	1,390,023	1,361,180
Time deposits in a fellow subsidiary	400,920	400,920
	1,790,943	1,762,100

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Denominated in:		
– RMB	400,920	400,920
– USD	1,390,023	1,361,180
	1,790,943	1,762,100

The fellow subsidiary is Sinopec Century Bright Capital Investment Limited and Sinopec Finance Co., Ltd..

The effective interest rates per annum on time deposits, with maturities within one month to one year (2015: one year to three years), approximately 0.45% to 2.50% (2015: 1.00% to 3.28%) as at 30 June 2016.

The maximum exposure to credit risk approximates to carrying amounts of the Group's time deposits at the end of the respective reporting periods.

28. Cash and Cash Equivalents

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Cash at bank and in hand	6,197,031	5,592,982
Deposits in fellow subsidiaries	2,334,160	5,812,578
	8,531,191	11,405,560

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Denominated in:		
– RMB	2,071,347	5,380,407
– USD	6,049,832	5,683,065
– SAR	177,119	121,111
– EUR	141,108	155,333
– AED	—	89
– KZT	1,409	2,977
– GBP	5	6
– THB	70,226	45,720
– MYR	2,485	4,048
– Others	17,660	12,804
	8,531,191	11,405,560

The fellow subsidiaries are Sinopec Finance Co., Ltd. and Sinopec Century Bright Capital Investment Limited.

As at 30 June 2016 and 31 December 2015, the weighted average effective interest rates per annum on cash at bank are determined in accordance with the interest rate per annum of bank current account.

The maximum exposure to credit risk approximates to carrying amounts of cash and cash equivalents at the end of the respective reporting periods.

29. Share Capital

	As at 30 June 2016		As at 31 December 2015	
	Number of shares	Share capital	Number of shares	Share capital
		RMB'000		RMB'000
Registered, issued and fully paid				
– Domestic shares of RMB1.00 each (i)	2,967,200,000	2,967,200	2,967,200,000	2,967,200
– H Shares of RMB1.00 each	1,460,800,000	1,460,800	1,460,800,000	1,460,800
	4,428,000,000	4,428,000	4,428,000,000	4,428,000

(i) The 2,967,200,000 domestic shares comprise as follows:
(a) 2,907,856,000 shares are held by Sinopec Group; and
(b) 59,344,000 shares are held by SAMC (a fellow subsidiary).

30. Reserves

(i) Statutory surplus reserve

In accordance with the relevant laws and regulations of the PRC and the articles of association of the Company, it is required to appropriate 10% of its net profit determined in accordance with China Accounting Standards for Enterprises issued by the Ministry of Finance of PRC, after offsetting any prior years' losses, to the statutory surplus reserve. When the balance of such a reserve reaches 50% of the respective companies registered capital, any further appropriation is optional. The reserve must be made before distribution of dividends to shareholders.

The statutory surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing share holding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the reserve after such an issue is not less than 25% of registered capital. The statutory surplus reserve is non-distributable.

(ii) Capital reserve

Capital reserve arising from event-driven revaluation represented reserve recognised due to the revaluation arising from the Reorganisation, being the excess of fair value over carrying value net of the deferred tax liabilities. Apart from the above mentioned event-driven revaluation, capital reserve included transactions with holding company such as assets transferred from/ to Sinopec Group and also the share premium account.

(iii) Specific reserve

Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC, the Group is required to set aside an amount to a safety fund for its engineering and construction contracting business. The fund can be used for improvements of safety at the worksite, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditures, an equivalent amount is transferred from safety fund to retained earnings.

(iv) Exchange translation reserve

Exchange translation reserve represents exchange differences arising on the translation of financial statements of foreign operations and is treated according to accounting policies Note 3.4.

31. Retirement and Other Supplemental Benefit Obligations

(a) State-managed retirement plan

The Chinese employees of the Group participate in employee social security plans organised and administrated by the PRC government authority. The PRC companies are required to contribute from 14% - 21%, depending on the applicable legal regulations, of salaries, wages and bonuses to the state-managed retirement plans. The obligation of these PRC companies with respect to the state-managed retirement plans is to make the specified contributions (Note 15(1)).

The total costs charged to the consolidated statement of comprehensive income:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Contributions to state-managed retirement plan	**306,450**	292,344

(b) Group employee retirement benefit plans

The Group has implemented a retirement benefit plan to employees in the PRC who were retired on or before 31 December 2012. Such supplementary pension subsidies are considered to be defined benefit plans as the Group is obligated to provide post-employment benefits to these employees.

According to the plans, such employees after retirement can enjoy retirement pension, welfare allowance, part of medical expenses claim, living expenses and insurance and housing fund and other benefits. The employees' lifetime is guaranteed by the plans.

The affordable actuarial risks of the Group's retirement benefit plans include: discount rate risk, benefits growth rate risk.

The Group is not obligated to provide post-employment benefits to incumbent employees.

The most recent actuarial valuation as at 30 June 2016 was performed by an independent qualified actuarial firm: Towers Watson. The present value, related current service cost and past service cost of the Group's retirement benefit plan obligation are prepared by qualified actuary using the projected unit credit actuarial cost method.

(i) Discount rates adopted (per annum):

	As at 30 June 2016	As at 31 December 2015
Retirement with honors benefit plan	**2.75%**	2.70%
Retirement benefit plan	**3.00%**	2.90%
Early retirement benefit plan	**2.50%**	2.50%

(ii) Benefit growth rates (per annum):

	As at 30 June 2016	As at 31 December 2015
Retirement with honors benefit plan	**2.90%**	2.90%
Retirement benefit plan	**2.40%**	2.40%
Early retirement benefit plan	**2.10%**	2.10%

31. Retirement and Other Supplemental Benefit Obligations (Continued)

(b) Group employee retirement benefit plans (Continued)

(iii) Duration:

	As at 30 June 2016	As at 31 December 2015
Retirement with honors benefit plan	4.8 years	4.8 years
Retirement benefit plan	10.2 years	10.2 years
Early retirement benefit plan	2.9 years	2.9 years

The below sensitivity analysis details how the Group's retirement benefit plan obligation as at the reporting date would have increased/(decreased) as a result of 0.5% reasonably possible increase or decrease assessed by management in each of the significant actuarial assumptions:

	As at 30 June 2016 Increase/(decrease) in retirement		As at 31 December 2015 Increase/(decrease) in retirement	
	benefit plan obligation Increase in assumption	benefit plan obligation Decrease in assumption	Increase in assumption	Decrease in assumption
	RMB'000	RMB'000	RMB'000	RMB'000
Discount rates	(126,364)	126,364	(134,265)	134,265
Benefit growth rates	126,350	(126,350)	134,250	(134,250)

The above sensitivity analysis is based on a change in an actuarial assumption while holding all other actuarial assumptions constant. Also, it is based on the assumption that changes in actuarial assumptions are not correlated.

(iv) Mortality: Average life expectancy of residents in the PRC.

(v) Benefit costs paid to the retirees are assumed to continue until the death of the retirees.

31. Retirement and Other Supplemental Benefit Obligations (Continued)

(b) Group employee retirement benefit plans (Continued)

The total costs of retirement benefit plans in the consolidated statement of comprehensive income are as follows:

	Retirement with honors benefit plan	Retirement benefit plan	Early retirement benefit plan	Total
	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2015				
Service cost:				
Past service cost	—	—	2,329	2,329
Net interest expenses	1,752	42,284	1,495	45,531
Benefit cost recognised in profit or loss	1,752	42,284	3,824	47,860
Revaluation of net benefit obligation liabilities				
Actuarial revaluation of economic assumptions change	1,031	22,613	—	23,644
Benefit cost recognised in other comprehensive income	1,031	22,613	—	23,644
Total benefit cost recognised in the consolidated statement of comprehensive income	2,783	64,897	3,824	71,504
For the six months ended 30 June 2016				
Service cost:				
Past service cost	**(4,928)**	**(50,748)**	**—**	**(55,676)**
Net interest expenses	**1,143**	**34,949**	**1,179**	**37,271**
Immediate recognition of actuarial gains	**—**	**—**	**(26)**	**(26)**
Benefit cost recognised in profit or loss	**(3,785)**	**(15,799)**	**1,153**	**(18,431)**
Revaluation of net benefit obligation liabilities				
Actuarial revaluation of economic assumptions change	**70**	**(25,351)**	**—**	**(25,281)**
Benefit cost recognised in other comprehensive income	**70**	**(25,351)**	**—**	**(25,281)**
Total benefit cost recognised in the consolidated statement of comprehensive income	**(3,715)**	**(41,150)**	**1,153**	**(43,712)**

The Group's benefit plans do not include incumbent employees. No current service cost of each benefit plan incurred during each financial period. Meanwhile, the Group's benefit plans do not provide reserve of plan assets, therefore, there is no reserve of earnings from plan assets during each financial period.

Service cost and net interest expenses are recognised in employment benefits, part of the administrative expenses and finance expenses of the consolidated statement of comprehensive income. Revaluation of net liabilities of benefit obligation is recognised as other comprehensive income in the consolidated statement of comprehensive income.

31. Retirement and Other Supplemental Benefit Obligations (Continued)

(b) Group employee retirement benefit plans (Continued)

As at the end of each reporting period, no assets reserve is under the Group's benefit plans. The net liabilities of retirement benefit plan obligations are recognised in the consolidated statement of financial position as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Net liabilities of retirement benefit plan obligation	2,537,595	2,696,264

The movement of retirement benefit plan obligation as follows:

	Retirement with honors benefit plan	Retirement benefit plan	Early retirement benefit plan	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	104,694	2,329,278	95,941	2,529,913
Past service cost	—	—	2,329	2,329
Net interest expenses	1,752	42,284	1,495	45,531
Revaluation gain:				
Economic assumption change of actuarial revaluation	1,031	22,613	—	23,644
Direct benefit paid by the Group	(9,343)	(87,267)	(16,006)	(112,616)
At 30 June 2015	98,134	2,306,908	83,759	2,488,801
At 1 January 2016	91,949	2,496,055	108,260	2,696,264
Past service cost	(4,928)	(50,748)	—	(55,676)
Net interest expenses	1,143	34,949	1,179	37,271
Immediate recognition of actuarial gains	—	—	(26)	(26)
Revaluation gain:				
Economic assumption change of actuarial revaluation	70	(25,351)	—	(25,281)
Direct benefit paid by the Group	(9,621)	(87,093)	(18,243)	(114,957)
At 30 June 2016	78,613	2,367,812	91,170	2,537,595

The Group has no reserve of plan assets, no capital injection of plan assets is established and no future contribution is arranged.

32. Provision for Litigation Claims

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
At the beginning of the period	239,013	302,094
Exchange difference	22,499	(20,163)
Payment	(185)	(51)
At the end of the period	261,327	281,880

The amounts represented the provision provided by a subsidiary of the Group for litigation.

The subsidiary of the Group has been sued during Year 2007 to Year 2009 due to a construction contract disputes and the case is ongoing process. The management of the Group has calculated all provision for the expected compensation incurred in accordance with the progress and solutions of the case.

The arbitration case between Sinopec Ningbo Engineering Company Limited, a wholly-owned subsidiary of the Company, and INEOS USA LLC filed by INEOS USA LCC at the Arbitration Institute of the Stockholm Chamber of Commerce has reached a final settlement. INEOS USA LLC has withdrawn the arbitration.

For the six months ended 30 June 2016 and 2015, no additional provision for litigation claims is provided.

33. Notes and Trade Payables

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Trade payables		
Fellow subsidiaries	144,998	203,323
Associates of fellow subsidiaries	14	198
Joint ventures of fellow subsidiaries	218	4
Associates	683	478
Third parties	12,451,068	14,722,657
	12,596,981	14,926,660
Notes payables	676,497	1,752,398
Notes and trade payables	13,273,478	16,679,058

The carrying amounts of the Group's notes and trade payables as at 30 June 2016 and 31 December 2015 approximate their fair values.

Ageing analysis of notes and trade payables is as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Within 1 year	8,924,242	12,445,798
Between 1 and 2 years	2,387,835	2,268,216
Between 2 and 3 years	1,160,678	1,231,741
Over 3 years	800,723	733,303
	13,273,478	16,679,058

33. Notes and Trade Payables (Continued)

The carrying amounts of notes and trade payables are denominated in the following currencies:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
RMB	12,203,861	15,685,406
USD	219,792	206,329
EUR	10,787	9,743
KZT	22,721	38,075
SAR	816,310	739,505
Others	7	—
	13,273,478	16,679,058

34. Other Payables

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Contract deposits advance:		
Fellow subsidiaries	353,449	328,013
Joint ventures of fellow subsidiaries	847,256	866,628
Associates of fellow subsidiaries	1,781,446	1,533,113
Third parties	2,824,902	3,233,483
Salaries payables	62,087	63,939
Other taxation payables	—	277,278
Deposits and guarantee deposits payables	99,975	108,049
Advanced payables	257,057	177,593
Rent, property management and maintenance payables	63,615	63,674
Contracts payables	163,095	21,528
Amounts due to ultimate holding company (1)	28	3
Amounts due to fellow subsidiaries (1)	18,141	23,447
Amounts due to joint ventures (1)	71	71
Amounts due to joint ventures of fellow subsidiaries (1)	282	282
Others	272,325	221,794
Total other payables	6,743,729	6,918,895

(1) Amounts due to related parties are unsecured, interest free and repayable on demand.

The carrying amounts of the Group's other payables as at 30 June 2016 and 31 December 2015 approximate their fair values.

35. Current and Deferred Taxation

Deferred income tax assets and liabilities recognised:

The analysis of deferred income tax assets and liabilities is as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Deferred income tax assets	699,313	721,806
Deferred income tax liabilities	(32,064)	(32,064)
Deferred income tax assets, net	667,249	689,742

The gross movement on the deferred income tax account is as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Beginning of the period	689,742	622,425
(Charged) /Credited to equity for retirement and other supplementary benefit actuarial revaluation	(4,574)	4,600
Tax (charged)/credited to the profit of the period (Note 12)	(17,919)	7,567
End of the period	667,249	634,592

The movement in deferred income tax assets/(liabilities) during the six months ended 30 June 2016 and 2015, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Provision for retirement and other supplemental benefit obligation	Provision for impairment on assets	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	495,468	112,741	46,280	654,489
(Charged)/Credited to:				
Profit for the period	(13,093)	22,802	(2,994)	6,715
Equity	4,600	—	—	4,600
At 30 June 2015	486,975	135,543	43,286	665,804
At 1 January 2016	519,147	165,789	36,870	721,806
(Charged)/Credited to:				
Profit for the period	(55,551)	34,157	3,475	(17,919)
Equity	(4,574)	—	—	(4,574)
At 30 June 2016	459,022	199,946	40,345	699,313

35. Current and Deferred Taxation (Continued)

Deferred income tax liabilities

	Excess of carrying value of assets over tax bases arising from business combination
	RMB'000
As 1 January 2015	32,064
(Credited)/Charged to:	
Profit for the period	(852)
As 30 June 2015	31,212
As 1 January 2016 and 30 June 2016	32,064

Deferred income tax assets not recognised

Deferred income tax assets are recognised for tax losses carried-forward to the extent that the realisation of the related income tax benefits through the future taxable profits is probable. In accordance with the PRC tax law applicable to those companies in their respective jurisdictions, tax losses may be carried forward against future taxable income. Deferred income tax assets not recognised in the Group is as follow:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Tax losses for which no deferred income tax asset was recognised	126,904	125,701

The Group did not recognise deferred income tax assets as the management believes it is more likely than not that such tax losses would not be realised before they expire. The tax loss for which no deferred income tax assets recognised mentioned would be expired in five years.

36. Commitments

(a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding at 30 June 2016 and 31 December 2015 not provided for in the consolidated financial statements are as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Contracted but not provided for		
– Property, plant and equipment	22,771	40,463

36. Commitments (Continued)

(b) Operating leasing commitments

The Group leases various residential properties, office and equipments under non-cancellable operating lease agreements. The leases run for an initial period of one to twenty years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Less than 1 year	37,347	68,175
1 year to 5 years	31,101	40,495
Over 5 years	36,446	36,244
Total	104,894	144,914

37. Cash (Used In)/Generated From Operations

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Profit before taxation	1,381,625	2,118,858
Adjustments for:		
Provision for impairment on trade and other receivables	223,229	154,583
Reversal of amount due from customers for contract work	—	(6)
Depreciation of property, plant and equipment	265,537	231,104
Amortisation of intangible assets	41,008	46,601
Amortisation of land use rights	30,853	30,759
Net gains on disposal/write-off of property, plant and equipment	(185)	(554)
Interest income	(254,570)	(238,615)
Interest expense	37,427	47,570
Net foreign exchange gains	(197,401)	(773)
Share of losses of joint ventures	601	265
Share of profits of associates	(5,729)	(5,607)
Cash flows from operating activities before changes in working capital	1,522,395	2,384,185
Changes in working capital:		
– Inventories	313,992	(69,427)
– Contract work-in-progress	(141,061)	515,523
– Trade and other receivables	1,197,651	(2,883,430)
– Trade and other payables	(3,667,408)	1,338,750
– Restricted cash	(9,140)	(7,125)
Cash (used in)/generated from operations	(783,571)	1,278,476

38. Contingencies

The Group has been named in a number of lawsuits and other legal proceedings arising in the ordinary course of business. Provisions have been made for the probable losses to the Group on those claims when management can reasonably estimate the outcome of the lawsuits based on management's judgments and the legal advice. No provision has been made for pending lawsuits when the outcome of the lawsuits cannot be reasonably estimated or management believes the outflow of resources is not probable.

It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for (Note 32).

39. Significant Related Party Transactions and Balances

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC government which also controls a significant portion of the productive assets and entities in the PRC (collectively known as the "state-owned enterprises").

In accordance with IAS 24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are regarded as related parties of the Group ("other state-owned enterprises"). For the purpose of related party disclosures, the Group has in place procedures to identify the immediate ownership structure of its customers and suppliers to determine whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, management believes that meaningful information relating to related party transaction has been adequately disclosed.

In addition to the related party information shown elsewhere in this report, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the six months ended 30 June 2016 and 2015 and balances as at 30 June 2016 and 31 December 2015.

The transactions with related parties are carried out on pricing and settlement terms agreed with counter parties in the ordinary course of business.

39. Significant Related Party Transactions and Balances (Continued)

(a) Significant related party transactions and period end balances arising with the Sinopec Group, fellow subsidiaries, associates, joint ventures of fellow subsidiaries and an associate of fellow subsidiaries:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Construction and services provided to		
– Ultimate holding company	115	—
– Joint ventures of fellow subsidiaries	472,870	770,479
– Associates of fellow subsidiaries	2,685,784	3,739,866
– Fellow subsidiaries	3,784,486	4,822,998
– Associates	258	47,367
	6,943,513	9,380,710
Construction and services received from		
– Ultimate holding company	78	—
– Joint ventures of fellow subsidiaries	223	—
– Fellow subsidiaries	646,806	649,277
– Associates	1,237	3,441
	648,344	652,718
Technology research and development provided to		
– Ultimate holding company	9,434	12,830
– Fellow subsidiaries	29,151	43,183
	38,585	56,013
Interest income on loans		
– Ultimate holding company	181,177	198,005
Interest expense on borrowings		
– Fellow subsidiaries	156	2,039
Deposit interest income from fellow subsidiaries	19,748	10,428

39. Significant Related Party Transactions and Balances (Continued)

(a) Significant related party transactions and period end balances arising with the Sinopec Group, fellow subsidiaries, associates, joint ventures of fellow subsidiaries and an associate of fellow subsidiaries: (Continued)

	As at 30 June 2016	As at 31 December 2015
	RMB'000	RMB'000
Deposits and time deposits placed in fellow subsidiaries	2,735,080	6,213,498

	As at 30 June 2016	As at 31 December 2015
	USD'000	USD'000
Guarantee received		
– Ultimate holding company	52,000	69,320

Besides, in respect of the Project RAPID (total contract value of approximately USD1.329 billion) between the Group and PETRONAS company, Sinopec Group provided guarantee to PETRONAS company. The Group provided counter guarantee to Sinopec Group.

The majority of these significant related party transactions with Sinopec Group and fellow subsidiaries also constitute continuing connected transactions as defined under Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

Apart from transactions with Sinopec Group, fellow subsidiaries, associates, joint ventures of fellow subsidiaries and associates of fellow subsidiaries, the Group has transactions with other state-owned enterprises including but not limited to the following:

– Sales and purchases of goods and services;

– Purchases of assets;

– Lease of assets; and

– Bank deposits and borrowings.

In the ordinary course of business, the Group sells goods and services to, and purchase goods and services from other state-owned enterprises based on terms as set out in the underlying agreements, market price or actual cost incurred, or as mutually agreed.

In the ordinary course of business, the Group places deposits with mainly from state-owned financial institutions. The deposits are in accordance with terms as set out in the respective agreement, and the interest rates are set at prevailing market rates.

Apart from the disclosure of loans due from the ultimate holding company in Note 25, trade receivables, prepayments and other receivables are unsecured, interest free and repayable on demand.

39. Significant Related Party Transactions and Balances (Continued)

(b) Key management personnel remuneration

Key management includes directors (executive and non-executive), supervisors, president, vice presidents, chief financial officer and secretary to the Board of Directors. The compensation paid or payable to key management form employee services is shown below:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Basic salaries, other allowances and benefits-in-kind	2,050	1,555
Discretionary bonus	4,651	4,871
Contributions to pension plans	630	526
	7,331	6,952

40. Particulars of Principal Subsidiaries

As at 30 June 2016, the Company has direct and indirect interests in the following principal subsidiaries:

Name	Establishment/ Place of incorporation and type of legal entity	Registered and fully paid capital	Effective interest held		Principal activities and place of operation
			Directly held	Indirectly held	
		RMB'000			
SEI (中國石化工程建設有限公司)	The PRC/Limited liability company	500,000	100%	—	Engineering contracting, engineering and consulting/The PRC
LPEC (中石化洛陽工程有限公司)	The PRC/Limited liability company	500,000	100%	—	Engineering contracting, engineering and consulting/The PRC
SSEC (中石化上海工程有限公司)	The PRC/Limited liability company	200,000	100%	—	Engineering contracting, engineering and consulting/The PRC
SNEC (中石化寧波工程有限公司)	The PRC/Limited liability company	300,000	100%	—	Engineering contracting, design, equipment manufacturing/The PRC
SNEI (中石化南京工程有限公司)	The PRC/Limited liability company	556,005	100%	—	Engineering contracting, design/The PRC
FCC (中石化第四建設有限公司)	The PRC/Limited liability company	350,000	100%	—	Engineering contracting/The PRC
SFCC (中石化第五建設有限公司)	The PRC/Limited liability company	350,000	100%	—	Engineering contracting/The PRC
TCC (中石化第十建設有限公司)	The PRC/Limited liability company	350,000	100%	—	Engineering contracting/The PRC
Sinopec Guangzhou Engineering Co., Ltd. (中石化廣州工程有限公司)	The PRC/Limited liability company	50,000	100%	—	Engineering contracting/The PRC
Ningbo Institute (中石化寧波技術研究院有限公司)	The PRC/Limited liability company	10,000	100%	—	Technical services/The PRC
Sinopec Heavy Lifting and Transportation Co., Ltd. (中石化重型起重運輸工程有限責任公司)	The PRC/Limited liability company	500,000	100%	—	Engineering contracting technical service, equipment selling and leasing/The PRC
Sinopec Engineering Group Saudi Arabia Co., Ltd. (中石化煉化工程 (集團)股份有限公司沙特公司))	Saudi Arabia/Limited liability company	3,356 (SAR18,000,000)	100%	—	Engineering contracting/Saudi Arabia

40. Particulars of Principal Subsidiaries (Continued)

As at 30 June 2016, the Company has direct and indirect interests in the following principal subsidiaries: (Continued)

Name	Establishment/ Place of incorporation and type of legal entity	Registered and fully paid capital	Effective interest held		Principal activities and place of operation
			Directly held	Indirectly held	
		RMB'000			
Sinopec Engineering & Construction (Singapore) Pte. Ltd. (中石化煉化工程 (集團) 股份有限公司新加坡公司)	Singapore/Limited liability company	2,560 (SGD 500,000)	100%	—	Engineering contracting/Singapore
Sinopec Engineering Group America, L.L.C (中石化煉化工程 (集團) 股份有限公司美國公司)	United States/Limited liability company	3,075(USD 500,000)	100%	—	Engineering contracting, engineering and consulting/United States
Beijing BPEC Engineering and Construction Supervision Co., Ltd. (北京畢派克項目管理有限公司)	The PRC/Limited liability company	7,000	—	100%	Engineering project management/The PRC
Beijing Petrochemical Engineering Consulting Co.,Ltd. (北京石油化工工程諮詢有限公司)	The PRC/Limited liability company	5,100	—	100%	Technical consulting/The PRC
Dalian Economy and Technology Zone Jinghai Petrochemical New Technology Development Co., Ltd. (大連經濟技術開發區京海石化新技術開發有限公司)	The PRC/Limited liability company	1,700	—	100%	Technology development service/The PRC
SEI (London) Co., Ltd. (中國石化工程倫敦有限公司)	United Kingdom/Limited liability company	165(USD20,000)	—	100%	Market consulting agent/United Kingdom London
Tianjin Tianshi Engineering Project Management Co., Ltd. (天津天實工程項目管理有限公司)	The PRC/Limited liability company	3,000	—	100%	Engineering supervision/The PRC
Guangzhou Xinyue Refining and Petrochemical Engineering Designing Co., Ltd. (廣州新粵煉化工程設計有限公司)	The PRC/Limited liability company	1,000	—	100%	Engineering design/The PRC
Sinopec Tenth Construction Qingdao Co., Ltd. (中石化第十建設青島有限公司)	The PRC/Limited liability company	100,000	—	100%	Construction, equipment manufacturing/The PRC
Beijing Jinhaiwan Engineering and Construction Supervision Co., Ltd. (北京金海灣工程建設監理有限公司)	The PRC/Limited liability company	10,000	—	100%	Construction, project supervision/The PRC
Urumqi Chenjiqian Construction Equipment Co., Ltd. (烏魯木齊宸吉齊安工程設備有限公司)	The PRC/Limited liability company	5,000	—	100%	Equipment installation and leasing/The PRC
Luoyang Gaoxinlongpu Petrochemical Development Co., Ltd. (洛陽高新龍浦石油化工開發有限公司)	The PRC/Limited liability company	35,000	—	100%	Oil production/The PRC
Luoyang Xinuo Fuel Oil Quality Testing Center, Ltd. (洛陽西諾燃料油質量檢驗中心有限公司)	The PRC/Limited liability company	5,000	—	100%	Oil inspection/The PRC
Jiangsu Nanhua Engineering and Technology Complete Development Co., Ltd. (江蘇南華工程技術開發成套有限公司)	The PRC/Limited liability company	5,000	—	100%	Construction/The PRC

40. Particulars of Principal Subsidiaries (Continued)

As at 30 June 2016, the Company has direct and indirect interests in the following principal subsidiaries: (Continued)

Name	Establishment/ Place of incorporation and type of legal entity	Registered and fully paid capital	Effective interest held		Principal activities and place of operation
			Directly held	Indirectly held	
		RMB'000			
Sinopec Shanghai Pharmaceutical Industry Designing Institute Co., Ltd. (中石化上海醫藥工業設計研究院有限公司)	The PRC/Limited liability company	8,046	—	100%	Medicine, pesticide, chemical research/The PRC
Zhuhai Shibidi Pharmaceutical Technology Development Co., Ltd. (珠海事必迪醫藥技術開發有限公司)	The PRC/Limited liability company	470	—	100%	Medicine, chemical, petrochemical design/The PRC
Shanghai Eastern Engineering Consulting Co., Ltd. (上海東方工程諮詢有限公司)	The PRC/Limited liability company	5,000	—	100%	Medicine, chemical, petrochemical consulting/The PRC
Shanghai Sanyuan Engineering Consulting and Supervision Co., Ltd. (上海三圓工程諮詢監理有限公司)	The PRC/Limited liability company	3,000	—	100%	Construction installation, construction supervision/The PRC
Shanghai Sanding Environmental Engineering Investment Co.,Ltd. (上海三鼎環境工程投資有限公司)	The PRC/Limited liability company	50,000	—	100%	Environmental protection and public facilities investments/The RPC
Shanghai Petrochemical Machine Manufacturing Co., Ltd. (上海石化機械製造有限公司)	The PRC/Limited liability company	133,640	—	100%	Petrochemical equipment manufacturing/The RPC
Ningbo Tianyi Equipment Technology Co., Ltd. (寧波天翼裝備技術有限公司)	The PRC/Limited liability company	60,000	—	100%	Petrochemical equipment design, manufacturing and installation/The PRC
Ningbo Tianyi Petrochemical Heavy Equipment Manufacturing Co., Ltd. (寧波天翼石化重型設備製造有限公司)	The PRC/Limited liability company	60,000	—	97%	Petrochemical equipment manufacturing and installation/The PRC
SINOPEC Engineering Group Malaysia SDN BHD (中石化煉化工程 (集團)股份有限公司馬來西亞公司)	Malaysia/Limited liability company	5,157	—	100%	Engineering contracting/Malaysia
SINOPEC Engineering Group (Thailand) Co., Ltd. (中石化煉化工程(集團) 股份有限公司泰國公司)	Thailand/Limited liability company	6,228	—	100%	Engineering contracting/Thailand

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the period or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, results in particulars of excessive length.

Documents for Inspection

The following documents will be available for inspection by the regulatory authorities and shareholders during normal working hours, in accordance with the laws and regulations or the Company's Articles of Association, at the legal address of the Company after 22 August 2016 (Monday):

a) the original interim report signed by the Chairman and the President;

b) the original audited financial statements and consolidated financial statements for the six months ended 30 June 2016 prepared in accordance with the IFRS and signed by the Chairman, the President, the Chief Financial Officer and the Head of the Finance Department; and

c) the original auditor's report in respect of the above financial statements signed by Grant Thornton Hong Kong Limited.

By Order of the Board

ZHANG Jianhua

Chairman of the Board

Beijing, the PRC

19 August 2016

This interim report is printed in both Chinese and English languages. Should there be any discrepancy between the English language and the Chinese language, the Chinese language shall prevail.

中石化煉化工程（集團）股份有限公司
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