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

2016 ANNUAL REPORT

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 omissions contained in this annual report and hereby are jointly and severally liable for the authenticity, accuracy and completeness of the content hereof. Directors, Ms. SUN Lili and Mr. WU Derong could not attend the Eighth Meeting of the Second Session of the Board (the "Meeting") due to official duties. Director, Ms. SUN Lili authorised Director, Mr. XIANG Wenwu and Director, Mr. WU Derong authorised Director, Mr. LU Dong to attend the Meeting, and to vote on their behalves. Mr. LING Yiqun, (Chairman of the Board), Mr. XIANG Wenwu (Director and President), Mr. JIA Yiqun (Chief Financial Officer) and Mr. WANG Yi (head of the finance department) warrant the authenticity and completeness of the financial statements contained in this annual report.

The financial statements for the year ended 31 December 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 a standard unqualified audit report.

This annual 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 forward-looking statements. The future actual results or development trends 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 as at 17 March 2017 are made by the Company and, unless otherwise required by the relevant regulatory authorities, the Company undertakes no obligation or responsibility to update these statements.

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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, with a complete service chain involving research, development and licensing, preliminary consultation, financing assistance, design, procurement, construction, hoisting and transportation of large equipment 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 implementation of large-scale and complex oil refining, petrochemical, new coal chemical, natural gas processing as well as storage and transportation project, and possesses strong competitiveness.

The Group focuses 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. LING Yiqun

AUTHORISED REPRESENTATIVES

Mr. XIANG Wenwu

Mr. SANG Jinghua

SECRETARY TO THE BOARD

Mr. SANG Jinghua

REGISTERED ADDRESS

A6 Huixindong Street, Chaoyang District, Beijing, the PRC

PLACE OF BUSINESS AND CORRESPONDENCE ADDRESS

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

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WEBSITES PUBLISHING THIS ANNUAL REPORT

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

PLACE WHERE THIS ANNUAL REPORT IS AVAILABLE FOR INSPECTION

Office of the Board

SINOPEC ENGINEERING (GROUP) CO., LTD.

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

UNIFORM SOCIAL CREDIT CODE

911100007109349087

NAMES AND ADDRESSES OF AUDITORS

Domestic:

Grant Thornton China (Special General Partnership)

4th, 5th and 10th Floor, Scitech Place,
22 Jianguomen Wai Avenue, Chaoyang District,
Beijing, the PRC

Overseas:

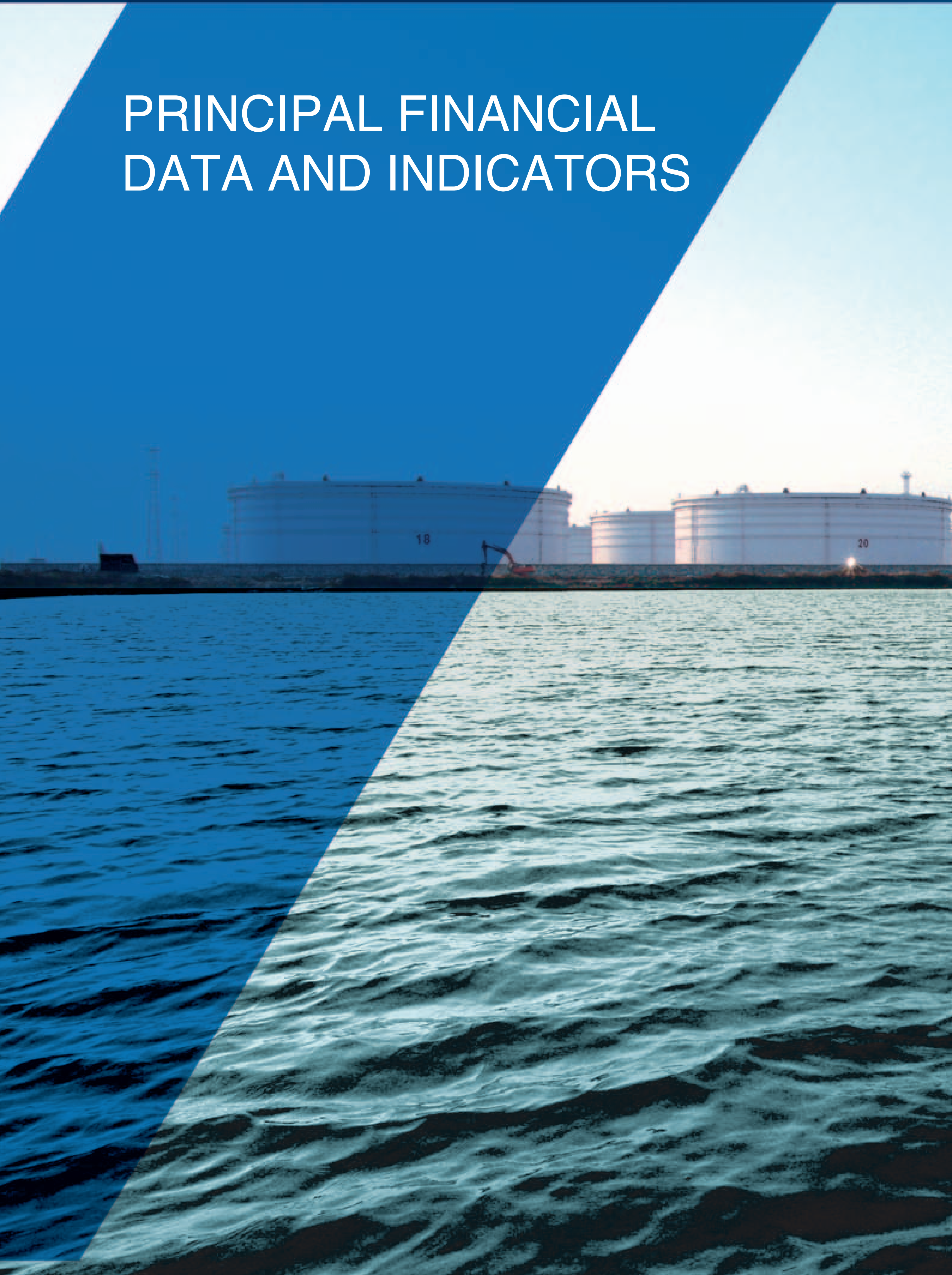
Grant Thornton Hong Kong Limited
Level 12, 28 Hennessy Road, Wan Chai, Hong Kong

NAME AND ADDRESS OF HONG KONG LEGAL ADVISER

Kirkland & Ellis

26th Floor, Gloucester Tower, The Landmark,
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 31 December 2016	As at 31 December 2015	As at 31 December 2014	As at 31 December 2013	As at 31 December 2012	Changes from the end of 2015 (%)
Non-current assets	7,846,172	7,939,453	8,052,331	8,166,479	8,078,778	(1.2)
Current assets	50,972,148	50,464,917	44,032,264	39,198,790	29,051,247	1.0
Current liabilities	30,717,166	30,798,517	26,347,950	23,620,920	26,762,416	(0.3)
Non-current liabilities	2,899,238	2,967,341	2,864,071	2,764,008	3,286,359	(2.3)
Consolidated equity attributable to equity holders of the Company	25,198,008	24,634,775	22,869,116	20,976,714	7,077,985	2.3
Net assets per share of equity holders of the Company (RMB)	5.69	5.56	5.16	4.74	2.28	2.3

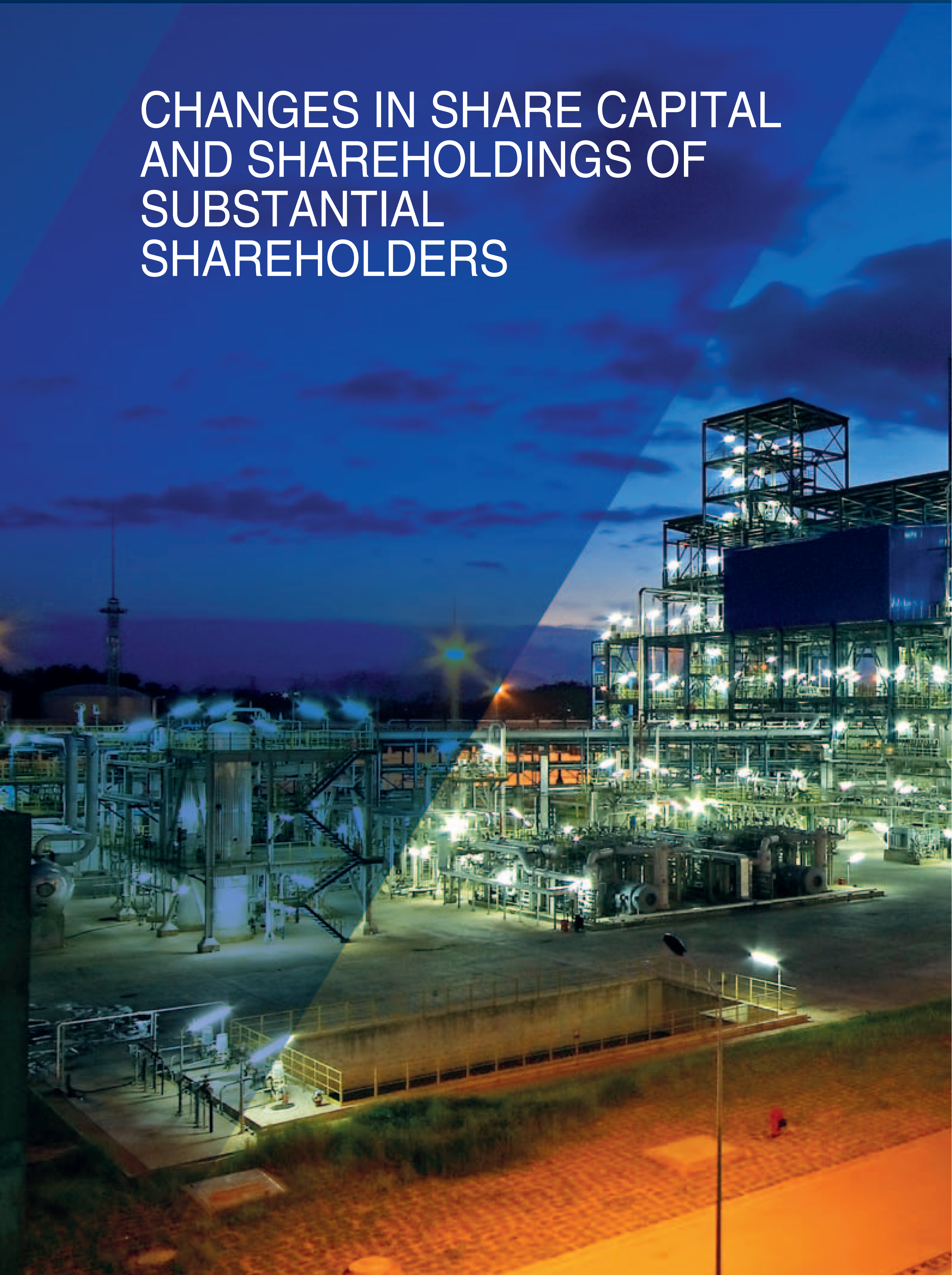
Unit: RMB '000

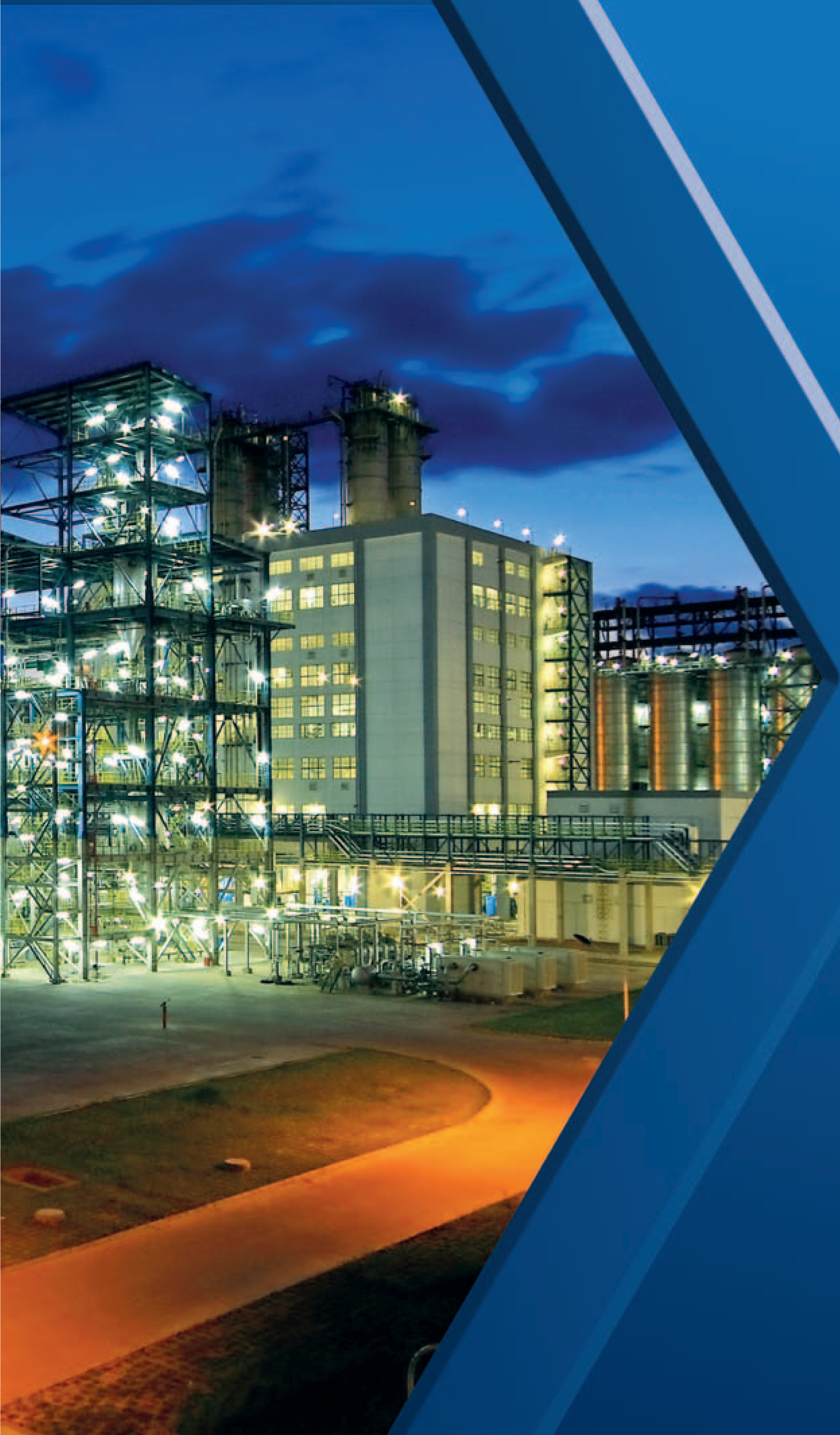
Items	Year ended 31 December					Changes over the same period of 2015 (%)
	2016	2015	2014	2013	2012	
Revenue	39,375,434	45,498,354	49,345,959	43,571,851	38,526,489	(13.5)
Gross profit	4,290,682	6,157,034	6,290,612	6,406,191	5,528,106	(30.3)
Operating profit	1,934,740	3,845,193	4,039,003	4,413,485	3,832,023	(49.7)
Profit before taxation	2,369,260	4,240,047	4,550,695	4,751,041	4,252,067	(44.1)
Profit attributable to equity holders of the Company	1,662,880	3,317,704	3,489,799	3,656,802	3,316,970	(49.9)
Basic earnings per share (RMB)	0.38	0.75	0.79	0.93	1.07	(49.9)
Net cash flow generated from/(used in) operating activities	4,522,395	5,793,143	333,312	(85,995)	1,556,489	(21.9)
Net cash flow generated from/(used in) operating activities per share (RMB)	1.02	1.31	0.08	(0.02)	0.50	(21.9)

Items	Year ended 31 December				
	2016	2015	2014	2013	2012
Gross profit margin (%)	10.9	13.5	12.7	14.7	14.3
Net profit margin (%)	4.2	7.3	7.1	8.4	8.6
Return on assets (%)	2.8	6.0	7.0	8.7	8.1

Items	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014	As at 31 December 2013	As at 31 December 2012
Asset-liability ratio (%)	57.2	57.8	56.1	55.7	80.9

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS





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 31 December 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 1,155 shareholders of the Company. As at 17 March 2017, 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	2,450,000	—	1,442,374,400	32.57	98.74
HIGH SUMMIT GROUP LIMITED	-2,000,000	—	3,000,000	0.07	0.21
TANG KEUNG LAM	-1,000,000	—	3,000,000	0.07	0.21
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 (the "Board"), no person(s) (not being a Director, chief executive of the Company or supervisor of the Company (the "Supervisor")) had an interest or short position in the shares or underlying shares or debentures of the Company which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO") or, who 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 general meetings of any other member of the Group:

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 (%) [7]	Percentage in the total share capital of the Company (%) [8]
China Petrochemical Corporation [1]	Domestic Share	Beneficial owner/Interests of controlled corporation	2,967,200,000(L)	100.00(L)	67.01(L)
National Council for Social Security Fund of the PRC [2]	H Share	Beneficial owner	131,468,000(L)	8.99(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	132,157,717(L)	9.04(L)	2.98(L)
			62,000(S)	0.00(S)	0.00(S)
			114,004,978(P)	7.80(P)	2.57(P)
Prudential plc[5]	H Share	Interests of controlled corporation	103,870,000(L)	7.11(L)	2.35(L)
Templeton Global Advisors Limited[6]	H Share	Investment manager	78,865,000 (L)	5.40(L)	1.78(L)

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

Notes:
(1) China Petrochemical Corporation ("Sinopec Group") directly and indirectly holds 2,967,200,000 domestic shares of the Company ("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 Notice 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 1 March 2017 and filed by JPMorgan Chase & Co. with the Hong Kong Stock Exchange.
(5) The information is based on the Corporate Substantial Shareholders Notice dated 26 October 2016 and filed by Prudential plc with the Hong Kong Stock Exchange.
(6) The information is based on the Corporate Substantial Shareholders Notice dated 01 April 2015 and filed by Templeton Global Advisors Limited with the Hong Kong Stock Exchange.
(7) It is calculated on the basis that the Company has issued 2,967,200,000 Domestic Shares and 1,460,800,000 H Shares.
(8) It is calculated on the basis that the Company has issued 4,428,000,000 shares in total.

CHAIRMAN'S STATEMENT

Mr. Ling Yiqun

Chairman of the Board

Dear Shareholders and Friends,

First of all, on behalf of the Board of Directors of SINOPEC SEG, I express my heartfelt gratitude to you and all sectors of the society for your care and support.

2016 was a year in which the global energy and chemical engineering industries encountered exceptional difficulties in operations. Faced with the complicated and grave business situation, the management of the Company led all employees in achieving the hard-won production and operation results through early planning and active response. For the year 2016, the Company's revenue was RMB39.375 billion, its net profit was RMB1.663 billion, and the total value of its new contracts was RMB27.564 billion. As at the end of 2016, the Group's backlog was RMB88.173 billion. After due consideration of the Company's earnings, the return to shareholders and the needs for future sustainable development as a whole, the Board recommended a final dividend of RMB0.078 per Share for the year 2016. After taking into account the interim dividend of RMB0.072 per Share, the total dividend for the year will be RMB0.150 per Share.

In 2016, the Company continued to guide its reform and development along with the four strategies of "energy and petrochemical-oriented, innovation-driven, globalisation-targeted and value-focused", actively promoted cost-cutting and benefit-enhancing actions, and steadily promoted production and operation. In the implementation of projects, we strove to reduce operating cost through delicacy management; in market development, we remained market-oriented and customer-focused in the efforts made to enhance our competitive advantages in the market; in our overseas business, we seized the opportunity brought by the "Belt and Road" strategic initiative and fastened our steps of going global; in scientific and technological innovations, we worked hard to successfully organise the collaboration of major technologies and the implementation of technological innovation projects, made full use of the distinctive advantages of the R&D Center in the development of engineering technology and continuously strengthened the collaboration with famous licensors in the world.

In 2016, all members of the Board were diligent in performing their duties, made decisions through a scientific process to ensure implementation of the resolutions passed at shareholders' meetings and guided the Company to develop in the right direction, thereby achieving its sustainable and healthy development. Meanwhile, we revised the terms of reference of the Audit Committee of the Board to include the risk management function and restructured the risk management system to involve the Board as a crucial component of the said system. It has been a year since the implementation of the revised terms of reference of the Audit Committee of the Board, which has led to more scientific and effective risk-control decisions.

In 2016, the Company proactively performed its social responsibilities. The Company developed, promoted and utilised upgraded refined oil products and new environmental protection and energy saving technologies. In particular, we launched Tianjin gasoline quality upgrading project in the year, which was the first domestic project of the kind that produces gasoline meeting the national CHINA 6 standard. The Company fully implemented QHSE (quality, health, safety and environment) management, adhered to the people-oriented principle, cared for employees and promoted sustainable corporate development. The Company also paid much attention to the protection of legitimate interests of stakeholders, such as customers and suppliers, in the areas where the projects are operated and promoted the harmonious and stable development of society. Meanwhile, in response to the regulations of The Hong Kong Stock Exchange on disclosure of environmental, social and governance matters, we released our "2016 Environmental, Social and Governance Report" concurrently with this annual report to meet the needs and expectations of investors and all sectors of the society for the relevant information of the Company.

In 2016, due to work adjustments, Mr. ZHANG Jianhua and Mr. YAN Shaochun resigned from their directorship. We hereby express our heartfelt gratitude to them for their diligent fulfillment of their duties, hard work and prominent contributions to the operations and development of the Company during their tenure. It was very kind of the Directors to elect me to the position of the Chairman of the Board. I would like to thank the shareholders and the Board for their trust and support.

The macro environment will remain grave in 2017. The world economy is facing slowdown and challenges in growth, and the imbalance between global oil supply and demand may remain in the near future. The reform of energy production and consumption has been accelerated, and the investments in oil refining and petrochemical industry are weak and have become more competitive. All of these factors have brought great challenges to and imposed higher standards on the Company. The Company will accelerate its restructuring, enhance the quality and effectiveness of its businesses, and foster and develop new businesses. It will implement reform measures in a comprehensive manner, further improve its system and policy, optimise resources and increase operation efficiency. It will also actively fulfill its corporate social responsibility, develop energy-saving and eco-friendly business and contribute to the sustainable development of the energy and chemical industry.

In light of the coexistence of opportunities and challenges, along with the synchronous development of China's industrialisation, urbanisation, informatisation and agricultural modernisation will maintain the increase in market demands for energy and chemical products, and will provide room for sustainable development of the Company in the market. The implementation of the industrial plans for seven national petrochemical bases and four world-class refining bases of Sinopec will bring a new development opportunities to the Company. The progress of the "Belt and Road" initiative has injected new momentum into the economic development of the countries along the route and has also brought a strong boost to the Company in the expansion of its overseas business.

Faced with opportunities and challenges, the Board and management of the Company will bear in mind their missions, shoulder great trust, remain industrious and diligent in fulfilling their duties. We will further solidify the foundation, scrupulously develop our projects, innovate our operating mechanisms, implement strict management, reinforce our strengths and build an outstanding enterprise to give back to the society, create returns to the shareholders and benefit the employees with better development and performance. I hereby would like to extend our heartfelt gratitude to the shareholders that support the reform and development of the Company, to all walks of life that assist the Company in its growth and to all the employees and their family members who have stood with the Company through thick and thin!

LING Yiqun

Chairman of the Board

Beijing, the PRC

17 March 2017

BUSINESS REVIEW AND PROSPECTS


中国石化
SINOPEC
34

1 Business Review

Mr. Xiang Wenwu

Executive Director and President

(1) Market Environment

In 2016, political and economic environment in the world was complicated and ever-changing, and the global economy grew slowly on a whole. The exchange rates of major countries changed frequently, the price of bulk commodity fluctuated, trade barriers and disputes occurred frequently, and the economy recovery was sluggish and difficult. In 2016, international crude oil prices rebounded sharply. Crude oil price dropped below USD 30/barrel for the first time in 12 years at the beginning of the year and twisted upward under the influence of multiple factors, but was never able to exceed USD 60/barrel for the whole year. The oversupply of international crude oil has not been fundamentally improved.

In 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 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 structural surplus in production capacity 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 and intensifying the fierce competition within oil refinery and chemical engineering industry, which further exerted downward pressure on the performance of engineering companies. In 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. The political situations of countries in southeast Asia were generally stable, and the economic growth rate was relatively optimistic.

In 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 five years, and setting out the six major 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", setting out its 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 the construction of industrial park facilities, so as to enhance supply capacity of high-profile new chemical materials and promote green, safe and efficient development of the petrochemical industry.

Although the international crude oil prices may remain weak in the long term, crude oil is still one of the major resources in the world, and the oil and petrochemical industry still plays a crucial role in the the world. There are still many mid-term and long-term growth opportunities in the oil refining and petrochemical industries amid the current difficult environment. The key driving factors include:

- In 2016, the apparent consumption of refined oil products increased by 5.0% in China compared with that of the previous year, and the apparent consumption of ethylene grew by 3.6% compared with that of the previous year. With the economic growth, especially under the promotion of urbanisation and industrialisation, some of the large domestic refining bases have accelerated the initial work. There is still much room for China's oil refining and chemical engineering industries to further develop during the 13th Five-Year Plan;
- The low oil price can further stimulate the consumption demand for refined oil products. For example, in 2016, domestic apparent consumption of gasoline achieved a year-on-year increase of 12.3%. Additionally, the implementation of reform measures by the domestic oil and gas industry and the acceleration of the plan for the quality upgrade of refined oil products will also stimulate the elimination of obsolete oil refining capacity and the launch of large green-field oil refining projects;
- The low oil price has prominently improved the market competitiveness of naphtha-based chemicals and the profitability of the petrochemical industry. In 2016, domestic basic chemical industry experienced a rapid increase in profits. Meanwhile, domestic chemical industry will also aim at high-end and differentiated development, meaning that the petrochemical industry will embrace new opportunities for development;
- With the increase in the pressure caused by environmental pollution and excessive coal capacity, the coal chemical industry is expected to pursue innovative development in the future, aiming at clean utilisation of coals and higher energy efficiency so as to explore a new trail featuring little consumption of resources, high technology, good quality and efficiency, and green and sustainable development.
- With the promulgation and implementation of related laws and regulations, including the Environmental Protection Law of the PRC, and the more stringent requirements for environmental protection and energy saving, the oil refining and petrochemical industry will accelerate its progress in upgrade for environmental protection, energy saving and emission reduction to provide broad market prospect and bring new business opportunities to the Company;
- Most of the projects that the Group is carrying out overseas are in the countries along the "Belt and Road", which also have a large demand for oil and chemical products due to the shortage of development funds. The implementation of China's "Belt and Road" strategic initiative will inject momentum to the development of the region and bring new development opportunities to the Group in the expansion of its overseas business.

(2) Operation Overview

During the Reporting Period, the Group's total revenue and net profits attributable to the Company's shareholders were RMB39.375 billion and RMB1.663 billion, respectively. As at the end of the Reporting Period, the Group's backlog was RMB88.173 billion. The value of new contracts entered into by the Group during the Reporting Period was RMB27.564 billion.

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 of the Group's total revenue (before inter-segment elimination) during the periods indicated:

	Year ended 31 December				
	2016		2015		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB '000)	(%)	(RMB '000)	(%)	(%)
Engineering, consulting and licensing	**2,611,514**	**6.1**	2,625,673	5.3	(0.5)
EPC Contracting	**20,641,233**	**48.5**	27,838,722	56.5	(25.9)
Construction	**18,831,222**	**44.4**	18,123,282	36.8	3.9
Equipment manufacturing	**439,885**	**1.0**	679,517	1.4	(35.3)
Subtotal	**42,523,854**	**100.0**	49,267,194	100.0	(13.7)
Total (after inter-segment elimination) [1]	**39,375,434**	**N/A**	45,498,354	N/A	(13.5)

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

During the Reporting Period, the total revenue of the Group was RMB39.375 billion, representing a decrease of 13.5% from the same period of the previous year. The main reasons of such decrease include: 1) large-scale EPC contracting projects at the peak stage of implementation decreased on a year-on-year basis; 2) the revenues generated from new coal chemical industry took a nosedive on a year-on-year basis. During the Reporting Period, a large part of the revenue was contributed by RAPID oil refining project of Malaysian National Company ("Malaysia RAPID Oil Refining Project"), Coal Chemical Complex of Zhongtian Hechuang Energy Co., Ltd. ("Zhongtian Hechuang Coal Chemical Project") and the phosphate public project in Saudi Arabia.

In January 2017, the Group received a notice from the owner of Zhong'An Lianhe coal chemical complex project for resumption of work. In March 2017, the Group received a notice from the owner of Qinghai Damei coal chemical project for resumption of work.

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

	Year ended 31 December				
	2016		2015		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB '000)	(%)	(RMB '000)	(%)	(%)
Oil refining	**10,760,205**	**27.3**	7,683,275	16.9	40.0
Petrochemicals	**12,524,930**	**31.8**	11,982,650	26.3	4.5
New coal chemicals	**8,562,936**	**21.7**	17,431,865	38.3	(50.9)
Other industries	**7,527,363**	**19.2**	8,400,564	18.5	(10.4)
Total	**39,375,434**	**100.0**	45,498,354	100.0	(13.5)

The Group derived its revenue mainly from services provided to clients in the oil refining, petrochemical, new coal chemical and other industries. During the Reporting Period, influenced by EPC contracting projects of the oil refining industry, including the Malaysia RAPID Oil Refining Project and the FCC Project of Kazakhstan Atyrau Refinery, which entered into the peak season of procurement or construction, revenue generated from the oil refining industry was RMB10.760 billion, representing an increase of 40.0% on a year-on-year basis; revenue generated from the petrochemical industry was RMB12.525 billion, which is basically equivalent on a year-on-year basis; influenced by the decreasing volume of business from new coal industry and other industries, revenue generated from the new coal chemical industry was RMB8.563 billion, representing a big decrease of 50.9% on a year-on-year basis, revenue generated from other industries was RMB7.527 billion, representing a decrease of 10.4% on a year-on-year basis.

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

	Year ended 31 December				
	2016		2015		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB '000)	(%)	(RMB '000)	(%)	(%)
PRC	**24,892,217**	**63.2**	36,407,242	80.0	(31.6)
Overseas	**14,483,217**	**36.8**	9,091,112	20.0	59.3
Total	**39,375,434**	**100.0**	45,498,354	100.0	(13.5)

The Group continues to expand its overseas business steadily. During the Reporting Period, the revenue of the Group generated overseas was RMB14.483 billion, representing an increase of 59.3% on a year-on-year basis. This was mainly attributable to the fact that the Group's overseas projects, such as Malaysia RAPID Oil Refining Project, phosphate public project in Saudi Arabia and the FCC Project of Kazakhstan Atyrau Refinery, have reached the peak stage of implementation.

As at the end of the Reporting Period, the backlog of the Group amounted to RMB8.8173 billion, representing a decrease of 11.8% as compared with that as at 31 December 2015, and 2.2 times of the total revenue of RMB39.375 billion in 2016. During the Reporting Period, the value of new contracts amounted to RMB27.564 billion, representing a decrease of 47.7% on a year-on-year basis.

During the Reporting Period, the Group entered into the following representative domestic projects: the engineering, procurement and construction (EPC) contracting project of Dongjiakou crude oil commercial reservation base of SINOPEC Pipeline Storage & Transportation Company ("Dongjiakou Crude Oil Commercial Reservation Base Project"), the construction project of SP Chemicals (Taixing) Co., Ltd. in relation to its light hydrocarbon comprehensive utilisation project with a capacity of 1.1 Mtpa ("SP Chemicals Comprehensive Utilisation Project of Light Hydrocarbon"), EPC contracting project of Anqing 1 Mtpa catalytic diesel hydrogenation transformation (RLG) of China Petroleum & Chemical Corporation ("Sinopec Corp.") ("Anqing Catalytic Diesel Hydrogenation Transformation Project"), EPC contracting project of 300 Ktpa alkylation unit of Tianjin gasoline quality upgrade project of Sinopec Corp. Tianjin Company ("Tianjin Gasoline Quality Upgrade Project").

During the Reporting Period, representative overseas projects entered into by the Group included the EPC contracting project in relation to Phase I of Abadan refinery upgrading project of National Iranian Oil Engineering and Construction Company ("Iranian Abadan Refinery Upgrading Project Phase I EPC Contracting Project"); the contruction project of Package 1 consortium in relation to the new AL-Zour refinery project of Kuwait National Petroleum Company in Kuwait ("Kuwait AL-Zour New Refinery Project Package 1 Consortium Construction Project"); the installation project in relation to the mechanical, electrical and instrument equipment for Fadhili natural gas processing project of Saudi Aramco ("Saudi Fadhili Natural Gas Processing Project's Mechanical, Electrical and Instrument Equipement Installation Project") and the contracting project of engineering, procurement, construction and commissioning ("EPCC") in relation to the RAPID automated stereo warehouse project of Petroliam Nasional Berhad (PETRONAS) in Malaysia ("Malaysian RAPID Automated Stereo Warehouse 'EPCC' Project").

During the Reporting Period, the Group's capital expenditure was approximately RMB580 million, which was mainly used for the construction of technical R&D facilities, provisional facilities for the project and information system and the purchase of construction equipment and professional engineering software.

The discussions on the Group's environmental policies, relationships with its major stakeholders and compliance with applicable laws and regulations which have a significant influence on the Group are set out in the "Corporate Environment, Social and Governance Report" from page 88 to page 91 of this annual report.

(3) Business Highlights

Successful implementation of major projects

Zhongtian Hechuang Coal Chemical Project: Please refer to the announcement dated 26 December 2013 published by the Company for further details. As at the end of the Reporting Period, the major devices of the projects were delivered for use.

Zhong'An Joint Coalification complex project: Please refer to the announcement dated 24 November 2014 published by the Company for further details. In its 2015 Annual Report issued on 21 March 2016, the Company disclosed that the project had been suspended as requested by the owner. In January 2017, the Group received a notice from the owner for resumption of work. As at the date of publication of this annual report, the project was conducted smoothly in every aspect.

Guangxi LNG Project: Please refer to the announcement dated 1 July 2015 published 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 published 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, design and procurement work was completed and the construction was conducted smoothly.

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

Kuwait Oil Refining Project: Please refer to the announcement dated 14 October 2015 published by the Company for further details. As at the end of the Reporting Period, more than half of the project design work process, purchase of key equipments and materials was completed, and the project was carried out in sequence as planned.

Malaysia RAPID Oil Refining Project: Please refer to the announcement dated 29 August 2014 published by the Company for further details. As at the end of the Reporting Period, six tenths of the overall progress of the project was completed, design work was basically completed, approximately seven tenths of the purchase work was completed and onsite construction entered the peak period.

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, design work of the project was completed, over nine tenths of the purchase work was completed, over six tenths of the construction was completed, and approximately eight tenths of the overall progress was completed.

Continuous enhancement of project assurance capability being strengthened continuously

During the Reporting Period, to ensure a more efficient, orderly and safe implementation of projects, the Group has improved the project coordination management mechanism at the group level, established a unified work subcontracting management system to standardise subcontracting activities and enhance subcontracting management capability; established and released the Group's subcontractor resources database, thus laying a solid foundation for the affiliates of the Group to select high-quality subcontractors and lower subcontracting cost; improved the project settlement and inventory management mechanisim, thus achieving remarkable results in reducing stocks; took initiative in establishing the project management system which is benchmarked against the world-class systems taking into account of both domestic and overseas projects, unified project management process and improved the operation efficiency of projects based on EPC project management mode.

Market development in defiance of difficulties

In 2016, faced with extremely difficult market condition, the Group exploited its overall advantage of its industry, business and technical chains, transformed challenges into momentum; sought opportunities in difficult situations; proactively explored domestic and overseas markets with full efforts. During the Reporting Period, the value of new contracts entered into by the Group was RMB27.564 billion. Newly signed domestic contracts amounted to RMB17.193 billion, and overseas contracts amounted to approximately USD1.492 billion.

In the PRC, during the Reporting Period, the Group entered into new contracts for a number of large projects, such as Dongjiakou Crude Oil Commercial Reservation Base Project with a contract value of approximately RMB1.100 billion; SP Chemicals Comprehensive Utilisation Project of Light Hydrocarbon with a contract value of approximately RMB666 million; Anqing Catalytic Diesel Hydrogenation Transformation Project with a contract value of approximately RMB540 million; Tianjin Gasoline Quality Upgrade Project with a contract value of approximately RMB523 million.

Overseas, during the Reporting Period, the Group signed new contracts for a number of large projects, such as Iranian Abadan Refinery Product Upgrade Project Phase I EPC Contracting Project with the Group's share of approximately RMB4.081 billion in total contract value; Kuwait AL-Zour New Refinery Project P1 Package Construction Project with a net contract value of approximately RMB2.095 billion; Saudi Fadhili Natural Gas Treatment Project's Machinery and Electrical Instrument Package Construction Works Project with a total contract value of approximately RMB1.738 billion; Malaysian RAPID 3D Automatic Warehouse "EPCC" EPC Contracting Project with a total contract value of approximately RMB1.237 billion.

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, which are expected to be signed in the future.

In 2016, the Group strengthened communication and exchange with international large-scale energy companies and established multi-level cooperation and exchange mechanism. In 2016, the Group signed memorandum of cooperation with SHELL, and both parties will cooperate in patent technology application and engineering construction based on the principle of mutual benefit. In February 2017, the Group passed the qualification pre-review of EXXON MOBIL and is officially short listed on the list of global EPC strategic contractors of EXXON MOBIL. The Group has obtained the opportunities to participate in the global EPC projects of EXXON MOBIL.

Continuous promotion of innovation and technology advancement

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

- Technological development for natural gas purification project in Yuanba finally passed appraisal after operation inspection. Since the project was launched in December 2011, important breakthroughs have been made in various aspects, e.g. the production of new desulfuriser of high efficiency and the development of heterogeneous separation process and equipment. The project processed 2.6 billion m^3 of raw gas in the year of 2016, all being class-A gas under national standard GB 17820-2012. In December 2016, the project passed the appraisal by the Department of Science and Technology of the Group. As an important clean energy, natural gas has special significance for the country in improving its energy structure and protecting environment. The successful development of natural gas purification technology has important significance for the use of clean energy and the green development of China.

- The packaged technology of syngas to ethylene has got into the calibration stage. In the second half of 2016, the project entered the final stage of correction, with satisfactory results being achieved in units such as glycol absorption rate and dust absorption effect. Syngas to glycol technology is one of the hot technologies used for the efficient and clean utilisation of coals. The effective research of the technology is of great significance for promoting clean utilisation of coals.

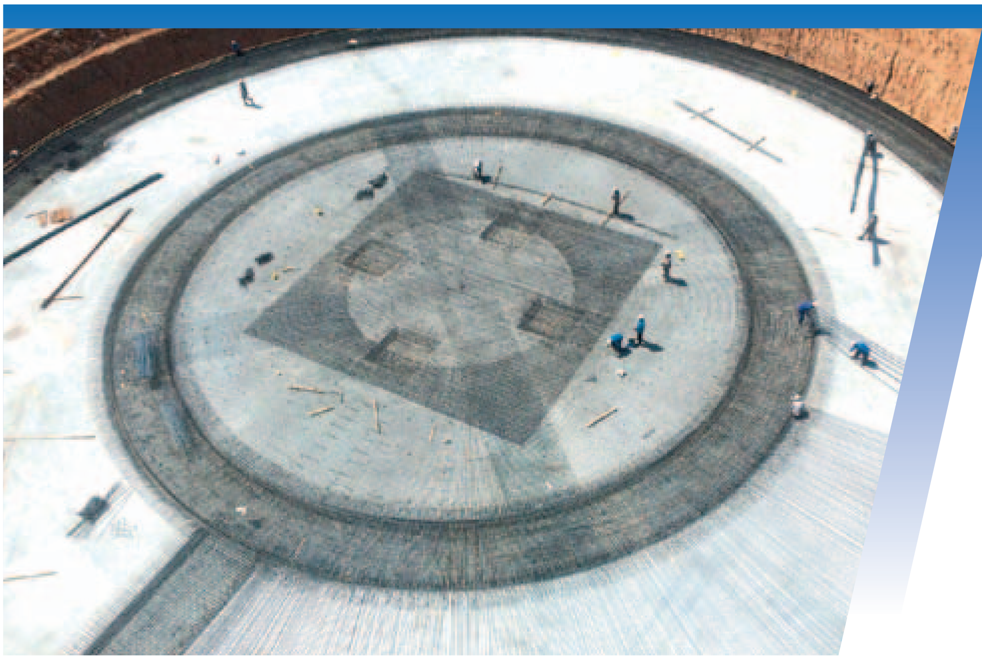
- In the development and industrial testing of solid superacid C5, C6 isomerisation technology, the transformation and initial calibration of phase 1 were completed. The technology is one of the important means for producing quality gasoline blending components and has great significance for improving the quality of China's automobile gas products.

- For purpose of the packaged technology of making propylene oxide with hydrogen peroxide solution, an industrial testing device was completed in August 2016, which is now undergoing rectification of problems and trial production.

- Engineering design for the development of the packaged technology of ethylene oxide was completed and the project entered full-scale construction in 2016.

Significant progess in the research and development of environmental protection and energy saving technologies

- In the construction of soil repair platform and optimisation of thermal desorption integration technology, the tasks that have been fulfilled by now include the election of a testing platform and construction of test devices. The platform set up for the analysis and testing of polluted soils includes ultrasonic extraction method, gas chromatography-mass spectrometry method, gas chromatography method, UV-Vis spectrophotometry, moisture content and organic matter analysis method for the analysis of organic pollutants in soils. The TPD-MS test device uses the quick-simulation method of thermal desorption process to simulate the effect of different process parameters (i.e. temperature, dwell time, atmosphere and gas velocity) on the efficiency of removing the PAHs in polluted soils.
- Relevant researches for a number of environmental protection projects, e.g. development of boiler flue gas – CO_2 trapping system – DEA chemical absorption process package, researches on the process of using the ammonia obtained through urea hydrolysis for denitration of flue gas, which have got into the stage of result review, were completed.
- In the development of the technology and process package for treatment of 1,3-propylene glycol wastewater through biological method, small-scale tests for the improvement test of replacing calcium process with sodium process to address the problem of the difficult treatment of wastewater and large quantity, were completed. The tasks to be fulfilled at the next stage will include the analysis of the quality of sewage and small-scale laboratory tests based on the wastewater of sodium process.
- Developed pilot plant test devices and process package for the catalytic treatment of wastewater with high ammonia nitrogen; completed the small-scale testing of catalyst wastewater; design of the plan of pilot plant test devices is underway.



Innovation synergy of the research and development center of the Group (the "R&D Center") opened a new horizon

During the Reporting Period, under the orientation of "becoming an engine for the sustained enhancement of the engineering technology of the Group", the R&D Center focused on technology R&D, commercialisation of technology and R&D collaboration with the Group's affiliates by "going out and bringing in". In response to the technical needs of the Group's affiliates, the R&D Center launched 34 new R&D projects, preliminarily forming collaborative innovations with the affiliates and achieving marked results.

Good momentum persisted in patent applications

During the Reporting Period, the Group completed 453 new patent applications (including 236 invention patents) and licensing of 429 patents (including 219 invention patents which accounted for 51.0%).

Continuously achieving numerous fruitful results in technology innovation

During the Reporting Period, the Group was awarded with 114 items (times) of various prizes for scientific and technological advancement above provincial/ministerial levels, including one special prize for scientific and technological advancement at each of national level and provincial/ministerial level, six first-class prizes for scientific and technological advancement at provincial/ministerial level, one gold prize for national outstanding engineering design, one special prize and five first-class prizes for outstanding engineering design at provincial/ministerial level, and six gold prizes for national outstanding engineering design.

Continuous expansion of the environmental protection and energy saving business

Attaching great importance to the exploration of the environmental protection and energy saving market, the Group has integrated its own technological 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, which further develop the Group's environmental protection and energy saving business. During the Reporting Period, the Group entered new environmental protection business contracts valued at approximately RMB162 million, which was mainly from flue gas desulfurisation and denitrification projects, and new energy saving business contracts valued at approximately RMB44.00 million, which was mainly from energy saving reform projects.

Putting great emphasis on the development of its 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 various 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 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 several refineries. 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.

Smooth construction and implementation of ERP system

During the Reporting Period, the Group built and successfully implemented its ERP system together with an integrated management information system that matches with the ERP system. The Group's ERP system is an integrated management information system that covers the entire industrial chain of design, procurement construction and manufacturing. It is designed to intensify the synergy of the Group's own business and sharing of services by establishing a new mode of production and operation that is digital, internet-based and intelligent as well as a new way of intensified, integrated and refined operation and management. The Group's ERP system improves the informatisation of management and the integration of the information system. Such efforts have led to the overall enhancement of application of the Group's informationisation, promoting innovations in management and technologies, fully ensuring the fulfillment of the indicators for production, operation, reform and development, providing support for building the ecosphere of technology-based, innovative and service-oriented engineering industry.

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 mechanisms 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 realised 232.9 million safe man hours in accumulation domestically and overseas.

2 Business Prospects

Looking to 2017, the world economic environment is still complicated and changing. The economic recovery will continue facing severe challenges and is subject to the influence of numerous uncertain factors. The development of the Chinese economy has entered the "New Normal", and the economic growth rate will be maintained within a reasonable range. In 2017, it is estimated that as a result of the influence of adverse factors such as international crude oil price staying low and global industrial investment being sluggish in achieving significant growth, the production and operation situations of the refinery and chemical engineering industry will remain severe, the market competition will become fiercer, and engineering companies will continue facing higher downward performance pressure.

In 2017, 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 2017, the target domestic new contract value of the Group is RMB28 billion, and the target overseas new contract value is USD1.5 billion.

(1) Continuously deepen enterprise reform and accelerate the optimisation of internal resources

In 2017, the Group will follow the development trend of the industry and the principle of marketisation, and promote the reform and innovation of its operating system and mechanisms; continuously push forward the optimized configuration of internal resources; become a more successful and advanced engineering company, continue to drive the transformation and development of construction enterprises, strengthen integrated coordination, create synergistic advantages and expand its business in a balanced way.

(2) Explore transformational development to expand new market scope and business modes

In 2017, based on the strategic philosophy of technology-led market, the Group will actively promote its own technologies and will, at the same time, enter into strategic cooperation with famous technology patent licensors in the world to explore transformational development, open up new business fields and models, and enhance its overall competitiveness. The Group will continue to study new business models, including the management of energy and environment through contract, assistance in financing, summarise and promote the experience in contract-based environmental management, and launch new pilot projects on the condition that the risks are under control. Several such projects and the projects for utilisation of low-temperature heat are currently making steady progress.

(3) Strengthen process management and project control, take multiple measures simultaneously, and increase cost efficiency

In 2017, the Group will make every effort to ensure the smooth implementation of the in-progress projects; improve process control over newly launched large projects, diligently review the commencement report and major plans for the projects, pay more attention to risk assessment of the projects, make quantitative analysis of their overall progress, take corrective measures promptly and conduct dynamic analysis of project cost; further propel the building of project management system, closely monitor the Company's project management and make necessary improvements; further improve design management, optimise design plan, enhance design precision and strengthen the EPC capability through design optimisation; strengthen the management of man hours, optimise the balance of the human resources of projects and provide more accurate basis for subsequent bidding and quotations.

(4) Seize the opportunity of the "Belt and Road" strategic initiative and endeavor to create the third "national business card"

In 2017, the Group will hold fast to the opportunity of "Belt and Road" strategic initiative, give play to the internal integration advantages of the Group, unify strategies and brands, set up a market development system that features the joint actions taken by its headquarters, subsidiaries and overseas institutions, step up the analysis and studies of the international market, consolidate the traditional markets in the Middle East, Southeast Asia and Central Asia, implement the strategy of opening up the markets in Russia, South Asia and Africa, pursue global development in a steady manner, expand the export of SINOPEC technology, engineering and equipment in a bid to create the "third national business card".

(5) Focus on technology progression to maintain and enhance technology leading advantages

In 2017, the Group will establish an innovation platform that fits into its own features by focusing on market orientation, building innovation teams, promoting innovative culture and establishing learning organisations; attach more importance to intellectual property protection, intensify protection awareness, improve protection mechanism and enhance technology protection capability; implement technical source searching under the development strategy and the development requirements for building a company that is oriented toward technology, innovation and services; increase its efforts in seeking technical cooperation in the technologies used extensively in the petrochemical industry, the technologies for environmental protection and energy conservation, strategic, forward-looking and cutting-edge technologies to create conditions for opening up market via technology. At the same time, the Group will strengthen its cooperation with scientific research institutes and make good use of external resources to create a win-win situation.

(6) Vigorously exploit environmental protection and energy saving sectors to create new business growth

In 2017, the Group will continue to give play to the advantages of the platform, maintain and intensify the cooperation and exchanges with some famous licensors in the world in the fields of energy conservation and environmental protection; establish the necessary incentive mechanism for the model projects already launched in fields such as energy conservation, environmental protection, soil repair and disposal of garbage to provide support for the quick formation of competitiveness in these fields; excel in the collaborative market development for alkylation technology, promotion of energy saving contracts and energy management projects, construction of the demonstration devices for CO_2 utilisation technology, development of the commercialised projects in treatment of polluted soils; continue to intensify the market exploitation in relation to the control of the VOCs of enterprises, ultra-clean emission of flue gas, up-to-standard discharge of sewage, gasification fermentation of garbage and disposal of solid industrial wastes to form new growth points for business.

(7) Promote the establishment of modern human resource management system

In 2017, the Group will continue to optimise its employment position management system and set up a position-based passage for the growth of talents in light of the business features of engineering construction enterprises and, taking into consideration the capability and competence of talents; implement market-oriented optimisation of the staff salary structure, establish all-member performance examination system, intensify management by objectives (MBO) and incentive constrain so that the income of employees is closely linked to their personal performance and the performance of the enterprise; set up mechanism under which cost of labour is determined based on the market trends, performance and value to enhance the sustainable development capability of the enterprise.

(8) Comprehensively develop the application effects of EPR system

In 2017, the Group will focus on “ERP” and “digitalised delivery” as its primary orientation for the overall enhancement of the application and results; accelerate the construction of operation management platform that has ERP at the center, fully draw on and rapidly spread trial experience. The Group will carry out the application of the pilot project of digitalised delivery, revolve around the construction of digitalised factories and implementation of key projects to deepen 3D multi-professional collaborative design and the management and application of integrated projects, strengthen the promotion of modular design, integrated procurement, visualised construction and standardised coding. The Group will endeavor to create digitalised engineering production lines that meet the needs of different owners and improve the quality and level of engineering design.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the Group's audited consolidated financial statements and the accompanying notes contained in this annual report. Parts of the financial data below, unless otherwise stated, are extracted from the Group's audited consolidated 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 years.

	Year ended 31 December				
	2016		2015		
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Change
	(RMB '000)	(%)	(RMB '000)	(%)	(%)
Revenue	39,375,434	100.0	45,498,354	100.0	(13.5)
Cost of sales	(35,084,752)	(89.1)	(39,341,320)	(86.5)	(10.8)
Gross profit	4,290,682	10.9	6,157,034	13.5	(30.3)
Other income	874,696	2.2	367,916	0.8	137.7
Selling and marketing expenses	(106,763)	(0.3)	(100,863)	(0.2)	5.8
Administrative expenses	(1,160,375)	(2.9)	(1,116,024)	(2.5)	4.0
Research and development costs	(1,113,083)	(2.8)	(1,184,956)	(2.6)	(6.1)
Other operating expenses	(849,099)	(2.2)	(280,384)	(0.6)	202.8
Other (losses)/gains - net	(1,318)	(0.0)	2,470	0.0	—
Operating profit	1,934,740	4.9	3,845,193	8.5	(49.7)
Finance income	493,794	1.3	466,243	1.0	5.9
Finance expenses	(75,226)	(0.2)	(91,678)	(0.2)	(17.9)
Finance income - net	418,568	1.1	374,565	0.8	11.7
Share of profits of joint arrangements	463	0.0	315	0.0	47.0
Share of profits of associates	15,489	0.0	19,974	0.0	(22.5)
Profit before taxation	2,369,260	6.0	4,240,047	9.3	(44.1)
Income tax expense	(706,209)	(1.8)	(922,064)	(2.0)	(23.4)
Profit for the year	1,663,051	4.2	3,317,983	7.3	(49.9)
Exchange differences arising on translation of foreign operations	70,441	0.2	(2,534)	0.0	—
Losses on revaluation of retirement benefit plans obligations	(40,948)	(0.1)	(216,683)	(0.5)	(81.1)
Total comprehensive income for the year	1,692,544	4.3	3,098,766	6.8	(45.4)

(1) Revenue

The revenue of the Group decreased by 13.5% from RMB45.498 billion for the year ended 31 December 2015 to RMB39.375 billion for the year ended 31 December 2016, mainly because of reducing in EPC contracting business of new coal chemical industry.

(2) Cost of sales

The cost of sales of the Group decreased by 10.8% from RMB39.341 billion for the year ended 31 December 2015 to RMB35.085 billion for the year ended 31 December 2016, mainly due to the decrease in revenue as well as the decrease in the sub-contracting cost and outsourcing costs of equipment and materials.

(3) Gross profit

The gross profit of the Group decreased by 30.3% from RMB6.157 billion for the year ended 31 December 2015 to RMB4.291 billion for the year ended 31 December 2016, mainly because of year-on-year decrease in income from EPC with higher gross profit margin, and year-on-year increase in the proportion of income from construction segment with lower gross profit margin in the total income.

(4) Other income

The other income of the Group increased by 137.7% from RMB368 million for the year ended 31 December 2015 to RMB875 million for the year ended 31 December 2016, mainly due to the increase in exchange gain.

(5) Selling and marketing expenses

The selling and marketing expenses of the Group increased from RMB101 million for the year ended 31 December 2015 to RMB107 million for the year ended 31 December 2016, remaining broadly stable on a year-on-year basis.

(6) Administrative expenses

The administrative expenses of the Group increased from RMB1.116 billion for the year ended 31 December 2015 to RMB1.160 billion for the year ended 31 December 2016, remaining broadly stable on a year-on-year basis.

(7) Research and development costs

The research and development costs of the Group decreased from RMB1.185 billion for the year ended 31 December 2015 to RMB1.113 billion for the year ended 31 December 2016, remaining broadly stable on a year-on-year basis.

(8) Other operating expenses

The other operating expenses of the Group increased by 202.8% from RMB280 million for the year ended 31 December 2015 to RMB849 million for the year ended 31 December 2016, which is mainly due to the increase in provision for impairment of receivables.

(9) Other (losses)/gains - net

The net other losses of the Group decreased from gain of RMB0.002 billion for the year ended 31 December 2015 to loss of RMB0.001 billion for the year ended 31 December 2016.

(10) Operating profit

Due to the foregoing reasons, the operating profit of the Group decreased by 49.7% from RMB3.845 billion for the year ended 31 December 2015 to RMB1.935 billion for the year ended 31 December 2016.

(11) Finance income - net

The net finance income of the Group increased by 11.7% from RMB375 million for the year ended 31 December 2015 to RMB419 million for the year ended 31 December 2016, mainly due to year-on-year increase in interest income and year-on-year expenditure decrease in actuarial interest on liability.

(12) Income tax expense

The Group's income tax expense decreased by 23.4% from RMB922 billion for the year ended 31 December 2015 to RMB706 million for the year ended 31 December 2016, mainly due to year-on-year reduction of pre-tax profit of the Group. Effective income tax rate increased from 21.7% to 29.8% on a year-on-year basis. Change of effective income tax rate is mainly because of higher exchange gains the Group received and profit fluctuation of several subsidiary companies of the Company.

(13) Profit for the year

Due to the above reasons, the profit in the Reporting Period decreased by 49.9% from RMB3.318 billion for the year ended 31 December 2015 to RMB1.663 billion for the year ended 31 December 2016.

(14) Total comprehensive income for the year

As a combined result of the reasons above and the contribution from other comprehensive income of the Group, the total amount of the comprehensive income of the Group decreased by 45.4% from RMB3.099 billion for the year ended 31 December 2015 to RMB1.693 billion for the year ended 31 December 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/(loss)		Segment operating profit margin	
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	(RMB '000)		(RMB '000)		(%)		(RMB '000)		(%)	
Engineering, consulting and licensing	**2,611,514**	2,625,673	**903,017**	926,144	**34.6**	35.3	**225,947**	236,647	**8.7**	9.0
EPC Contracting	**20,641,233**	27,838,722	**2,520,127**	3,848,249	**12.2**	13.8	**1,737,248**	3,014,790	**8.4**	10.8
Construction	**18,831,222**	18,123,282	**837,798**	1,242,276	**4.4**	6.9	**(96,287)**	441,259	**(0.5)**	2.4
Equipment manufacturing	**439,885**	679,517	**29,740**	140,365	**6.8**	20.7	**(3,955)**	75,660	**(0.9)**	11.1
Unallocated	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**71,787**	76,837	**N/A**	N/A
Subtotal	**42,523,854**	49,267,194	**4,290,682**	6,157,034	**N/A**	N/A	**1,934,740**	3,845,193	**N/A**	N/A
Total after inter-segment elimination [3]	**39,375,434**	45,498,354	**4,290,682**	6,157,034	**10.9**[1]	13.5[1]	**1,934,740**	3,845,193	**4.9**[2]	8.5[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 consolidated financial statements contained in this annual report.

Engineering, Consulting and Licensing

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

	Year ended 31 December			
	2016		2015	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(RMB '000)	(%)	(RMB '000)	(%)
Revenue	2,611,514	100.0	2,625,673	100.0
Cost of sales	(1,708,497)	(65.4)	(1,699,529)	(64.7)
Gross profit	903,017	34.6	926,144	35.3
Selling and marketing expenses	(22,946)	(0.9)	(20,979)	(0.8)
Administrative expenses	(236,143)	(9.0)	(222,487)	(8.5)
Research and development costs	(460,311)	(17.6)	(580,261)	(22.1)
Other income and expenses	42,330	1.6	134,230	5.1
Operating profit	225,947	8.7	236,647	9.0

(1) Revenue

The revenue generated from the Group's Engineering, Consulting and Licensing segment decreased from RMB2.626 billion for the year ended 31 December 2015 to RMB2.612 billion for the year ended 31 December 2016, remaining broadly stable on a year-on-year basis.

(2) Cost of sales

The cost of sales of the Group's Engineering, Consulting and Licensing segment increased from RMB1.700 billion for the year ended 31 December 2015 to RMB1.708 billion for the year ended 31 December 2016, remaining broadly stable on a year-on-year basis.

(3) Gross profit

The gross profit of the Group's Engineering, Consulting and Licensing segment decreased from RMB926 million for the year ended 31 December 2015 to RMB903 million for the year ended 31 December 2016, which was basically the same on a year-on-year basis. The gross profit margin of the Group's Engineering, Consulting and Licensing segment decreased from 35.3% for the year ended 31 December 2015 to 34.6% for the year ended 31 December 2016.

(4) Selling and marketing expenses

The selling and marketing expenses of the Group's Engineering, Consulting and Licensing segment increased from RMB21 million for the year ended 31 December 2015 to RMB23 million for the year ended 31 December 2016, remaining broadly stable on a year-on-year basis.

(5) Administrative expenses

The administrative expenses of the Group's Engineering, Consulting and Licensing segment increased from RMB222 million for the year ended 31 December 2015 to RMB236 million for the year ended 31 December 2016, remaining broadly stable on a year-on-year basis.

(6) Research and development costs

The research and development costs of the Group's Engineering, Consulting and Licensing segment decreased by 20.7% from RMB580 million for the year ended 31 December 2015 to RMB460 million for the year ended 31 December 2016, mainly because of reduction of new development project and decrease in cost on relevant R&D.

(7) Operating profit

Due to the above reasons, the operating profit of the Group's Engineering, Consulting and Licensing segment decreased by 4.5% from RMB237 million for the year ended 31 December 2015 to RMB226 million for the year ended 31 December 2016.

EPC Contracting

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

	Year ended 31 December			
	2016		2015	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(RMB '000)	(%)	(RMB '000)	(%)
Revenue	20,641,233	100.0	27,838,722	100.0
Cost of sales	(18,121,106)	(87.8)	(23,990,473)	(86.2)
Gross profit	2,520,127	12.2	3,848,249	13.8
Selling and marketing expenses	(39,676)	(0.2)	(38,402)	(0.1)
Administrative expenses	(351,230)	(1.7)	(328,647)	(1.2)
Research and development costs	(339,639)	(1.6)	(394,769)	(1.4)
Other income and expenses	(52,334)	(0.3)	(71,641)	(0.3)
Operating profit	1,737,248	8.4	3,014,790	10.8

(1) Revenue

The revenue generated from the Group's EPC Contracting segment decreased by 25.9% from RMB27.839 billion for the year ended 31 December 2015 to RMB20.641 billion for the year ended 31 December 2016, which was mainly due to the decrease in EPC contracting business of new coal chemical industry.

(2) Cost of sales

The cost of sales of the Group's EPC Contracting segment decreased by 24.5% from RMB23.990 billion for the year ended 31 December 2015 to RMB18.121 billion for the year ended 31 December 2016, which was mainly due to the decrease in sub-contracting costs and equipment procurement costs following the decrease in revenue.

(3) Gross profit

The gross profit of the Group's EPC Contracting segment decreased by 34.5% from RMB3.848 billion for the year ended 31 December 2015 to RMB2.520 billion for the year ended 31 December 2016, and the gross profit margin decreased from 13.8% for the year ended 31 December 2015 to 12.2% for the year ended 31 December 2016. The decreases were mainly because of influence of anabatic market competition and year-on-year decrease of gross profit rate of some EPC contracting project.

(4) Selling and marketing expenses

The selling and marketing expenses of the Group's EPC Contracting segment increased from RMB38 million for the year ended 31 December 2015 to RMB40 million for the year ended 31 December 2016, remaining broadly stable on a year-on-year basis.

(5) Administrative expenses

The administrative expense of the Group's EPC Contracting segment increased from RMB329 million for the year ended 31 December 2015 to RMB351 million for the year ended 31 December 2016, remaining broadly stable on a year-on-year basis.

(6) Research and development costs

The research and development costs of the Group's EPC Contracting segment decreased by 14.0% from RMB395 million for the year ended 31 December 2015 to RMB340 million for the year ended 31 December 2016, which was mainly due to the decrease in research and development projects.

(7) Operating profit

Due to the above reasons, the operating profit of the Group's EPC Contracting segment decreased by 42.4% from RMB3.015 billion for the year ended 31 December 2015 to RMB1.737 billion for the year ended 31 December 2016.

Construction

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

	Year ended 31 December			
	2016		2015	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(RMB '000)	(%)	(RMB '000)	(%)
Revenue	18,831,222	100.0	18,123,282	100.0
Cost of sales	(17,993,424)	(95.6)	(16,881,006)	(93.1)
Gross profit	837,798	4.4	1,242,276	6.9
Selling and marketing expenses	(39,700)	(0.2)	(36,785)	(0.2)
Administrative expenses	(535,677)	(2.8)	(507,180)	(2.8)
Research and development costs	(312,584)	(1.7)	(204,548)	(1.1)
Other income and expenses	(46,124)	(0.2)	(52,504)	(0.3)
Operating (loss)/profit	(96,287)	(0.5)	441,259	2.4

(1) Revenue

The revenue generated from the Group's Construction segment decreased by 3.9% from RMB18.123 billion for the year ended 31 December 2015 to RMB18.831 billion for the year ended 31 December 2016, which was mainly because of construction projects such as phosphate public project in Saudi Arabia, etc. welcoming the construction peak-hour.

(2) Cost of sales

The cost of sales of the Group's Construction segment increased by 6.6% from RMB16.881 billion for the year ended 31 December 2015 to RMB17.993 billion for the year ended 31 December 2016, which was mainly due to the increase in construction business.

(3) Gross profit

The gross profit of the Group's Construction segment decreased by 32.6% from RMB1.242 billion for the year ended 31 December 2015 to RMB838 million for the year ended 31 December 2016, and the gross profit margin decreased from 6.9% for the year ended 31 December 2015 to 4.4% for the year ended 31 December 2016. The decreases were mainly because of anabatic market competition and narrowing of profitability.

(4) Selling and marketing expenses

The selling and marketing expenses of the Group's Construction segment increased from RMB37 million for the year ended 31 December 2015 to RMB40 million for the year ended 31 December 2016, remaining broadly stable on a year-on-year basis.

(5) Administrative expenses

The administrative expense of the Group's Construction segment increased from RMB507 million for the year ended 31 December 2015 to RMB536 million for the year ended 31 December 2016, remaining broadly stable on a year-on-year basis.

(6) Research and development costs

The research and development costs of the Group's Construction segment increased by 52.8% from RMB205 million for the year ended 31 December 2015 to RMB313 million for the year ended 31 December 2016. The increase was mainly due to the Group's intensified investment in research and development in the construction technology.

(7) Operating loss

Due to the above reasons, the operating loss of the Construction segment was RMB96 million.

Equipment Manufacturing

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

	Year ended 31 December			
	2016		2015	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(RMB '000)	(%)	(RMB '000)	(%)
Revenue	439,885	100.0	679,517	100.0
Cost of sales	(410,145)	(93.2)	(539,152)	(79.3)
Gross profit	29,740	6.8	140,365	20.7
Selling and marketing expenses	(4,441)	(1.0)	(4,697)	(0.7)
Administrative expenses	(37,325)	(8.5)	(57,710)	(8.5)
Research and development costs	(549)	(0.1)	(5,379)	(0.8)
Other income and expenses	8,620	2.0	3,081	0.5
Operating (loss)/profit	(3,955)	(0.9)	75,660	11.1

(1) Revenue

The revenue generated from the Group's Equipment Manufacturing segment decreased by 35.3% from RMB680 million for the year ended 31 December 2015 to RMB440 million for the year ended 31 December 2016, which was mainly due to inefficient orders of the segment, leading to the decrease in businesses.

(2) Cost of sales

The cost of sales of the Group's Equipment Manufacturing segment decreased by 23.9% from RMB539 million for the year ended 31 December 2015 to RMB410 million for the year ended 31 December 2016, which was mainly due to the decrease in business.

(3) Gross profit

The gross profit of the Group's Equipment Manufacturing segment decreased by 78.8% from RMB140 million for the year ended 31 December 2015 to RMB30 million for the year ended 31 December 2016, the gross profit margin decreased to 6.8% from 20.7% on a year-on-year basis. The decreases were mainly due to the decrease in cost less than the decrease in income of this segment, under the influence of fixed costs.

(4) Selling and marketing expenses

The selling and marketing expenses of the Group's Equipment Manufacturing segment were RMB4 million for the year ended 31 December 2016.

(5) Administrative expenses

The administrative expenses of the Group's Equipment Manufacturing segment were RMB37 million for the year ended 31 December 2016.

(6) Research and development costs

The research and development costs of the Group's Equipment Manufacturing segment were RMB0.549 million for the year ended 31 December 2016.

(7) Operating loss

Due to the above reasons, the operating loss of the Group's Equipment Manufacturing segment was RMB4 million for the year ended 31 December 2016.

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:

	Year ended 31 December				
	2016		2015		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB '000)	(%)	(RMB '000)	(%)	(%)
Oil refining	10,760,205	27.3	7,683,275	16.9	40.0
Petrochemicals	12,524,930	31.8	11,982,650	26.3	4.5
New coal chemicals	8,562,936	21.7	17,431,865	38.3	(50.9)
Other industries	7,527,363	19.2	8,400,564	18.5	(10.4)
Total	39,375,434	100.0	45,498,354	100.0	(13.5)

As illustrated by the above revenue generated from different industries, during the Reporting Period, influenced by the oil refining EPC contracting projects, including the Malaysia RAPID Oil Refining Project and the FCC Project of Kazakhstan Atyrau Refinery, which entered the peak stage of implementation, the revenue generated from the oil refining industry was RMB10.760 billion, representing an increase of 40.0% on a year-on-year basis; the revenue generated from the petrochemical industry was RMB12.525 billion, remaining broadly stable on a year-on-year basis; affected by the decrease in business volume from the new coal chemical industry and other industries, revenue generated from the new coal chemical industry was RMB8.563 billion, representing a decrease of 50.9% on a year-on-year basis; the revenue generated from other industries was RMB7.527 billion, representing a decrease of 10.4% on a year-on-year basis.

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

	Year ended 31 December				
	2016		2015		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB '000)	(%)	(RMB '000)	(%)	(%)
PRC	24,892,217	63.2	36,407,242	80.0	(31.6)
Overseas	14,483,217	36.8	9,091,112	20.0	59.3
Total	39,375,434	100.0	45,498,354	100.0	(13.5)

During the Reporting Period, the Group received RMB24.892 billion from the PRC, which constitutes 63.2% of the total revenue and represents a decrease of 31.6% on a year-on-year basis; the Group's revenue generated overseas was RMB14.483 billion, which constitutes 36.8% of the total revenue and represents an increase of 59.3% on a year-on-year 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:

	Year ended 31 December				
	2016		2015		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB '000)	(%)	(RMB '000)	(%)	(%)
Sinopec Group and its associates	14,531,840	36.9	20,067,936	44.1	(27.6)
Non-Sinopec Group and its associates	24,843,594	63.1	25,430,418	55.9	(2.3)
Total	39,375,434	100.0	45,498,354	100.0	(13.5)

During the Reporting Period, the revenue generated from Sinopec Group and its associates was RMB14.532 billion, which constitutes 36.9% of the total revenue and represents a decrease of 27.6% on a year-on-year basis; the revenue generated from non-Sinopec Group and its associates was RMB24.844 billion, which constitutes 63.1% of the total revenue and represents a decrease of 2.3% on a year-on-year basis.

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 calculated based on the Group's assumption that the relevant contracts will be performed in accordance with their terms. Backlog is not a measure defined by generally accepted accounting principles. Any modification, termination or suspension of these contracts by the Group's clients may have a substantial and immediate effect on the Group's backlog. Due to factors which are beyond the Group's control, projects may also remain in the Group's backlog for a longer period of time than what was initially anticipated.

In January 2017, the Group received a notice from the owner of Zhong'An Joint Coalification complex project for resumption of work. In March 2017, the Group received a notice from the owner of Qinghai Damei Coalification project for resumption of work.

The following table sets forth the total value of backlog for each business segment of the Group as at the dates indicated:

	As at 31 December 2016 (RMB '000)	As at 31 December 2015 (RMB '000)	Change (%)
Engineering, consulting and licensing	6,977,048	6,935,838	0.6
EPC Contracting	68,930,902	78,661,105	(12.4)
Construction	12,110,670	14,273,326	(15.2)
Equipment manufacturing	154,642	114,615	34.9
Total	88,173,262	99,984,884	(11.8)

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

	As at 31 December 2016 (RMB '000)	As at 31 December 2015 (RMB '000)	Change (%)
Oil refining	32,215,821	32,951,451	(2.2)
Petrochemicals	17,649,823	22,730,572	(22.4)
New coal chemicals	20,227,322	26,230,973	(22.9)
Other industries	18,080,296	18,071,888	0.0
Total	88,173,262	99,984,884	(11.8)

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

	As at 31 December 2016 (RMB '000)	As at 31 December 2015 (RMB '000)	Change (%)
PRC	55,604,482	63,303,344	(12.2)
Overseas	32,568,780	36,681,540	(11.2)
Total	88,173,262	99,984,884	(11.8)

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

	As at 31 December 2016 (RMB '000)	As at 31 December 2015 (RMB '000)	Change (%)
Sinopec Group and its associates	37,802,158	42,242,637	(10.5)
Non-Sinopec Group and its associates	50,371,104	57,742,247	(12.8)
Total	88,173,262	99,984,884	(11.8)

As at the end of the Reporting Period, the Group's backlog was RMB88.173 billion, representing a decrease of 11.8% from that as at 31 December 2015, and 2.2 times of the total revenue of RMB39.375 billion in 2016.

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

	Year ended 31 December		Change
	2016	2015	
	(RMB '000)		(%)
Engineering, consulting and licensing	2,652,723	3,046,766	(12.9)
EPC Contracting	10,911,030	35,535,159	(69.3)
Construction	13,801,475	13,995,579	(1.4)
Equipment manufacturing	198,585	98,450	101.7
Total	27,563,813	52,675,954	(47.7)

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

	Year ended 31 December		Change
	2016	2015	
	(RMB '000)		(%)
Oil refining	10,024,575	13,994,772	(28.4)
Petrochemicals	7,444,181	11,112,479	(33.0)
New coal chemicals	2,559,285	7,516,119	(65.9)
Other industries	7,535,772	20,052,584	(62.4)
Total	27,563,813	52,675,954	(47.7)

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

	Year ended 31 December		
	2016	2015	Change
	(RMB '000)		(%)
PRC	17,193,356	33,536,769	(48.7)
Overseas	10,370,457	19,139,185	(45.8)
Total	27,563,813	52,675,954	(47.7)

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

	Year ended 31 December		
	2016	2015	Change
	(RMB '000)		(%)
Sinopec Group and its associates	10,091,361	20,964,222	(51.9)
Non-Sinopec Group and its associates	17,472,452	31,711,732	(44.9)
Total	27,563,813	52,675,954	(47.7)

During the Reporting Period, the value of the new contracts was RMB27.564 billion, representing a decrease of 47.7% on a year-on-year basis.

5 Assets, Liabilities, Equity and Cash Flows

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

(1) Assets, Liabilities and Equity

Units: RMB'000

	As at 31 December 2016	As at 31 December 2015	Changes
Total assets	58,818,320	58,404,370	413,950
Current assets	50,972,148	50,464,917	507,231
Non-current assets	7,846,172	7,939,453	(93,281)
Total liabilities	33,616,404	33,765,858	(149,454)
Current liabilities	30,717,166	30,798,517	(81,351)
Non-current liabilities	2,899,238	2,967,341	(68,103)
Non-controlling interests	3,908	3,737	171
Net assets	25,201,916	24,638,512	563,404
Consolidated equity attributable to equity holders of the Company	25,198,008	24,634,775	563,233
Share capital	4,428,000	4,428,000	0
Reserves	20,770,008	20,206,775	563,233

As at the end of the Reporting Period, the total assets of the Group were RMB58.818 billion, the total liabilities were RMB33.616 billion, the non-controlling interests were RMB4 million, and the equity attributable to the shareholders of the Company was RMB25.198 billion. The changes in the assets and liabilities as compared with those at the end of 2015 and the main reasons are as follows:

As at the end of the Reporting Period, the total assets were RMB58.818 billion, increased by RMB414 million as compared with that as at the end of 2015. In particular, the current assets were RMB50.972 billion, increased by RMB507 million as compared with that as at the end of 2015, mainly due to the loans due from the ultimate holding company recorded a growth of RMB3 billion, the fixed deposits with financial institutions increased by RMB0.46 billion, an increase of RMB1.881 billion for notes and trade receivables, a decrease of RMB821 million for amounts due from customers for contract work, a decrease of RMB633 million for inventory; the non-current assets were RMB7.846 billion, decreased by RMB93 million as compared with that as at the end of 2015, mainly due to a decrease of depreciation and amortisation for the non-current assets.

As at the end of the Reporting Period, the total liabilities were RMB33.616 billion, decreased by RMB149 million as compared with that as at the end of 2015. In particular, the current liabilities were RMB30.717 billion, decreased by RMB81 million as compared with that as at the end of 2015, mainly due to the decrease of RMB2.462 billion in notes and trade payables; other payable items decreased by RMB985 million, amounts due to customers for contract work increased by RMB3.280 billion. The non-current liabilities were RMB2.899 billion, decreased by RMB68 million as compared with that as at the end of 2015, mainly due to the decrease of RMB59 million in retirement and other supplemental benefit obligations.

The total equity attributable to shareholders of the Company was RMB25.198 billion, increased by RMB563 million as compared with that as at the end of 2015, primarily as the result of the increase in the retained earnings.

(2) Cash Flows

During the Reporting Period, the net increase in cash and cash equivalents was RMB28 million and net cash generated from operating activities was RMB4.522 billion. The following table sets forth the main items and their changes in the Group's consolidated statements of cash flows for the years ended 31 December 2016 and 2015, respectively.

Units: RMB'000

Major items of cash flow	Year ended 31 December	
	2016	2015
Net cash generated from operating activities	4,522,395	5,793,143
Net cash used in investing activities	(3,363,360)	(2,601,554)
Net cash used in financing activities	(1,130,652)	(1,334,867)
Net increase in cash and cash equivalents	28,383	1,856,722

During the Reporting Period, the profit before taxation was RMB2.369 billion, and the profit was RMB2.773 billion after adjusting the items (non-cash expense items) in expenses that did not affect the cash flow in operating activities. Major non-cash expense items are: depreciation and amortisation were RMB723 million, exchange gains amounted to RMB474 million, impairment of trade and other receivables was RMB589 million, net interest income was RMB419 million. The changes in working capital, which caused a cash inflow of RMB2.377 billion in operating activities, are mainly shown in: strengthened inventory management, reduced inventory balance, causing the cash inflow from operating activities of RMB633 million; through the increase in the settlement of projects, the balance of contract work-in-progress was reduced, and thus resulted in the cash inflow generated from operating activities of RMB4.101 billion; strengthened settlement of exchanges debts, reduced trade and other receivables balance, causing the cash inflow from operating activities of RMB1.365 billion; trade and other payables balance was reduced, causing the cash outflow from operating activities of RMB3.724 billion.

After adjusting non-cash items, receivables and payables for the profit before taxation, and adjusting the income tax paid amounting to RMB754 million, received interest cash inflow of RMB126 million, the net cash generated from operating activities was RMB4.522 billion.

Net cash generated from investing activities was RMB3.363 billion, mainly because net outflow of funds borrowed by the ultimate holding company increased.

Net cash used in financing activities was RMB1.131 billion, mainly attributable to the dividend distribution.

Based on the cash flows during the Reporting Period, the Group has adequate working capital. The Group will continue to strengthen the settlement of trade debts and reduce the use of working capital in operating activities. The Group will also continue to effectively manage the investment risk, as well as expand the scale of investment and increase the return on capital.

(3) Summary of Financial Ratios

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

Main financial ratios	Year ended 31 December	
	2016	2015
Net profit margin (%)	**4.2**	7.3
Return on assets (%) [1]	**2.8**	6.0
Return on equity (%) [2]	**6.6**	13.5
Return on invested capital (%) [3]	**6.8**	13.5

Main financial ratios	As at 31 December 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]	**1.6**	1.6

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

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

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

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

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

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

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

Return on assets

The Group's return on assets decreased to 2.8% from 6.0% in the same period of the previous year, mainly due to the decrease in net profit during the Reporting Period and the increase in assets at the end of the Reporting Period.

Return on equity

The Group's return on equity decreased to 6.6% from 13.5% for the same period in 2015, mainly due to the decrease in net profit during the Reporting Period and the increase in equity at the end of the Reporting Period.

Return on invested capital

The Group's return on invested capital decreased to 6.8% from 13.5% for the same period in 2015 for the same reasons as the decrease in return on equity.

Gearing ratio

The Group's gearing ratio is 0, which remained stable as compared with that as at 31 December 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 31 December 2015 and as at 31 December 2016.

Current ratio

The Group's current ratio increased to 1.7 from 1.6 at the end of previous year, mainly due to the increase in current assets within the Reporting Period.

Quick ratio

The Group's quick ratio is 1.6, which remained stable as compared with that as at 31 December 2015.

SIGNIFICANT EVENTS

1 Connected Transactions

Continuing Connected Transactions between the Group and Sinopec Group

During the Reporting Period, the Group entered into a series of continuing connected transactions or agreements with Sinopec Group, including 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 published on 10 May 2013, the Company's announcement entitled "Continuing Connected Transactions - Financial Services Framework Agreement" published on 19 August 2013, the contents related to the Financial Services Framework Agreement in the Company's circular to its shareholders published 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" published 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 published 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" published 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" published on 15 September 2015.

The Group's Connected Transactions

During the Reporting Period, the aggregate value of the connected transactions entered into by the Group was RMB1.6131 billion. In particular, the expenses amounted to RMB1.188 billion and the revenue amounted to RMB14.943 billion (including RMB14.546 billion from the sale of products and services and RMB397 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 RMB1.172 billion, which was within the annual cap. The engineering and construction services (engineering consulting, technology licensing, engineering design, EPC Contracting, construction and equipment manufacturing, etc.) provided by the Group to Sinopec Group amounted to RMB14.482 billion, which was within the annual cap.

During the Reporting Period, the service fees in relation to the settlement and other financial services between the Group and Sinopec Finance Co., Ltd. and Sinopec Century Bright Capital Investment Limited were RMB3 million, which was within the annual cap. The maximum daily balance of deposits and interest income was RMB6.219 billion, which was within the annual cap. The maximum daily balance of entrustment loans was RMB14.100 billion, which was within the annual cap.

During the Reporting Period, the technology R&D services provided by the Group to Sinopec Group amounted to RMB59 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 RMB8 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 RMB5 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 RMB6 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 40 of the consolidated financial statements prepared in accordance with the IFRS in this annual report.

The above-mentioned connected transactions during the Reporting Period were approved at the Eighth Meeting of the Second Session of the Board. The connected transactions carried out during the Reporting Period are in compliance with the Hong Kong Listing Rules.

The external auditor of the SINOPEC SEG was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagement Other Than Audits or Reviews of Historical Financial Information" and Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the conclusions in respect of the above-mentioned continuing connected transactions in accordance with Rule 14A.56 of the Hong Kong Listing Rules and submitted a copy of the auditor's letter to the Hong Kong Stock Exchange.

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 annual caps, pricing policy and internal control procedure 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.

2 Material Litigation or Arbitration Events

During the Reporting Period, the Company is still litigating 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.

During the Reporting Period, Sinopec Ningbo Engineering Company Limited, a wholly-owned subsidiary of the Company, and INEOS USA LLC ("INEOS") 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.

3 Other Material Contracts

Save as disclosed in this annual report, the Group had no other contracts of significance which should be disclosed during the Reporting Period.

4 Repurchase, Sale and Redemption of Shares

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

5 Reserves

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

6 Use of IPO Proceeds

During the Reporting Period, the Group's total amount of proceeds used was RMB62 million, mainly for the research and development center for engineering technology and construction of information system. As at the end of the Reporting Period, the Group's total amount of proceeds used was RMB3.164 billion, and as at the end of the Reporting Period, the remaining net balance of proceeds was approximately HKD9.207 billion.

7 Assets Transactions

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

8 Insolvency and Restructuring

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

9 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.

10 Significant Acquisitions and Disposal

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

11 Financial Derivatives for Hedging Purposes

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

12 Pledged Assets

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

13 Debt

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

14 Review of Annual Report

The audit committee of the Company (the "Audit Committee") has reviewed this annual report. The Audit Committee has not expressed any dissent concerning the financial statements in this annual report.

The Audit Committee is comprised of all independent non-executive Directors, namely, Mr. YE Zheng, Mr. HUI Chiu Chung, Stephen and Mr. JIN Yong. Among them, Mr. YE Zheng has the appropriate professional qualifications (including being a member of the Hong Kong Institute of Certified Public Accountants) and more than 21 years of experience in auditing, internal control and consultancy.

15 Other Important Matters

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

CORPORATE GOVERNANCE

1 Enhancement of Corporate Governance in the Reporting Period

During the Reporting Period, the Company was strictly in compliance with the domestic and foreign laws and regulations on securities supervision and continuously improved its corporate governance.

During the Reporting Period, in accordance with relevant domestic and foreign laws and regulations and its actual situation, the Company strictly standardised corporate governance based on the working rules, systems and norms such as the Rules of Procedure of Shareholders Meeting, the Rules of Procedure of the Board and the Rules of Procedure of the Supervisory Committee and updated the internal documents in accordance with the Hong Kong Listing Rules and other applicable laws and regulations in a timely manner; as required by the Hong Kong Stock Exchange, the Group appropriately revised the "Work Rules of Audit Committee" to incorporate the function of risk management into the terms of reference of the Audit Committee of the Board; continuously improved the quality of investor relations and information disclosure, receiving the recognition of the capital market; modified its internal control system to intensify the execution thereof.

During the Reporting Period, the Company further enhanced on-the-job training to promote the sense of responsibility of all Directors, Supervisors and its senior management (the "Senior Management"), optimised the procedure and detailed services; provided Directors with "Company Information" report every month, which provided the Directors with data and information to make reasonable decisions in a timely and holistic manner. We continue to enhance voluntary information disclosure and our relationship with our investors by strengthening two-way communication and increasing the transparency of the Company. The Company actively performed its social responsibilities and promoted its sustainable development.

During the Reporting Period, the Supervisory Committee of the Company had no objection to any supervised matters. Furthermore, no administrative sanctions or criticisms by the Securities and Futures Commission of Hong Kong were issued against the Company, the Board, the Directors, the Supervisors, the Senior Management, controlling shareholders of the Company or the beneficial owners of the Company, nor were any of them censured publicly by the Hong Kong Stock Exchange.

2 The Group Completed the Compilation of the 13th Five-Year Development Plan and Organisational Reform of the Company

During the Reporting Period, the Group completed the compilation of its own 13th Five-Year Development Plan, which clarifies the overall ideas and targets of development of the Group in the period covered by the national 13th Five-Year Plan and determines its major business objectives and major measures to achieve economic benefits, market expansion and technological development. Meanwhile, to support its 13th Five-Year Plan and make it more forward-looking and effective, the Group has completed the compilation of 10 special plans.

During the Reporting Period, the Company improved and optimised the responsibilities of the departments of its headquarters by compiling and releasing the "Main Responsibilities of the Departments of the Headquarters". No other organisational reform matters were taken place.

3 Equity Interests of Directors, Supervisors and the Senior Management

During the Reporting Period, none of the Directors, Supervisors and members of the Senior Management, as well as their respective associates had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any associated corporations (as defined under Part XV of the SFO) which were 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 were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange that are regarded, or treated as being held, in accordance with the SFO in the shares of the Company or any associated corporation. Based on specific enquiries to all Directors and Supervisors, all Directors and Supervisors have confirmed that they complied with the standards stipulated in the Model Code during the Reporting Period.

4 Confirmation of Independence of Independent Non-executive Directors and Overview of their Performance

The Company has a sufficient number of independent non-executive Directors with appropriate professional qualifications or accounting or related financial management expertise in accordance with the Hong Kong Listing Rules. The Company appointed three independent non-executive Directors, Mr. HUI Chiu Chung, Stephen, Mr. JIN Yong and Mr. YE Zheng. The Company received a letter of confirmation from each independent non-executive Director for the year regarding their compliance with relevant independence requirements set out in Rule 3.13 of the Hong Kong Listing Rules. The Company considers all of its independent non-executive Directors to be independent.

During the Reporting Period, the independent non-executive directors of the Company earnestly fulfilled their responsibilities prescribed by relevant laws, regulations and the Articles of Association of the Company and made positive contributions to the development of the Group; regularly attended the meetings of the Board and its special committees (for details about the attendance of the meetings, please refer to the Report of the Board in this annual report), carefully read relevant documents, gave play to their own expertise in offering advices and suggestions on the development strategy, production and operation, internal control, risk management and social responsibility of the Company; gave independent opinions according to regulations on the related-party transactions, external guarantee, dividend distribution plan and appointment of senior management of the Company; maintained timely and effective communications with the executive directors, management, external auditors and internal audit department; independently and objectively safeguarded the legitimate rights and interests of the Company and investors, especially the medium-small investors, during performance of their duties.

5 The Company's Independence from Controlling Shareholders

After being confirmed by the Company and Sinopec Group, the following statement is issued:

From 1 January 2016 to 31 December 2016, Sinopec Group complied with the principles and terms of the Non-Competition Agreement and undertakings, fulfilled obligation and responsibilities in accordance with the Non-Competition Agreement and undertakings, and did not violate the Non-Competition Agreement and undertaking. The aforesaid was concluded based on Sinopec Group's overall review of the compliance with every provision (including but not limited to the provision of options for new business opportunities, options for acquisitions and pre-emptive rights).

Opinions of the independent non-executive Directors of the Company regarding the compliance with the Non-Competition Agreement of Sinopec Group are as follows:

Based on inspection of related results, the independent non-executive Directors of the Company are of the view that Sinopec Group performed and complied with the Non-Competition Agreement entered into with the Company during the Reporting Period.

6 Construction and Implementation of Internal Control System of the Group

Internal Control Construction

During the Reporting Period, the Company revised, released and implemented the "Internal Control Manual of the Company (2016 edition)" (the "Internal Control Manual"), which is concurrently released online in the internal control information system. Internal Control Manual regulates internal management, prevent operation risks and guarantee the realisation of the development strategies and operation goals of the Company. The Internal Control Manual implements our domestic and overseas regulatory requirements such as the "Basic Standard for Internal Control of Enterprises", the "Implementation Guidelines for Internal Control of Enterprises", and the "Guidelines for Assessment of Internal Control of Enterprises", which was jointly issued by five ministries and commissions including the Ministry of Finance of PRC, the SFO and the Hong Kong Listing Rules. The risk-oriented Internal Control Manual has realised the top-down integrated management of business processes, unification of internal management standards in business control and 3-in-1 integration of risks, internal control and system in business management. The Company pays high attention to the work level of internal control and risk prevention. The newly revised internal control manual has further taken effective measures to strengthen internal control, leading to all-round enhancement of internal control.

Working Plans for Establishment and Improvement of Internal Control System and Implementation

Each year, the Company prepares goals and working plans with regard to internal control, and conducts comprehensive training, daily management and evaluation. Under the uniform deployment of the Company, the subsidiaries and branches of the Company have undertaken various internal control requirements and achieved effective integration of internal control, business and system by sorting out, revising and consummating related managerial systems of the unit. The Company has established three defence mechanisms for internal control departments: the periodic testing of responsible departments (units), daily management and supervision of audit department over internal control. Accordingly, the Company has created a supervision and evaluation system of internal control.

Setup of Internal Control Examination and Supervision Department

The Department of Strategic Planning of the Company, which is assigned to administer the overall supervision of internal control, is responsible for the daily supervision of internal control and the organisation of individual inspection. The Audit Department is in charge of internal control evaluations and independent, comprehensive inspections and evaluation of internal control. The Company and its subsidiaries have established a two-level internal control inspection and evaluation system where the subsidiaries of the Company conduct self-inspections and evaluate internal control every year and the Company inspects the evaluation of internal control every year in a comprehensive manner.

Arrangement for Internal Control Made by the Board

The Board will review the overall situation of internal control. The Board is responsible for the communication, supervision and inspection of internal and external auditing through the Audit Committee, as well as the inspection and supervision of the effectiveness of self-evaluation of internal control.

Improvement of the Internal Control System Associated with Financial Accounting

The Internal Control Manual of the Company specifies the internal control requirements with regard to the financial statements and establishes a connection with the professional management system. Fund and asset management, costs and expenses accounting and management, financial analysis and budget, connected transactions and the preparation of financial statements, are respectively included in the related work flow, control procedures and control points. At the same time, items and matters in accounting statements are connected with control measures, so that internal control can reasonably ensure that the disclosed financial statements are authentic and reliable.

Internal Control Deficiencies and Rectification

No significant, important and overall internal control deficiencies were discovered within the Company during the Reporting Period. The failure to effectively implement internal control measures in certain areas discovered during the inspections is not considered a deficiency according to the Company's standard for identifying internal control deficiencies. The management of the Company has designed and adopted various rectification measures, and discussed these measures with external auditors of the Company. After a follow-up examination, all internal control issues relating to financial reporting were rectified during the Reporting Period, and other management deficiencies were also rectified or rectification measures were adopted. Such rectification was in compliance with relevant requirements.

Businesses with Sanctioned Countries

On 16 January 2016 ("Implementation Day"), the U.S. and EU announced that a number of sanctions on Iran have been lifted under the Joint Comprehensive Plan of Action (the "JCPOA"), following verification by the International Atomic Energy Agency that Iran has met its initial commitments to scale back key aspects of its nuclear program. All UN Security Council (the "UNSC") resolutions that had imposed sanctions on Iran were eliminated on Implementation Day, except for UNSC Resolution 2231, which implemented the JCPOA. As the U.S. lifted most nuclear-related secondary sanctions that had targeted non-U.S. persons, the Company, as a non-U.S. person, may explore potential business opportunities in Iran's oil and gas engineering market without conflicting with prior U.S. sanctions identified in the undertakings to the Hong Kong Stock Exchange. Please refer to the voluntary announcement entitled "Update on Iran Sanctions Developments" issued by the Company on 30 June 2016 for details.

During the Reporting Period, the Group entered into a contract of engineering, procurement and construction ("**EPC**") with National Iranian Oil Engineering and Construction Company in relation to Phase I of the product upgrading project for its Abadan refinery in Iran (the "Project"). The Group will pursue approximately RMB4.081 billion of the total contract value. The Group has conducted an assessment of sanctions-related legal, operational and other risks of the Project in accordance with the Group's internal control procedures and advice from legal counsel, and has determined that the Project will not breach applicable sanctions or the Company's undertakings to the Hong Kong Stock Exchange.

7 Assessment and Incentive Mechanism for the Senior Management

During the Reporting Period, the Group continues to study the mid- to long-term management incentive plan, which will be submitted to shareholders for review and approval when conditions are fulfilled.

8 Corporate Governance Report (pursuant to the Hong Kong Listing Rules)

(1) Compliance with Corporate Governance Code

From its date of listing to 31 December 2016, the Company abided by the provisions in the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and did not conduct any act which deviated from such provisions.

A Board

A.1 Board

a. The Board is the decision-making body of the Company, and all decisions made by the Board are carried out by the management of the Company. The Board abides by good corporate governance practices and procedures, and commits itself to improving the management and standard operations of the Company.

b. The Board holds at least four meetings annually. The Board gives notification of the time of the meeting and its subject matters 14 days prior to the meeting. The documents and materials for the meeting will usually be sent 10 days in advance to each Director. In 2016, the Company held four Board meetings. For details about the attendance of each Director, please refer to the Report of the Board in this annual report.

c. Each member of the Board may submit proposals to be included in the agenda for Board meetings, and each Director is entitled to request other related information.

d. The Board reviewed and evaluated its performance for the past year. The Board was of the view that the composition of the Board was appropriate and balanced. The Board made decisions in compliance with domestic and foreign laws and regulations and the Company's internal rules, prudently reviewed the report of the Supervisory Committee, and safeguarded the rights and interests of the Company and its shareholders. The Directors and the Senior Management diligently fulfilled their responsibilities and actively took part in training and continuing professional development, which led to the improvement of governance of the Company.

e. The Secretary to the Board of the Company will assist the Directors in handling the routine tasks of the Board and continuously provide the Directors with and keep them informed of the regulations, policies and other requirements as demanded by domestic and overseas regulatory bodies in relation to corporate governance, and ensure that in performing their duties and responsibilities, the Directors comply with domestic and foreign laws and regulations as well as the articles of association of the Company (the "Articles of Association"), and so on. The Company purchased liability insurance for all the Directors to minimise any risk which may arise from the performance of their duties.

A.2 Chairman and Chief Executive Officer

a. Mr. LING Yiqun serves as the Chairman of the Board; Mr. XIANG Wenwu serves as the President. The Chairman of the Board is elected by the majority of all Directors of the Company, while the President is nominated and appointed by the Board. The duties and responsibilities of the Chairman of the Board and the President are clearly distinguished from each other and the scope of their respective duties and responsibilities are set out in the Articles of Association.

b. The Chairman of the Board is responsible for communication with the independent non-executive Directors and holding meetings with them at least once every year, at which no executive Director shall be present.

c. The Chairman of the Board shall encourage open and active discussions. Directors may speak freely and actively participate in discussions on production and operation, corporate governance and major investments of the Company in Board meetings.

A.3 Board Composition

a. The Board of the Company consists of nine members, with one of them being a female (for details, please refer to the section headed “Directors, Supervisors, Other Senior Management Members and Employees” of this annual report). All Directors have rich experience in specialties and governance. Among the nine (9) members, there are four (4) executive Directors (including two (2) employee representative Directors), two (2) non-executive Directors and three (3) independent non-executive Directors. The independent non-executive Directors represent one-third of the Board. All the executive Directors and non-executive Directors of the Company are experienced in the management of mega refining and chemical engineering, or petroleum and petrochemical enterprise. The independent non-executive Directors are well-known technological experts of chemical engineering, financial experts or accounting experts respectively, and have experience in managing large corporations, capital operation and finance investment, respectively. The composition of the Board is reasonable and diversified.

b. The Company received a letter of confirmation from each independent non-executive Director regarding his compliance with relevant independence requirements set out in Rule 3.13 of the Hong Kong Listing Rules for the year 2016. The Company concludes that each of the independent non-executive Directors is independent.

A.4 Appointment, Re-election and Dismissal

a. Within the Company, the term of office of each Director (including non-executive Directors) is 3 years, and the consecutive terms of office of an independent non-executive Director shall not exceed 6 years.

b. All Directors will be elected through legal procedures, and the Board has no power to appoint temporary Directors.

c. For newly appointed Directors, the Company will engage professional consultants to prepare detailed information, notify such Directors of regulatory rules of each listing place of the Company and remind such Directors of their rights, obligations and responsibilities.

A.5 Nomination Committee

a. The Company has established a nomination committee (the “Nomination Committee”). Mr. LING Yiqun, the Chairman of the Board and a non-executive Director, is the chairman of the Nomination Committee; Mr. HUI Chiu Chung, Stephen, an independent non-executive Director, is the vice chairman of the Nomination Committee; Mr. LU Dong, the Vice President and an executive Director, and Mr. JIN Yong and Mr. YE Zheng, independent non-executive Directors, are members of the Nomination Committee. The terms of reference of the Nomination Committee have been established and are available on the websites of the Company and the Hong Kong Stock Exchange. The Nomination Committee will recommend the appointment or re-election of the Directors as well as the succession plan of Directors (especially the Chairman of the Board and the President of the Company), seek candidates for Directors with appropriate qualifications and competence; elect and nominate related personnel to be appointed as Directors, and propose recommendations thereof to the Board.

b. Based on discussions, the Nomination Committee is of the view that the structure, number of members and composition of the Board in 2016 are rational and conform to the strategies of the Group.

c. Nomination Committee members may engage independent professionals when performing duties. Reasonable costs arising from or in connection with such consultation are borne by the Group. The expenses of the Nomination Committee will be included in the budget of the Company.

d. Please refer to the “Report of the Board - Meetings Held by the Special Committees of the Board” of this annual report for information about meetings held by the Nomination Committee.

e. The Board has established the Board Diversity Policy, which provides that the nomination and appointment of Board members should be based on the skills and experience necessary for the overall sound operation of the Board, with due considerations given to the goal and requirement for the diversification of Board members. When determining the combination of Board members, the Company should consider their diversity from multiple aspects, including but not limited to sex, age, culture, educational background, race, professional experience, skills, knowledge and length of service.

A.6 Responsibility of Directors

a. All the non-executive Directors of the Company have the same duties and authorities as executive Directors. In addition, the non-executive Directors, especially the independent non-executive Directors, are vested certain specific powers. The rights and obligations of executive Directors and non-executive Directors are clearly defined in the Articles of Association and the Rules of Procedure of the Board of the Company.

b. All Directors were able to devote sufficient time and effort in handling the matters of the Company.

c. All Directors of the Company confirmed that they complied with the Model Code during the Reporting Period.

d. The Company is responsible for arranging training for Directors and providing for corresponding expenses. The Directors actively participated in continuing professional development. The Company has received the training records from Directors. Please refer to the Report of the Board in this annual report for details.

A.7 Provision for and Access to Information

a. The meeting agenda as well as other reference documents of the Board and each special committee will be distributed prior to the meeting so that each member will have sufficient time to review them and enable comprehensive discussion during the meetings. Each Director can obtain all related information in a comprehensive and timely manner, and may seek advice from professional consultants if needed.

b. The secretary to the Board is responsible for organising and preparing materials for the Board meetings, including the preparation for each proposal to ensure thorough understanding of each Director. The management of the Group shall provide the Directors with necessary information and materials. The Director may request the President, or request, via the President, relevant departments to provide necessary information of the Group and related explanations.

B Remuneration of Directors and the Senior Management

a. The Company has established a remuneration committee (the “Remuneration Committee”). Mr. HUI Chiu Chung, Stephen, an independent non-executive Director, is the chairman of the Committee, and Mr. YE Zheng and Mr. JIN Yong, independent non-executive Directors, are members of the committee. The terms of reference of the Remuneration Committee are available on the websites of the Company and the Hong Kong Stock Exchange. The Remuneration Committee is responsible for studying the compensation structures and policies of all Directors, Supervisors and Senior Management and proposing recommendations to the Board thereof, or setting and determining the compensation and welfare of individual executive Directors and Senior Management members as authorised by the Board or proposing recommendations thereof to the Board.

b. Members of the Remuneration Committee may engage independent professionals when performing duties. Reasonable costs arising from or in connection with such consultation are borne by the Group. Meanwhile, the Remuneration Committee has appointed the advisory member to assist in specific daily routines. The expenses of the Remuneration Committee are included in the budget of the Company.

c. Please refer to "Report of the Board - Meetings Held by the Special Committees of the Board" of this annual report for information about meetings held by the Remuneration Committee.

C Accountability and Auditing

C.1 Financial Reporting

a. The Directors are responsible for supervising the compilation of accounts in each financial period so as to ensure that the accounts can authentically and fairly reflect the business conditions, performance and cash flows during the corresponding period. The Board approved the financial report for the year 2016 and warranted that there were no material omissions, misrepresentations or misleading statements contained in this annual report, and jointly and severally accepted full responsibility for the authenticity, accuracy and integrity of the contents therein.

b. The Company provides financial information, production and operation status to the Directors every month to ensure that the Directors are informed of the Company's latest developments in a timely manner.

c. The Company adopted an internal control mechanism to ensure that the management and relevant departments provide sufficient financial data and related explanations and data to the Board and the Audit Committee.

d. The external auditors of the Company issued a statement about their reporting responsibilities in the financial statement contained in the independent auditors' report.

C.2 Risk Management and Internal Control

a. The Company has established a comprehensive and basic process for risk management that is composed of target setting, risk identification, risk assessment, response to risks, supervision and improvement. At the beginning of each year, the Company and its affiliates will take into account current production and operation situation to analyze and judge the changes and impact of the internal and external environment, identify the risk factors and major risk areas confronting various professional fields, mark and evaluate the identified risks, work out countermeasures and indicators of monitoring and early warning to address the major and principal risks and place operation risks under dynamic monitoring.

b. The Company has deeply integrated risk management with internal control. In the internal control matrix, risks are described according to the Company's list of risks and, on this basis, the internal control points have been modified and improved to take risk prevention countermeasures in everyday business management activities. The Company has clarified the subjects of responsibility and strengthened supervision and inspection through means including internal control evaluation to ensure that its internal risks are controllable and under control.

c. The Board is the highest decision-making authority for the total risk control of the Company. The Board acknowledges that it is its responsibility to ensure that the Company establishes and maintains appropriate and effective risk management and internal control systems. Such systems are designed to manage rather than eliminate risks of failure to achieve business objectives, and can only provide reasonable, but not absolute, assurance against material misstatement or loss. The Company has established the Risk Management Committee to organise and lead the comprehensive risk management and internal control efforts of the Company. The departments and affiliates of the Company are the organs that specifically implement total risk management and internal control measures. They are responsible for promptly identifying, analyzing and evaluating the risks in production and operations to put forward the countermeasures and solutions for internal control that will then be implemented.

d. For the purpose of inspecting and evaluating the risk internal control of the Company, the risk management departments of the Company and its affiliates will test the implementation of internal control on a quarterly basis; the audit department will carry out comprehensive annual inspection and evaluation of the effectiveness of the risk-oriented internal control design and operation of the Company. The general procedure of inspection and evaluation is: drawing up a plan for inspection and evaluation of internal control; setting up a work group for inspection and evaluation of internal control; implementing online testing of the internal control system or onsiteinspection and evaluation; identifying the defects in internal control; rechecking and confirming the defects; arriving at a conclusion based on onsite evaluation; summarising and analysing the results of inspection and evaluation; compiling the seasonal test report of internal control as well as the annual and semiannual work report on risk management and internal control; and regularly reporting to the management and the Board of the Company.

e. The Company compiles annual report and interim report as required by the regulators of the place where it is listed. The regular reports are examined by the executives and reviewed by the management of the Company before being submitted to the Board and the Board of Supervisors for review and formation of a resolution document. The Board office will complete the regular reports according to the opinions of the Board and disclose the reports together with the relevant documents required to be submitted and disclosed on the designated website within the given timeframe. The Company has established procedures on disclosure of inside information to ensure that inside information is promptly identified, assessed and submitted, where appropriate, for the attention of the Board. In case of the occurrence of any major issue that needs to be disclosed, the Board office will organise the drafting of an unscheduled report according to the actual conditions and go through the relevant examination and approval procedure according to the Articles of Association and rules of procedure of the Company before disclosing the information.

f. Statement of risk management and internal monitoring: The risk control departments of the Company and its affiliates carry out the inspection and evaluation of risk management and internal control at least once a quarter; the audit department organises risk-oriented comprehensive inspection and evaluation of internal control at least once a year. During the Reporting Period, the inspection of the risk management and internal control of the Company covered the entire period. The evaluation results of risk management and internal control audit indicates that the Company, in a gradual and top-down manner, has put increasing emphasis on internal control and risk prevention, revised its internal control manual and made it available online, further taken effective measures to strengthen internal control management and improved the internal control management in an all-rounded manner. The Company has not discovered any major, principal or overall defect. The internal control of the Company is effective on the whole.

C.3 Audit Committee

a. The Company has established the Audit Committee, Mr. YE Zheng, an independent non-executive Director, is the chairman of the Audit Committee, and Mr. HUI Chiu Chung, Stephen and Mr. JIN Yong, both independent non-executive Directors, are members of the committee. In addition, corresponding working rules have been established, the terms of reference of the Audit Committee are available on the websites of the Company and the Hong Kong Stock Exchange. The Audit Committee advises on the appointment, re-appointment, termination of appointment of the independent auditors and their remuneration, reviews the financial reports to be submitted to the Board, and examines the Company's financial policies, internal auditing system, internal control system and risk management system. As verified, none of the members of the Audit Committee had served as a partner or former partner in our current auditing firm.

According to the Letter to Issuers released by the Hong Kong Stock Exchange dated 19 December 2014 and relevant amendments in the "Corporate Governance Code" set out in Appendix 14 to the Hong Kong Listing Rules and in order to improve the corporate governance practice and reinforce the Board of Directors' functions in risk control and internal control, the third meeting of the Second Session of the Board held by the Company on 18 March 2016 has approved a proposal to incorporate the risk control function into the scope of authority of the Audit Committee and also to amend the terms of reference of the Work Rules of Audit Committee as appropriate to enrich and augment the descriptions of risk control function. This proposal has been implemented after the approval of the Board.

b. Please refer to "Report of the Board - Meetings Held by the Special Committees of the Board" of this annual report for information about meetings held by the Audit Committee. Review opinions signed by the members of the Audit Committee were issued at such meetings and submitted to the Board. During the Reporting Period, the Board and the Audit Committee concurred with the review opinions from the meetings.

c. Members of the Audit Committee may engage independent professionals when performing duties. Reasonable costs arising from or in connection with such consultation are borne by the Group. Meanwhile, the Audit Committee appointed the advisory member to assist the Audit Committee in specific daily routines. The expenses of the Audit Committee are included in the budget of the Group.

d. In the absence of the management, the Audit Committee held meetings with the auditors thrice in 2015 either in writing or through meeting in person and discussed the auditing of financial reports and the auditing fee for the year and co-ordinated between the internal and external auditors. The Audit Committee considered the adequacy of resources, staff qualifications and experience, training programmes provided to relevant staff and relevant budget of the Company's accounting, internal audit and financial reporting functions during the Reporting Period. The Audit Committee concludes that the Company's management performed their duties and established an effective internal control system during the Reporting Period. In addition, the Audit Committee also considered the adequacy of the resource of the Company's internal audit function and continuously reviewed and monitored the effectiveness of the internal audit function. The Company's internal control system has established a mechanism for report and complaint, whereby the staff and interested parties may have a channel, such as online reporting, reporting through letters, meeting with reporters, complaint mail box, etc., to report and complain regarding their discovered breaches of the Company's internal control system. The Audit Committee considered and approved this system.

D Delegation of Power by the Board

a. The Board, the management and Board special committees have clear terms of reference. The Articles of Association, the Rules of Procedures for the General Meetings of Shareholders, the Rules and Procedures for the Meetings of the Board and the Working Rules for the President set forth a clear scope of duties, authorities and delegation of power of the Board and the management.

b. In addition to the Nomination Committee, Audit Committee and Remuneration Committee, the Board has also established the Strategy and Development Committee. Mr. LU Dong, Vice Chairman of the Board and an executive Director serves as the chairman of the committee. Mr. JIN Yong, an independent non-executive Director, serves as the vice chairman of the committee. Mr. XIANG Wenwu, President and an executive Director, Mr. LI Guoqing, non-executive Director, Mr. SUN Lili and Mr. WU Derong, executive Directors, serve as members. The Strategy and Development Committee is responsible for studying the long-term development strategies as well as major decisions on capital expenditure, investment and financing of the Company.

c. Each Board committee has clear terms of reference in writing, according to which such committees are required to report their decisions or recommendations to the Board.

d. Please refer to "Report of the Board - Meetings Held by the Special Committees of the Board" of this annual report for information about meetings held by the Strategy and Development Committee.

E Investor Relations

a. The Company pays close attention to investor relations. The Senior Management conducts road shows for investors every year to introduce matters that investors may be concerned about, such as development strategies, production and the business performance of the Company. The Office of the Board is responsible for communication with investors in compliance with regulatory provisions through meetings with, site visits by and setting up email accounts for investors, which enhanced communication with investors.

b. During the Reporting Period, each resolution was separately proposed in relation to an individual matter at shareholders meetings. All resolutions were voted by poll to safeguard the interests of all the shareholders of the Company. A meeting notice was delivered to each shareholder 45 days (exclusive of the day of the meeting) prior to shareholders meetings.

c. The Chairman of the Board hosted the shareholders meetings as the chairman of such meeting. Members of the Board and the members of the Senior Management also attended shareholders meetings and answered questions raised by the shareholders of the Company.

F Company Secretary

a. The secretary to the Board is recognised by the Hong Kong Stock Exchange as the Company secretary, and is nominated by the Chairman of the Board and appointed by the Board. He is a Senior Management and reports to the Company and the Board. The secretary to the Board gives opinions on corporate governance to the Board and arranges orientation training and professional development of the Directors.

b. The secretary to the Board actively participated in professional development training of more than 15 hours during the Reporting Period.

G Shareholders' Rights

a. Shareholders who individually or collectively hold 10% or more of the total voting shares issued by the Company may request in writing for the Board to convene an extraordinary shareholders meeting or class meetings. If the Board fails to grant the request to call the meeting according to the Rules of Procedures for Shareholders Meetings, shareholders may call and hold the meeting at their discretion according to laws, and reasonable expenses arising therefrom are to be borne by the Company. The aforesaid provisions are subject to the following conditions: the proposals proposed at the shareholders meeting shall fall within the terms of reference of the shareholders meetings, with specified proposals and resolutions, and in compliance with the relevant laws, administrative regulations and the Articles of Association.

b. When the Company holds a shareholders meeting, shareholders who individually or collectively hold 3% or more of the total voting shares issued by the Company may propose a temporary proposal 10 days before the date of the meeting.

c. The eligibility for attending the general meeting, the shareholders' rights and the meeting agenda are clearly stated in the notices to all shareholders of the Company.

d. According to the Company's rules, the Secretary to the Board is responsible for establishing an effective communication channel between the Company and its shareholders, setting up a special organisation for contacting shareholders, and passing their opinions and proposals to the Board and the management in a timely manner. Contact details of the Company can be found under the "Investor Relations" sector on the website of the Company.

(2) Auditors

In the 2015 annual general meeting of the Company held on 6 May 2016, the Company approved re-appointment of Grant Thornton China (Special General Partnership) and Grant Thornton Hong Kong Limited as the domestic and international auditors of the Company, respectively, in 2016 and authorised the Board to determine their remuneration. As approved at the Third Meeting of the Second Session of the Board, the audit fee for 2016 is RMB4.7 million. The financial report of the current year was audited by Grant Thornton Hong Kong Limited.

During the Reporting Period, Grant Thornton China (Special General Partnership) and Grant Thornton Hong Kong Limited did not provide significant non-audit services to the Company.

The Company has not changed its auditors since the commencement of preparation for its listing on the Hong Kong Stock Exchange. Since the current auditors will hold office until the conclusion of the annual general meeting for the year 2016, the Company will put forward an ordinary resolution in the annual general meeting for the year 2016 to re-appoint the domestic auditor and international auditor of the Company and fix their remuneration for the year 2017.

(3) Other Information about Corporate Governance of the Company

Except for their working relationships with the Group, none of the Directors, Supervisors and other Senior Management have any financial, business or family relationships or any relationships in other material aspects with each other. For information regarding changes in share capital and shareholdings of substantial shareholders, please refer to page 12 to page 15; for information regarding meetings of the Board, please refer to page 78; for information regarding the equity interests of Directors, Supervisors and other Senior Management, please refer to page 65; for information regarding the resume and annual remuneration of Directors, Supervisors and other Senior Management Members, please refer to page 98 to page 107.

REPORT OF THE BOARD

The Board is pleased to present the report for the year ended 31 December 2016 for shareholders' review.

1 Meetings of the Board

During the Reporting Period, the Company held four (4) Board meetings. The details are as follows:

The Second Meeting of the Second Session of the Board was held in Beijing, the PRC on 5 February 2016, whereby the proposal of "Establishment of SEG Spanish Branch" was considered and approved.

The Third Meeting of the Second Session of the Board was held in Beijing, the PRC on 18 March 2016, whereby the following proposals were considered and approved: report of the Board for the year 2015, report on the fulfillment of major targets for the year 2015 and the key work arrangements for the year 2016, report on the operating results, financial conditions and other relevant matters for the year 2015, audited financial statements for the year 2015, 2015 annual report and results announcement, sustainable development report for the year 2015, Outline of the 13th Five-Year Development Plan of the Company, business operation plan, investment plan and financial budget for the year 2016, cap for the amount of performance guarantee(s) to be provided by the Company (as the parent company) for the year 2016, final dividend distribution plan for the year 2015 and the authorisation to the Board to determine the interim profit distribution plan for the year 2016 to be put forward for approval at the annual general meeting, re-appointment of auditors and the authorisation to the Board to fix their remuneration, a general mandate to the Board to repurchase domestic shares and/or H shares to be put forward for approval at the annual general meeting and the class meeting for shareholders, a general mandate to the Board to issue domestic shares and/or H shares to be put forward for approval at the annual general meeting, amendments to the terms of reference of Audit Committee and approval to convene the annual general meeting and the class meetings.

The Fourth Meeting of the Second Session of the Board was held in Beijing, the PRC on 28 June 2016, "Internal Control Manual of the Company (2016 edition)" and "The general manager is authorised to sign the relevant contracts" the proposals of were considered and approved.

The Fifth Meeting of the Second Session of the Board was held in Beijing, the PRC on 19 August 2016, the proposals of "report on the fulfillment of the key targets for the first half of 2016 and the report on the work arrangements for the second half of 2016", "report on the operating results, financial conditions and other relevant matters for the first half of 2016", "audited 2016 interim financial report", "2016 interim report and results announcement" and "2016 interim dividend distribution plan" were considered and approved.

2 Implementation of Resolutions Approved at Shareholders Meetings by the Board

During the Reporting Period, in accordance with relevant laws and regulations as well as the Articles of Association, all members of the Board diligently implemented the resolutions approved at shareholders meetings, and have completed various tasks delegated to them at the shareholders meetings.

3 Attendance of Board Meetings and Shareholders Meetings

During the Reporting Period, statistics of attendance of trainings and meetings of the Second Session of the Board and shareholders meetings are as follows:

Name	Board Meetings		By proxy (times)	Physical attendance at the Shareholders Meeting (times)[3]	Training
	No. of meetings requiring attendance	Physical attendance (times)			
ZHANG Jianhua [1]	4	3	1	3	yes
LU Dong	4	4	0	0	yes
YAN Shaochun [2]	4	3	1	3	yes
LI Guoqing	4	4	0	3	yes
SUN Lili	4	4	0	0	yes
WU Derong	4	3	1	3	yes
HUI Chiu Chung, Stephen	4	4	0	3	yes
JIN Yong	4	3	1	3	yes
YE Zheng	4	4	4	0	yes

Notes:
(1) The Company issued an announcement on 12 September 2016 in relation to Mr. ZHANG Jianhua's resignation from his positions as a non-executive Director, the Chairman of the Board and the chairman of the Nomination Committee and the authorisation to Mr. LU Dong, an executive Director and the Vice Chairman of the Board, to perform his duties on his behalf before a new Director was elected at the shareholders meeting.
(2) The Company issued an announcement on 5 January 2017 in relation to Mr. YAN Shaochun's resignation from his positions as an executive Director, the President of the Company and a member of the Strategy and Development Committee.
(3) The Company held 3 shareholders meetings in 5 May 2016, i.e. the 2015 annual general meeting, the Domestic Share Class Meeting and the H Share Class Meeting.

4 Meetings held by the Special Committees of the Board

The Board of the Company has established four special committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy and Development Committee, and the Company's management has established four special committees, namely, the Risk Control Committee, the Confidentiality Committee, the QHSE Committee and the Sustainable Development Committee.

During the Reporting Period, the Audit Committee held two meetings and the Strategy and Development Committee held one meeting in March 2016. In January 2017, the the Remuneration Committee and the Nomination Committee each held one meeting, and the members of all committees were present at the meetings. Details of those meetings are as follows:

The First Meeting of the Audit Committee of the Second Session of the Board was held in Beijing, the PRC on 17 March 2016, whereby they reviewed annual financial report for year 2015, annual report for the year 2015, appointment of auditors, execution of continuing connected transactions in 2015, non-competition situation for the year 2015, work report of internal audit for the year 2015, work report of risk management and internal control for the year 2015 and other issues, and provided review opinions.

The First Meeting of the Strategy and Development Committee of the Second Session of the Board was held in Beijing, the PRC on 18 March 2016, whereby they reviewed the "Outline of the 13th Five-Year Development Plan" of the Company and other issues, and provided review opinions.

The Second Meeting of the Audit Committee of the Second Session of the Board was held in Beijing, the PRC on 18 August 2016, whereby they reviewed the audited interim financial report for the year 2016, the interim report for the year 2016, the work report of risk management and internal control in the first half of 2016, the execution of continuing connected transactions in the first half of 2016 and other issues, and provided review opinions.

The First Meeting of the Remuneration Committee of the Second Session of the Board was held in Beijing, the PRC on 5 January 2017, whereby they reviewed the H Shares appreciation rights incentive scheme (draft) and other issues, and provided review opinions.

The First Meeting of the Nomination Committee of the Second Session of the Board was held in Beijing, the PRC on 5 January 2017, whereby they reviewed the proposal on the nomination of Mr. LING Yiqun as the Director candidate for the Company, the proposal on the nomination of Mr. XIANG Wenwu as the Director candidate for the Company and other issues, and provided review opinions.

5 Performance

The financial results of the Group for the year ended 31 December 2016 were prepared in accordance with the IFRS and its financial position as at that date and the accompanying analysis are set out from page 115 to page 184 of this annual report.

6 Dividends

At the annual general meeting for the year 2016 convened on 6 May 2016, an ordinary resolution was passed to approve the authorisation to the Board to determine the interim profit distribution plan for the year 2016. The dividend distribution plan of RMB0.072 per share (inclusive of applicable tax) for the six months ended 30 June 2016 was approved at the Fifth Meeting of the Second Session of the Board convened on 19 August 2016. The dividend distribution plan was implemented.

The final dividend distribution plan for the year ended 31 December 2016 was approved at the Eighth Meeting of the Second Session of the Board. The final dividend distribution shall be calculated based on the total number of Shares as at 29 May 2017 (the "Record Date") and the final cash dividend distribution shall be based on RMB0.078 per Share (inclusive of applicable tax). That distribution plan will be implemented after being reviewed and approved at the annual general meeting for the year 2016 to be held by the Company. The final dividend for the year 2016 will be paid on or before Friday, 14 July 2017 to all shareholders of the Company whose names appear on the register of members of the Company at the close of business on Monday, 29 May 2017. In order to qualify for the final dividend, the holders of H Shares must lodge all share certificates accompanied by the transfer documents with Computershare Hong Kong Investor Services Ltd. (address: Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong) before 4:30 p.m. on Tuesday, 23 May 2017 for registration. For the purpose of ascertaining Shareholders who qualify for the dividend, the register of members for H Shares will be closed from Wednesday, 24 May 2017 to Monday, 29 May 2017 (both days inclusive).

The dividend will be denominated and declared in Renminbi. The holders of Domestic Shares will be paid in Renminbi and the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to Renminbi 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, shall be deemed as shares held by non-resident enterprise shareholders. Therefore, on this basis, enterprise income tax shall be withheld from dividends payable to such Shareholders. If holders of H Shares intend to change their shareholder status, please enquire about the relevant procedures with their agents or trustees. The Company will strictly comply with the law or the requirements of the relevant government authority and withhold and pay enterprise income tax on behalf of the relevant Shareholders based on the register of members for H Shares as at the Record Date.

If the individual holders of H Shares are Hong Kong or Macau residents or residents of the countries which had an agreed tax rate of 10% for the cash dividends to them with the PRC under the relevant tax agreement, the Company should withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of less than 10% with the PRC under the relevant tax agreement, the Company shall withhold and pay individual income tax on behalf of the relevant shareholders at a rate of 10%. In that case, if the relevant individual holders of H Shares wish to reclaim the extra amount withheld (the "Extra Amount") due to the application of 10% tax rate, the Company can apply for the relevant agreed preferential tax treatment provided that the relevant Shareholders submit the evidence required by the notice of the tax agreement to the H share register of the Company within the timeline set out below. The Company will assist with the tax refund after the approval of the competent tax authority. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of over 10% but less than 20% with the PRC under the tax agreement, the Company shall withhold and pay the individual income tax at the agreed actual rate in accordance with the relevant tax agreement. In the case that the individual holders of H Shares are residents of the countries which have had an agreed tax rate of 20% with PRC, or which has not entered into any tax agreement with PRC, or otherwise, the Company shall withhold and pay the individual income tax at a rate of 20%.

For investors investing in the H Shares of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange (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 holders of H Shares for Southbound Trading, will receive all cash dividends distributed by the Company and distribute the cash dividends to the relevant investors of H Shares of Southbound Trading through its depositary and clearing system. The cash dividends for the investors of H Shares of Southbound Trading will be paid in Renminbi.

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

7 Major Suppliers and Clients

During the Reporting Period, the total purchases from the top five suppliers of the Group accounted for 26.6% of the total purchases of the Group, of which the purchases from the largest supplier accounted for 7.5% of the total purchases of the Group.

The total sales to the top five clients of the Group accounted for 54.3% of the total sales of the Group of which sales to the largest client accounted for 23.2% of the total sales. For details about the relations of the Group with major clients and the risks that the Group's business may face due to such relations, please see the section headed "Report of the Borad - 15 Risk Factors - Risk relating to decreased orders from major clients" in this annual report.

During the Reporting Period, other than the connected transactions with the controlling shareholder, Sinopec Group, and its subsidiaries, as disclosed in the section headed "Connected Transactions" of this annual report, none of the Directors, Supervisors and their associates or any shareholders holding 5% or more of the share capital of the Company had any interest in any of the above-mentioned major suppliers and clients.

8 Bank Loans and Other Borrowings

As at the end of the Reporting Period, the Group did not have bank loans or other borrowings.

9 Fixed Assets

During the Reporting Period, changes to the fixed assets of the Group are set out in this annual report and prepared in accordance with the IFRS.

10 Reserves

Changes to the reserves of the Group during the Reporting Period are set out in the consolidated statement of changes in equity in the financial statements prepared in accordance with the IFRS in this annual report.

11 Donations

During the Reporting Period, the amount of charity donations made by the Group amounted to approximately RMB0.09 million.

12 Pre-emptive Right

According to the Articles of Association and the applicable laws of the PRC, the shareholders of the Company are not entitled to any pre-emptive rights. Therefore, the existing shareholders cannot ask the Company for the right of first refusal in proportion to their shareholdings.

13 Repurchase, Sale and Redemption of Shares

During the Reporting Period, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any listed shares of the Company or its subsidiaries.

14 Core Competitiveness Analysis

The Group is a leading oil refining, petrochemical and new coal chemical engineering company in the PRC. The Group has the legacy of being among the first batch of oil refining and petrochemical engineering enterprises established in the PRC in the 1950s. Leveraging on long operating history and sophisticated industry experiences, we have developed the strongest execution capabilities in the PRC with respect to engineering and constructing large-scale oil refining, petrochemical and new coal chemical complexes, etc., which usually include a series of process units and utilities, and we are highly competitive in the international engineering market.

The competitive strengths of the Group are particularly reflected in the largest business scale, strongest executive capacity, excellent management and technical team, advanced industrialised proprietary and patented technologies, sound management system, advanced software and equipments, rich and reliable suppliers and subcontractors resources, complete service chain in the technology R&D and licensing, preliminary project consulting, financing assistance, engineering, procurement, construction, trial test/commissioning and maintenance services and excellent one-stop engineering service capability.

Given our competitive advantages in industry chain, business chain, technology chain and supply chain, the Group has established as a leader in the oil refining and engineering industry in China, and as being on the cutting edge of the rapidly developing China and international engineering markets.

15 Risk Factors

Uncertain Trend of Global Macroeconomy

The business performance of the Group is closely related to the economic situation of the PRC as well as the global economic situation. Complicated and profound changes are now taking place in the economic situation of the world. Stimulated by years of “quantitative easing” (“QE”), the US economy has shown obvious signs of recovery recently, including the continuous improvement of its economic data and a stock market that hit new highs repeatedly. However, with the gradual withdrawal of the QE policy, potential conflicts have to an extent restrained the long-term stable development of economy. It should not be ruled out that the existing blind optimism will lead to a new round of bubble burst. In Europe, the debt default of Greece hovers now in foreground and then in background to cause much adverse impact on the economic stability of the Eurozone. Although the European Central Bank had recently introduced the European version of QE, which is good news to a certain degree, European economy remains sluggish on the whole and stays in negative growth. Under the effect of plummeting global oil price, emerging economies, especially the major oil producing countries, suffered heavy blow in their economic development. Even in some countries, their political and economic stability has been impaired. Uncertainties exist in the world in 2017. The uncertainties in the global economy enormously influences petrochemical engineering companies in the world, especially the Group which strives to expand its overseas market share and pursue stable overseas development. The uncertain economic future may make it more difficult to fulfil our market expansion targets.

Risks brought by changes in market environment

In 2017, under the preconditions that OPEC's persistant refusal in cutting production and that crude oil demand continues to slow down, it is expected that global oil price will stay low for quite a period of time. The construction, transformation and expansion of oil refining and petrochemical engineering projects will be restricted. Investors will be more cautious in building large integrated refining and chemical projects. Affected by factors such as the technical problems of demonstration projects, pressure under environmental protection and drop of oil price, the state policy for developing new coal-chemical industry may also change so that progress deceleration, fund shortage and reorganisation may appear in the new coal-chemical projects under construction, while those projects that have already received "green light" from the government or are being planned may be put on the shelf. The implementation of the new Environmental Protection Law will result in higher and higher standards for the technical level and production management of petrochemical projects, which will invisibly elevate the threshold for new projects. If global oil price stays low for long, the shale gas market will also be enormously impacted, the market development of the Group will face major difficulties.

Risks relating to changes in policies

(1) Nationalisation, cancellation, seizure, confiscation, suspension and other risks with regard to projects undertaken by us

Turbulent and unstable political situation in the countries where the Group has overseas projects, policy discontinuity due to partisan policy, and government intervention in overseas investments may elevate political risks. In some regions of Africa, government nationalisation, cancellation, seizure, confiscation, and suspension of refinery projects occur from time to time. Little or even no compensation is paid to investors. Thus, relevant project participants may suffer huge losses. Under this situation, the risks relating to exploration of new markets in affected countries are relatively high and this may hinder market expansion of the Group.

(2) Risks relating to host country's inadequate policy and regulation

If the host country's public policies, in particular, security policies, are flawed, for instance, if the regulations on rallies, demonstrations and strikes are imperfect, in the event that certain events occur, project implementation will be directly affected, and even legal proceedings could be initiated. These conditions will indirectly affect any new market exploration in the country hereof.

(3) Risks relating to changes in financial and legal systems

Changes in income tax, customs tax, insurance tax and other aspects of host countries' financial and tax systems will directly affect the economic results of the project, reducing the profitability of the project. Meanwhile, if changes are made in the legal system of the host regions of projects in the Middle East or Middle Asia, such as changes in environmental protection law, investment law, labour law and other relevant law, and if regulations may become restrictive, the execution of our projects will become more difficult and potentially affect the development of new projects in relevant countries. If laws and regulations on environmental protection, safety and health are revised or updated, or standards are raised, the costs of compliance and business operations will be affected.

Risks relating to project delay and budget overview

(1) Risks relating to inaccurate project quotation and preliminary budget

Insufficient accumulation of basic data required for project quotation and budget (man hour, procurement and construction price) may affect the efficiency and accuracy of preparing quotations and budget, which will in turn affect the decision-making of projects and subsequent project implementation. For large projects with higher complexity, particularly the EPC Contracting Projects, inaccurate initial project quotations and estimations may cause difficulties in implementing the projects as planned.

(2) Risks relating to sub-contractor management

The Group usually engages sub-contractors to provide assistance in completing projects; however, if the resource distribution of sub-contractors is inadequate, it will delay current project completion and impede undertaking of other projects. Concurrently, the delay in sub-contractors' progress will increase the risk of project delay. In addition, the Group assumes joint liability for subcontracted projects, which means that the Group may be subject to compensation liability due to quality problems of sub-contracted projects and may be subject to lawsuits and compensation claims, may undertake joint liability for the on-site security accidents of the sub-contractors and bear the risk of the losses in project performance and damages to company image. It is possible that our business and financial status as well as our business operations will be adversely affected by these matters.

(3) Risks relating to regular fluctuation of raw material prices for construction

The price of steel, cement and other raw materials used in our domestic and overseas projects fluctuates frequently. Any increase in the price of raw materials will lead to a direct increase in procurement costs for our refining projects. This is especially relevant in the international market where competition is intense, and sub-contractors compete by providing low bids in order to win contracts. This, to some degree, directly leads to a decrease in the contractor's profit. If the price of raw materials increases significantly, the risk of completing a project outside the limits of our budget will be elevated.

(4) Risks relating to inflation, including the increase in cost of human resources

The Middle East and Central Asia are the primary target markets of the Group's international business. Currently, we are vigorously developing the regional markets in Southeast Asia. Considering that the economy of areas in Southeast Asia as a whole is unstable with high inflation rates, this may directly lead to increase in price of sub-contracting and labour markets. Concurrently, due to the fluctuation in the exchange rate for Renminbi, the cost of exported labour services increases, which further increases project costs.

(5) Risk relating to project management

Risks relating to project management are mainly reflected in financing management, engineering design and capability for claiming indemnity. Some of our on-going overseas projects are financing projects. Insufficient financing management may lead to delays in construction because we may not solve problems in a timely manner. For projects where design standards are substantially different from China's standards, the Group's design team's abilities may be hampered. Delay in design implementation will result in difficulties in the execution of procurement and construction. Due to the complexity of the construction projects, the capability for claiming indemnity may directly affect the profitability of a project. If the project team's experience in claims and counter claims is inadequate to meet the requirements of the undertaken project, especially for our overseas projects, if we fail to properly deal with claims and counter claims in some EPC Contracting projects where the conditions are complex and the demand is high, especially for the overseas projects, these will cause a negative impact on the effectiveness and profitability of such projects.

Risks relating to QHSE

In recent years, both the domestic and overseas markets require better QHSE management, and the media has also become increasingly concerned about QHSE. Thus, the QHSE management ability of a company has become much more important to its survival and future development. The Group is a participant in the petrochemical engineering industry, which has both "petrochemical" and "engineering" production characteristics. The high-risk features of the petrochemical and engineering industries in fact increase the pressure on and difficulty in our QHSE management.

Any non-standard, non-regulated, imperfect situation or insufficient execution in the Group's QHSE management principles, models and system may result in QHSE incidents. On the other hand, if our overseas public safety management cannot fulfil our overseas expansion demand, it can also lead to overseas public safety incidents.

Risks relating to exchange rate

During the Reporting Period, there were accounts receivable and payable and cash balances in relation to our overseas projects, which are settled in foreign currencies. We also raised funds which are settled in foreign currencies by offering H Shares. During the Reporting Period, our foreign currencies mainly consist of U.S. dollars and EU euros. Exchange rates will affect the pricing of our services as well as our material procurement costs settled in foreign currencies. Thus, fluctuation in exchange rates may affect our business performance and financial status. Moreover, the exchange and remittance of foreign currencies are subject to PRC laws and regulations on foreign currency, and therefore, it cannot be guaranteed that foreign trade policies of current accounts and capital accounts will remain unchanged. Foreign currency policies may limit our ability to obtain adequate foreign currencies. We cannot ensure that we have enough foreign currencies to meet the demand of the Group under certain exchange rates. This will affect the execution of our projects settled in foreign currencies.

Risks relating to the uncertainty of obtaining new projects

The Group's revenue mainly comes from offering services in petrochemical and new coal chemical industries services, as well as refining services. Client demands are affected by periodic variation of traditional resources and overall business levels. Resource supply and price variations will significantly affect our ability to obtain new projects. At the same time, the competitiveness of traditional resources in the resource market is the prerequisite of ensuring service demand. If government subsidies or other economic stimulating measures are implemented to lower the prices of substitute resources, and if technological breakthroughs for substitute resource suppliers and users may be achieved, the cost advantages of traditional resources will diminish. This will decrease our business turnover on a large scale.

Risks relating to decreased orders from major clients

The industries in which our clients are involved are capital and technology-intensive with high entrance thresholds. Our major clients are relatively concentrated, resulting in the Group being dependent on a small group of clients, especially on the largest client which is SINOPEC SEG's controlling shareholder (and its associates). If our major clients choose to switch to a competitor of the Group, or reduce orders because of financial difficulties and other factors, we will face severe business or income fluctuations or decreases. We endeavour to attract more new clients for both our domestic and international businesses. However, it is likely that the majority of our clients and revenue will continue to come from our current major clients. Therefore, we cannot guarantee stability and growth of our revenue due to potential risks which may result in significant negative impact on our business performance.

Risks relating to changes in investment strategies and tactics

In recent years, both domestic and overseas engineering companies have placed emphasis on investment strategies such as acquisition, sales and new market exploration. Entering a new business domain by acquisition may result in additional business risks which differ from our previous risk factors. There might be great difficulties in how to recognise all significant risks during our due diligence investigation, how to achieve synergy and resource integration, and how to successfully operate an expanded company after acquisition. We will strive to assist potential buyers to assume liabilities of the business, and execute the contracts and other rights should we sell any part of the Group or pursue acquisitions in the future. The Group plans to explore the overseas markets and potential new businesses. It may also increase research investment in substitute resources and substitute chemical raw materials. The future of these investments and trades will be mainly under the influence of government policies, which is out of our control. We cannot guarantee maintaining our powerful growth momentum. If the investments are not successful, this may result in a significant negative impact on the business and financial status of the Group.

Risks relating to new business segments

The Group is vigorously exploring new businesses such as new coal chemical engineering, energy saving and environmental protection, LNG and shale gas. Faced with the intricate market environment, if the Group does not have comprehensive technological reserves of the new fields, has defects in project engineering and constructional experience, and does not obtain enough information regarding the credit status of its clients, it is very difficult for the Group to fully identify and avoid major risks existing in the new businesses.

Risks relating to the new business models

The Group proactively explores new business models such as contract environmental protection management, contract energy management and BT/BOT. The Group will invest in the whole process of a project, and scale back on costs and earn profits by sharing environmental protection and energy saving benefits with its clients. As it involves the corporate operation and project operation of its clients, the Group will face, for instance, credit risks due to the transferring of project benefits by the clients, the risks brought about by improper corporate operation of the clients or by legal disputes, the project risks in failure to achieve expected targets in terms of energy saving and environmental protection benefits and failures in timely pay-back of investments. In view of the input in contract energy management and contract environmental management projects, the Group may also face transforming risks as an asset-light company.

Risks remain associated with oil and gas engineering projects in sanctioned countries, despite partial lifting of Iran-related sanctions.

After the International Atomic Energy Agency ("IAEA") verified that Iran had met its initial commitments to scale back key aspects of its nuclear program, most of the sanctions imposed by the European Union and nuclear-related "secondary sanctions" imposed by the U.S. (including sanctions relating to activities relating to Iran's oil and gas sector) have been lifted.

Sanctions relaxation is expected to increase business opportunities available to non-U.S. persons, including the Company, in Iran's oil and gas sector. The Group has internal control policy and procedures, according to which, during the time that the sanctions are lifted, the Group will conduct a comprehensive evaluation of any potential risks, such as material sanctions law risks, operational risks or reputational risks, prior to determining whether it should embark on any business opportunities in a sanctioned country. However, the Group cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels or any policy by the European Union, Australia, the United Nations and other applicable jurisdictions with respect to any current or future activities by the Group in relevant countries. The Group can provide no assurances that its future business will be free of risk under U.S. or other sanctions, or that the Group will conform its business to the expectations and requirements of U.S. authorities or the authorities of any other government that does not have jurisdiction over the Group's business but may impose sanctions on an extraterritorial basis. In addition, because U.S., EU and other sanctions programs change frequently, new requirements may be imposed, or original requirements may be reimposed, in relevant jurisdictions, including Iran, which could increase scrutiny on the Group's business or result in one of or more of the Group's business activities being deemed to violate sanctions. Shareholders of the Company and potential investors should consider (i) if investment in the Company would expose them to any OFAC or sanctions law risk arising from their nationality or residency, and (ii) the risk that, if the Group engages in oil and gas engineering business in sanctioned countries, such business may result in reduction of the marketability of the shares of the Company and may have an adverse effect on the price of the shares of the Company.

16 Report on Corporate Environmental, Social and Governance

Energy saving and environmental protection

As a responsible project contractor, the Group is committed to complying with the relevant laws and regulations on environmental protection, provides the society with the best green design concept by focusing on the three processes of source treatment, process control and zero discharge, creates optimal customised processing plan of high added value for the efficient utilisation of energy and uses technology innovations to materialise a green and healthy road of sustainable development.

Through the seamless integration of continuous technology innovation and fine design, the Group regards the design and construction of environmental-friendly green factories of low energy consumption and high efficiency as its own mission and responsibility, pays high attention to environmental protection and implements whole-process clean management. We are committed to being a green design advocate, green technology developer, green project builder undertaker and green office practitioner, to thread the green and low-carbon ideas through the whole processes of planning, design, procurement, construction and completion services, strives to explore new paths of development and pushes the industry onto a healthy road of low-carbon and environmental-friendly development.

At construction sites, the Group applies environmental protection concept at each management stage. Effective measures of dust prevention and suppression are adopted at construction sites. The emissions from onsite vehicles, machinery and equipment, as well as pollutions from dust, noise and waste during transportation are also under control. Standard workshop of prefabrication is built for project construction where noise reduction barrier is set. SEG would refrain from construction at night and using equipment that would make loud noises so as to reduce noise pollution. In addition, dust removal facilities are provided to reduce dust pollution from sand-blasting and anti-corrosion activities. We have been improving the efficiency of energy utilisation during construction, saving energy, formulating energy-saving measures, using energy-efficient equipment and products, optimising construction process, and making full use of clean and renewable energy. We have also adopted effective measures to supervise and promote the reasonable and economical use of materials, recycle and reuse surplus materials as much as possible, pay attention to the protection of biodiversity and restoration of original ecosystem during construction and strive for the fusion between project construction and natural environment.

Compliance with laws and regulations

The Group has established compliance procedures to ensure compliance with applicable laws, rules and regulations that have a significant impact on the Group. The Group authorises its Legal Department to supervise its policies and practices for compliance with laws and supervision by reviewing such policies and regulations periodically. The employees and affiliated companies will be notified from time to time of any change in the applicable laws, rules and regulations.

The Group has abided by the PRC laws and regulations in all material respects and obtained material licenses, approval documents and permits for its business operation in China from competent regulatory authorities. In overseas regions where it operates, the Group has abided by the local applicable laws and regulations in all material respects and obtained licenses, approval documents and permits important for its local business operations from competent regulatory authorities.

To safeguard its intellectual property rights, the Group has registered its own domain name and applied for or registered a number of trademarks under multiple categories in mainland China, Hong Kong and other related jurisdictions. The Group will take all appropriate actions to protect its own intellectual property rights.

The Group's business activities are regulated by competent authorities, laws and regulations of the Chinese government. For details, please refer to the section headed "Laws and Regulations" in the Company's prospectus dated 10 May 2013 (the "Prospectus"). Among others, the "Environmental Protection Law of the People's Republic of China" and the "Work Safety Law of the People's Republic of China" have been amended in 2014; the "Regulation on the Administration of Exploration and Design of Construction Projects" and the "Provisions on the Administration of Qualifications for Assessment of Environmental Impact of Construction Projects" were amended in 2015; and the "Provisions on the Administration of Qualifications of Construction Enterprises" was amended in 2016 and the amendments have taken effect and also been put into force as at the date of this annual report. Since the abovementioned laws, regulations and decrees still provide for the necessity in legal terms of applying for an approval or recognition of eligibility after being amended, it is estimated that these amendments will not have material effect on the business operations and growth of the Group.

Good work environment

As an equal opportunity employer (EOE), the Group will not discriminate against any employee because of his or her personal characteristics. The Staff Handbook contains terms and conditions of employment, the expectations for staff conduct and behaviour, and the rights and benefits of employees. The policies established and implemented by the Group are aimed to create a harmonious work environment of mutual respect.

The Group is deeply convinced that employees are the most precious asset of an enterprise and sees human resources as a corporate wealth. The Group also provides on-job training and development opportunities to facilitate career progress of employees. The various training programs that are offered have enabled the employees to increase their expertise in corporate operations, occupation and management skills. The Group provides its employees with a full range of benefits and activities, e.g. the Group has afforded a full package of customised benefits for its employees, including physical examination, recuperation allowance, accident insurance for working personnel stationed abroad, corporate annuity, supplementary medical insurance and subsides for those employees in financial distress, etc., in light of the Group's operating conditions and also the circumstances of relevant employees.

Health and safety

The Group commits itself to providing a work environment that is safe, efficient and comfortable and is proud of that. The Group makes appropriate arrangements and provides training courses and guidelines to ensure a healthy and safe work environment. The Group provides its employees with communications on health and safety and exhibits the relevant information to enhance their awareness for occupational health and safety. The Group values the health and well-being of its employees and has arranged courses in medical insurance for the employees to ensure their health and increase their health awareness.

The Group has diligently implemented a responsibility system, monitored the production stages, laid down a solid foundation and urged its employees to ensure production safety and compliance with all applicable standards. So far, it has set up the Assessment Center for Standardisation of Safety Control Measures in Production, has formulated an evaluation and grading system, and has carried out an assortment of campaigns such as public awareness enhancement, trial evaluation, application for official evaluation, monthly "safety first" examinations as well as "production safety" inspections. In addition to ceaselessly bettering its supervisory system for domestic projects, the Group has started to establish a supervisory system for its overseas projects, in an end to enhance its safety control skills and project management skills. The Group has managed to keep the rate of accident and harm to an extremely low level in the year.

Improve supplier management

The Group stresses on ensuring top-design of supplier management in accordance with the ideas concerning creating and optimising supply chains. It has established a complete supplier management system and a supplier evaluation system, and implemented a monthly report system on suppliers' breach of contract. Suppliers are reviewed and divided into different ranks annually and in accordance with the evaluation results, the procedures of implementation of entry system, catalog system and informational management are optimised, improving evaluation systems and realising continuous improvement. Supplier management system platform is estabilished to achieve network management of global suppliers. The Group has always kept mutually beneficial and win-win partnerships with all ranks of suppliers. It focuses on cultivating strategic suppliers and keeps sound communication with strategic suppliers. The Group provides support and guidance to excellent Chinese network suppliers in enhancing their international business competitiveness, facilitating excellent Chinese suppliers in participating in international competition by virtue of the international business platform of the Group. While expanding its supplier base, the Group also increases its resource optimisation and allocation ability worldwide.

Community participation and social relations

The Group has always adhered to its business motto which features "local connections, policy-based development and win-win situation" and its guiding principle of "putting an equal focus on production and human life, and integrating economic, environmental and social efficiency". The Group contributes to the local community and social harmony, and endeavours to mobilise its employees to freely communicate their ideas and embrace personal growth together. The Group also encourages and guides social organisations and volunteer teams in local community to provide services for the general public in a professional manner, and carries out a full spectrum of activities in the interests of local residents, ranging from fitness coaching, psychological counselling, security guarding to repair and maintenance services, in an effort to solve problems for local residents and build their trust in the Group. During the Reporting Period, the Group, with the theme of "Environmental Protection", strives to build a green environment for local communities and residents to have a pleasant and beautiful place to work, study and live.

By Order of the Board

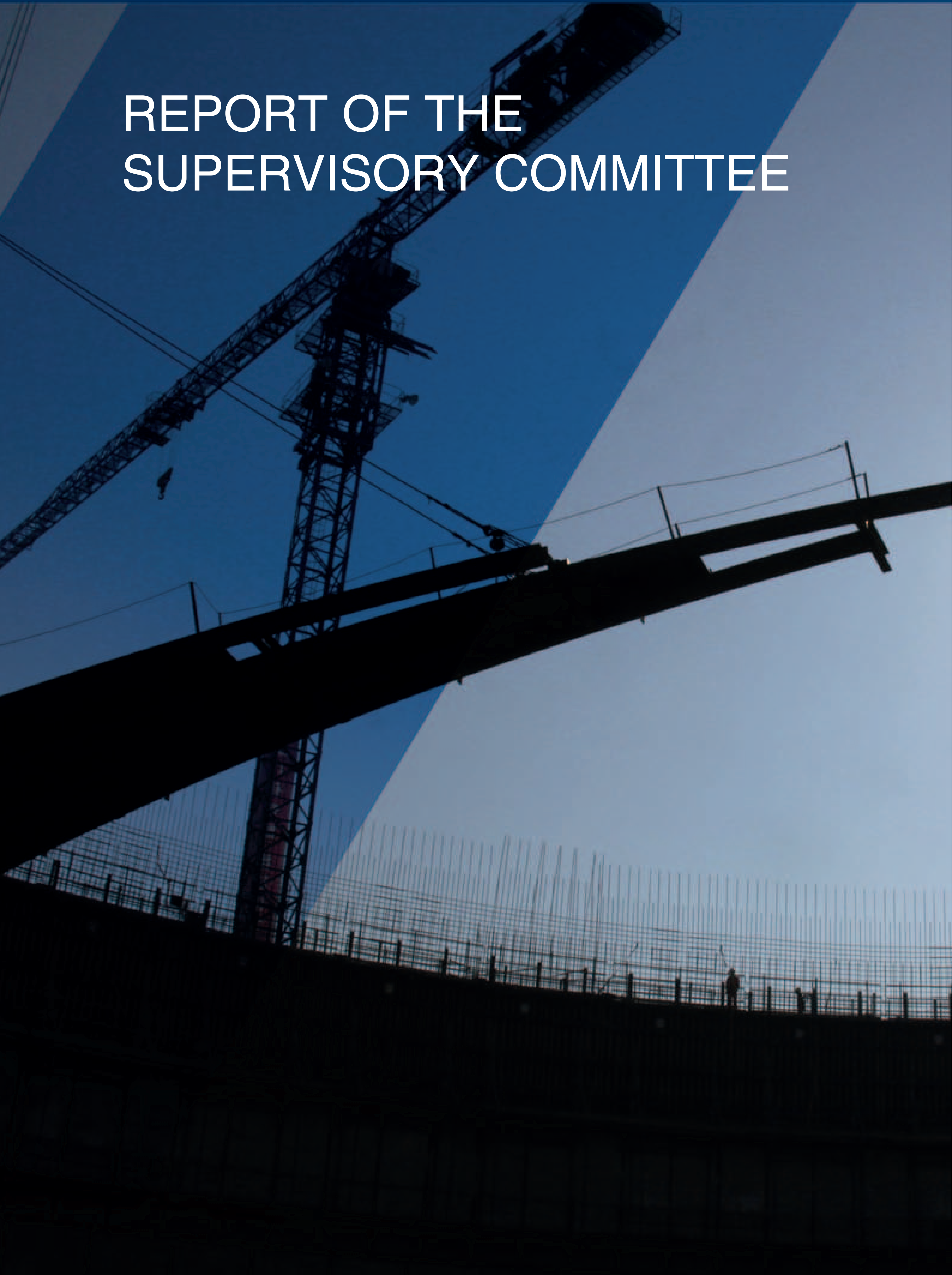
LING Yiqun

Chairman of the Board

Beijing, the PRC

17 March 2017

REPORT OF THE SUPERVISORY COMMITTEE



Ms. Deng Qunwei

Chairman, Supervisory Committee

Dear Shareholders,

In 2016, the Supervisory Committee and each Supervisor diligently performed his/her responsibilities as a supervisor, actively attended and supervised the meetings held by the Board and shareholders, carefully reviewed each significant decision made with regard to issues in production operations, financial management, capital operation, major guarantees and dividend distribution, etc., and strived to safeguard the interests of shareholders and the Company in accordance with the Company Law of the PRC and the Articles of Association.

During the Reporting Period, the Supervisory Committee held two meetings, in which the 2015 annual report, the 2016 interim report, financial reports, production and operation plans, investment plans and financial budgets, dividend dstribution plan were reviewed.

The Second Meeting of the Second Session of the Supervisory Committee was held on 18 March 2016. The 2015 annual report, the 2015 financial report, the business operation plan, investment plan and financial budget for the year 2016, the dividend distribution plan for the year 2015, and the report of the Supervisory Committee for the year 2015 were considered and approved at the meeting.

The Third Meeting of the Second Session of the Supervisory Committee was held on 19 August 2016. The 2016 interim financial report, the 2016 interim report and the 2016 interim dividend distribution plan were considered and approved at the meeting.

The Supervisory Committee, through its supervision over the Company's major decision-making and operation conditions, is of the opinion that: In 2016, under the development strategy of "energy and petrochemical-oriented, innovation-driven, globalisation-targeted and value-focused", and under the unfavourable environment caused by the international crude oil price that stays low, the drastic reduction of investment in the petrochemical industry and the shrinkage that has appeared in domestic and overseas markets, the Company has effectively improved quality efficiency by calmly responding to the pressure and challenges, working hard to explore the market, focusing on optimising project operation, tapping potentials and lowering cost vigorously. As a result, its production, operation, reform and development proceeded in an orderly way on the whole. The Supervisory Committee has no disagreement on the supervised issues within the Reporting Period.

Firstly, the Board diligently fulfilled its obligations and exercised its rights under the Company Law of the PRC and the Articles of Association, and made scientific decisions on major issues concerning production and operation, reform and development, etc.; the management of the Company carefully implemented the decisions made by the Board, strengthened research and development of technologies, put emphasis on market exploration and delicacy management, emphasised innovative development and optimised resource allocation, and highlighted the overall upgrade of the core competency. As a result, remarkable achievements have been made in every aspect. We have not discovered any violation of relevant laws, regulations or the Articles of the Association of the Company by the Directors or the Senior Management of the Company or any of their actions having a damaging effect on the interests of the Company or its shareholders.

Secondly, the annual report prepared by the Company in 2016 was in compliance with relevant regulations of domestic and overseas securities regulators, and truly and fairly represented the SINOPEC SEG's financial status and operating results.

Thirdly, the Company strictly implemented relevant regulations regarding proceeds from the raised funds. The actual use of proceeds was consistent with the disclosures.

Fourthly, the Company disclosed material information according to securities regulations in a timely manner, and the information disclosed was authentic, accurate and complete.

The Session of the Supervisory Committee will follow the principle of integrity, perform its supervisory duties, actively participate in the process supervision of significant decision-making of the Company, put greater efforts in inspection and supervision and protect the interests of the Company and its shareholders.

DENG Qunwei

Chairman, Supervisory Committee

Beijing, the PRC

17 March 2017

DIRECTORS, SUPERVISORS, OTHER SENIOR MANAGEMENT MEMBERS AND EMPLOYEES (Note)

Note: In this Annual Report the age of the Directors, Supervisors and other Senior Management members is as at the end of the Reporting Period.

1 Basic Information of Directors, Supervisors and Other Senior Management Members

(1) Directors

Mr. LING Yiqun (凌逸群) - Chairman of the Board and Non-executive Director

Mr. LING Yiqun (凌逸群), aged 54, is the Chairman of the Board of SINOPEC SEG and the vice president of Sinopec Corp.. Mr. LING is a senior engineer at professor level with a PhD degree. Mr. LING worked at the refinery of Beijing Yanshan Petrochemical Company (北京燕山石化公司煉油廠) and the Refining Division of Beijing Yanshan Petrochemical Company Limited (北京燕山石化有限公司) from November 1983 to February 2000. He served as a deputy director general of the Refining Department of Sinopec Corp. from February 2000 to June 2003; a director general of the Refining Department of Sinopec Corp. from June 2003 to August 2013; a vice president of Sinopec Corp. since July 2010; the vice chairman of the board of Saudi Yanbu Refinery Joint Venture (沙特延布煉廠合資公司) from September 2011 to March 2014; the executive director and the general manager of Sinopec Refinery & Marketing Limited (中國石化煉油銷售有限公司) from May 2012 to July 2013; a non-executive director of the Company from August 2012 to January 2015; the president of Qilu Branch of Sinopec Corp. (中國石化股份齊魯分公司) from August 2013 to August 2016. He has been the Chairman of the Board of SINOPEC SEG since February 2017.

Mr. LU Dong (陸東) - Vice Chairman of the Board and Executive Director

Mr. LU Dong (陸東), aged 53, is the Vice Chairman of the Board. Mr. LU is a senior engineer at professor level with a university diploma. From January 2000 to March 2004, he was the vice president of Yangzi Petrochemical Limited Liability Company (揚子石油化工有限責任公司). From March 2003 to July 2004, he worked as the deputy director of Chemical Department of Sinopec Corp. (中國石化股份公司化工事業部). From July 2004 to December 2007, he served as the president of Fujian Petrochemical Company Limited (福建煉油化工有限公司). From July 2004 to October 2014, he was a director of Fujian Petrochemical Company Limited. From December 2005 to October 2014, he worked as the chairman of the board of directors of Fujian Petrochemical Company Limited. From February 2007 to October 2014, he served as the chairman of the board of directors of and president of Fujian Refining & Petrochemical Company Limited (福建聯合石油化工有限公司). He has been the Vice Chairman of the Board of SINOPEC SEG since January 2015.

Mr. XIANG Wenwu (向文武) - Executive Director and President

Mr. XIANG Wenwu (向文武), aged 50, is an executive Director and the President of the Company, who is a senior economist at professor level with a PhD degree. He served as deputy manager of Sinopec Group Second Construction Company (中國石化集團第二建設公司) (“Sinopec Group SCC”) from June 1999 to March 2004; a manager of Sinopec Group SCC from March 2004 to December 2008; the president of Sinopec Group SCC from December 2008 to July 2010; a director and the president of Sinopec Group Nanjing Engineering & Construction Incorporation (中國石化集團南京工程有限公司) from December 2009 to April 2012; an executive director and the president of Sinopec Nanjing Engineering & Construction Incorporation (中石化南京工程有限公司) from April 2012 to November 2014; and the vice president of the Company from August 2012 to January 2017. Mr. Xiang has been the President of SINOPEC SEG since January 2017 and has been a Director of SINOPEC SEG since February 2017.

Mr. LI Guoqing (李國清) - Non-executive Director

Mr. LI Guoqing (李國清), aged 59, is a Director of SINOPEC SEG, and the director of the Engineering Department of Sinopec Corp. (中國石化股份公司工程部). Mr. LI is a senior engineer at professor level with a university diploma. From December 2001 to January 2003, he served as the deputy manager of Sinopec Group LPEC (中國石化集團洛陽石油化工工程公司). From January 2003 to April 2005, he was the director of the designing management division of the engineering and construction administration department of Sinopec Group. He served as deputy director general of the engineering and construction administration department of Sinopec Group from April 2005 to June 2007 and deputy director general of the engineering department of Sinopec Corp. from June 2007 to June 2012. From June 2012 to November 2013, he was an executive director and general manager of Sinopec Engineering Incorporation (中國石化工程建設有限公司). He served as the Vice President of SINOPEC SEG from August 2012 to November 2013. He has been the director of the engineering department of Sinopec Corp. since November 2013 and the Director of SINOPEC SEG since May 2014.

Ms. SUN Lili (孫麗麗) - Executive Director

Ms. SUN Lili (孫麗麗), aged 55, is an employee representative Director of SINOPEC SEG, and a Director and President of Sinopec Engineering Incorporation. Ms. SUN is a senior engineer at professor level with a university diploma. From June 2004 to April 2012, she served as the vice president of Sinopec Engineering Incorporation. From January 2006 to May 2008, she served as the vice president of SINOPEC International Petroleum Exploration and Development Co., Ltd. (中國石化國際石油勘探開發有限公司). Since September 2011, she has served as the chairman of the Project Supervision and Management Committee of Saudi Yanbu Refinery Joint Venture (沙特延布煉廠合資公司). Since December 2011, she has served as the president of Saudi Yanbu Refinery Project and a member of the remuneration committee and audit committee of the board of directors of Saudi Yanbu Refinery Joint Venture. From April 2012 to November 2013, she served as the vice president of SINOPEC Engineering Incorporation. Since November 2013, she has served as the director and president of SINOPEC Engineering Incorporation. From January 2014 to November 2014, she served as the Vice President of SINOPEC SEG. She has been a Director of SINOPEC SEG since January 2015.

Mr. WU Derong (吳德榮) - Executive Director

Mr. WU Derong (吳德榮), aged 56, is an employee representative Director of SINOPEC SEG and also a director and president of SINOPEC Shanghai Engineering Co., Ltd. (中石化上海工程有限公司). Mr. WU is a senior engineer at professor level with a university diploma. From February 1998 to December 2000, he worked as the deputy dean of Shanghai Pharmaceutical Designing Institute (上海醫藥設計院). From December 2000 to January 2003, he worked as the deputy dean of Sinopec Group Shanghai Pharmaceutical Industry Design Institute (中國石化集團上海醫藥工業設計院). From January 2003 to October 2006, he served as the vice president of Sinopec Group Shanghai Engineering Co., Ltd. (中國石化集團上海工程有限公司). From October 2006 to April 2012, he worked as the chairman of the board and the president of Sinopec Group Shanghai Engineering Co., Ltd. Mr. WU has been the chairman of the board and the president of Sinopec Shanghai Engineering Co., Ltd. since April 2012. He was a Vice President of SINOPEC SEG from August 2012 to November 2014. He has been a Director of SINOPEC SEG since January 2015.

Mr. HUI Chiu Chung, Stephen (許照中) - Independent non-executive Director

Mr. HUI Chiu Chung (許照中), J.P., aged 69, is an independent non-executive Director of SINOPEC SEG. Mr. HUI is currently the Chairman and Chief Executive Officer of Luk Fook Financial Services Limited. He also serves as an independent non-executive director of Zhuhai Holdings Investment Group Limited (Stock Code: 908), Gemdale Properties and Investment Corporation Limited (Stock Code: 535), Lifestyle International Holdings Limited (Stock Code: 1212), China South City Holdings Limited (Stock Code: 1668) and Agile Group Holdings Limited (Stock Code: 3383) and a non-executive director of Luk Fook Holdings (International) Limited (Stock Code: 590), whose shares are listed on the Hong Kong Stock Exchange. Mr. HUI has been appointed as the independent non-executive director of Hong Kong Exchanges and Clearing Limited (Stock Code: 388) by the Hong Kong SAR Government since April 2009, whose term expires in April 2015. Mr. HUI has over 40 years of experience in the securities and investment industry. He was the Managing Director of UOB Kay Hian (Asia) Limited (大華繼顯(亞洲)有限公司) from 2002 to 2005; Group Managing Director of OSK Asia Holdings Limited (僑豐金融集團有限公司) ("OSK") from August 2005 to March 2007; Chief Executive Officer of OSK from April 2007 to March 2011; and the vice chairman of OSK Asia Holdings Hong Kong Limited (僑豐金融集團(香港)有限公司) from April 2011 to September 2011. He served for years as a council member and vice chairman of the Hong Kong Stock Exchange, a member of the Advisory Committee and the Committee on Real Estate Investment Trusts of the Hong Kong Securities and Futures Commission, a director of the Hong Kong Securities Clearing Company Limited, a member of the Listing Committee of the Hong Kong Exchanges and Clearing Limited, an appointed member of the Securities and Futures Appeal Tribunal, a member of the Standing Committee on Company Law Reform, and an appointed member of the Hong Kong Institute of Certified Public Accountants Investigation Panel. He was offered Senior Fellowship by the Hong Kong Securities and Investment Institute and was offered Fellowship by the Hong Kong Institute of Directors in 2011 and 2002, respectively. Mr. HUI has been an independent non-executive Director of SINOPEC SEG since April 2013.

Mr. JIN Yong (金涌) - Independent non-executive Director

Mr. JIN Yong (金涌), aged 81, is an independent non-executive Director of SINOPEC SEG. Mr JIN currently is a member of Chinese Academy of Engineering, the dean of the Chemical Engineering Science and Technology Research Institute of Tsinghua University (清華大學化工科學與技術研究院), a professor of the Chemical Engineering department of Tsinghua University, an executive officer of China Society of Particuology and an executive officer of Chemical Industry and Engineering Society of China. Mr. JIN worked in the University of Science and Technology of China ("USTC") as an assistant teacher in Electrical Engineering Research Office from October 1959 to February 1960. He also served as a teacher engaging in advanced studies in the Chemical Research Office in Tianjin University from February 1960 to February 1961, and worked as a teacher in the Chemistry Department in USTC from February 1961 to May 1973. Since 1973, Mr. JIN has been a lecturer, associate professor, professor and tutor of doctoral candidates at the Chemical Engineering Department of Tsinghua University. Mr. Jin has been an independent non-executive Director of SINOPEC SEG since April 2013.

Mr. YE Zheng (葉政) - Independent non-executive Director

Mr. YE Zheng (葉政), aged 52, is an independent non-executive Director of SINOPEC SEG. Mr. YE is a practicing director of Mazars CPA Limited (瑪澤會計師事務所有限公司). He worked in Shanghai Municipal Finance Bureau (上海市財政局) from October 1982 to January 1989. Mr. YE has over 21 years of experience in audit, internal control and consultancy. He served as an auditor in Ernst & Young (安永會計師事務所) from October 1995 to April 2000; an audit manager in KPMG (畢馬威會計師事務所) from May 2000 to December 2001; a senior audit manager in Grant Thornton (均富會計師事務所) from January 2002 to July 2005 and a director in Ernst &Young from August 2005 to October 2006. Mr. YE obtained a bachelor's degree in accounting and finance in May 1993, and a master's degree in business administration in December 1994, both from California State University, Long Beach. Mr. YE became a member of the American Institute of Certified Public Accountants in September 1998 and a member of the Hong Kong Institute of Certified Public Accountants in May 2003. He has been a practicing director of Mazars CPA Limited since November 2006 and an independent non-executive Director of SINOPEC SEG since April 2013. Mr. YE was appointed by the Ministry of Finance of the People's Republic of China as a consulting expert for the third session of the committee for enterprise internal control standards from 1 November 2014 to 31 October 2016.

Profile of the Directors of the Second Session of the Board as at the date of publication of this Annual Report

Name	Gender	Age	Position in the Company	Term of Office as Director
LING Yiqun	Male	54	Chairman of the Board and Non-executive Director	February 2017 - October 2018
LU Dong	Male	53	Vice Chairman of the Board and Executive Director	October 2015 - October 2018
XIANG Wenwu	Male	50	Executive Director and President	February 2017 - October 2018
LI Guoqing	Male	59	Non-executive Director	October 2015 - October 2018
SUN Lili	Female	55	Executive Director	October 2015 - October 2018
WU Derong	Male	56	Executive Director	October 2015 - October 2018
HUI Chiu Chung, Stephen	Male	69	Independent non-executive Director	October 2015 - October 2018
JIN Yong	Male	81	Independent non-executive Director	October 2015 - October 2018
YE Zheng	Male	52	Independent non-executive Director	October 2015 - October 2018

List of relevant information of the resigned Directors after the Reporting Period

Name	Gender	Age	Position in the Company	Term of office
ZHANG Jianhua	Male	52	Independent non-executive Director	October 2015 - February 2017
YAN Shaochun	Male	52	Executive Director	October 2015 - February 2017

(2) Supervisors

Ms. DENG Qunwei (鄧群偉) - Chairman, Supervisory Committee

Ms. DENG Qunwei (鄧群偉), aged 46, is the Chairman of the Supervisory Committee of SINOPEC SEG. Ms.Deng is a senior accountant at professor level with a university diploma. From July 1992 to June 2003, Ms. Deng served for Sinopec Finance, the Youth League Committee of departments directly under Sinopec Group and the Political Work Department of Sinopec Group. From June 2003 to December 2010, she acted as the director of the General Administration Office of Sinopec Finance and the manager of Zhengzhou Branch and Tianjin Branch of Sinopec Finance. From February 2001 to February 2004, she concurrently acted as the employee representative supervisor on the supervisory committee of Sinopec Group despatched by the State-owned Assets Supervision and Administration Commission of the State Council. From December 2010 to March 2015, she acted as as the manager of the Settlement Department of Sinopec Finance. She has been the Chairman of the Supervisory Committee since May 2015.

Mr. ZHOU Yingguan (周贏冠) - Supervisor

Mr. ZHOU Yingguan (周贏冠), aged 48, is a Supervisor of SINOPEC SEG and a vice president of Sinopec Nanjing Engineering Co., Ltd. (中石化南京工程有限公司). Mr. ZHOU is a senior engineer with a university diploma. From March 2004 to July 2010, Mr. ZHOU worked as the deputy manager of the Sinopec Group Second Construction Company (中國石化集團第二建設公司). From July 2010 to April 2012, he served as the vice president of Sinopec Group Second Construction Company. Since April 2012, he has been the vice president of Sinopec Group Nanjing Engineering Co., Ltd. (中國石化集團南京工程有限公司). He has been the Supervisor of SINOPEC SEG since January 2015.

Mr. WANG Guoliang (王國良) - Supervisor

Mr. WANG Guoliang (王國良), aged 56, is a Supervisor of SINOPEC SEG and a vice president of each of Luoyang Petrochemical Engineering Corporation (LPEC)/SINOPEC (中石化洛陽工程有限公司) and Guangzhou Petrochemical Engineering Corporation (GPEC)/SINOPEC (中石化廣州工程有限公司). Mr. WANG is a senior engineer at professor level with a doctorate degree. From September 1997 to November 2001, he worked as the deputy manager of Sinopec Group LPEC. From November 2001 to May 2003, he was the secretary of the CPC Committee of Sinopec Group LPEC. From May 2003 to December 2008, he was the deputy manager of Sinopec Group Luoyang Petrochemical Engineering Corporation. From December 2008 to April 2012, he was the vice president of Sinopec Group Luoyang Petrochemical Engineering Corporation. From April 2012 to September 2012, he was the vice president of Luoyang Petrochemical Engineering Corporation (LPEC)/SINOPEC and Guangzhou Petrochemical Engineering Corporation (GPEC)/SINOPEC. From September 2012 to November 2014, he was an executive director and president of each of Luoyang Petrochemical Engineering Corporation (LPEC)/SINOPEC and Guangzhou Petrochemical Engineering Corporation (GPEC)/SINOPEC. From December 2012 to November 2014, he was the Vice President of the Company. Since November 2014, he has been the vice president of each of Luoyang Petrochemical Engineering Corporation (LPEC)/SINOPEC and Guangzhou Petrochemical Engineering Corporation (GPEC)/SINOPEC. He has been a Supervisor of SINOPEC SEG since January 2015.

Mr. WANG Cunting (王存庭) - Supervisor

Mr. WANG Cunting (王存庭), aged 49, is a Supervisor of SINOPEC SEG. He is a director and president of Sinopec Group Tenth Construction Company Limited (中石化第十建設有限公司). Mr. WANG is a senior engineer at professor level with a university diploma. From October 2006 to December 2008, Mr. WANG worked as the vice manager of Sinopec Group Tenth Construction Company (中國石化集團第十建設公司). From December 2008 to April 2012, he served as the vice president of the Sinopec Group Tenth Construction Company. From April 2012 to March 2015, he served as the vice president of Sinopec Group Tenth Construction Company Limited. He has been the executive director and president of Sinopec Group Tenth Construction Company Limited since March 2015. He has been a Supervisor of SINOPEC SEG since October 2015.

Mr. ZHU Fei (朱斐) - Employee Representative Supervisor

Mr. ZHU Fei (朱斐), aged 52, is an employee representative Supervisor of SINOPEC SEG and also a vice president of Sinopec Fourth Construction Co., Ltd. (中石化第四建設有限公司). Mr. ZHU is a senior engineer with a university diploma. From October 1998 to July 1999, he was the deputy head of Beijing Design Institute (北京設計院). From July 1999 to December 2002, he undertook different roles at Sinopec Engineering Incorporation. From December 2002 to April 2012, he worked as the vice president of Sinopec Engineering Incorporation. From April 2012 to October 2014, he was the vice president of Sinopec Engineering Incorporation. Since November 2014, he has been the vice president of Sinopec Fourth Construction Co., Ltd. He has been an employee representative Supervisor of SINOPEC SEG since January 2015.

Mr. JIANG Dejun (蔣德軍) - Employee Representative Supervisor

Mr. JIANG Dejun (蔣德軍), aged 51, is an employee representative Supervisor of SINOPEC SEG, who is also a vice president of Sinopec Fifth Construction Co., Ltd. (中石化第五建設有限公司). Mr. JIANG is a senior engineer at professor level with a PhD degree. From November 2001 to September 2003, he was the deputy head of Lanzhou Design Institute of Sinopec Engineering and Construction Incorporation (中國石化集團蘭州設計院). From September 2003 to June 2007, he was the director and vice president of Sinopec Ningbo Engineering Co., Ltd. (中石化寧波工程有限公司). From June 2007 to December 2008, he was the deputy manager of SINOPEC Engineering Co., Ltd. (中石化集團煉化工程有限公司). From December 2008 to September 2012, he was the Vice President of SINOPEC SEG. Since September 2012, he has been the vice president of Sinopec Fifth Construction Co., Ltd. He has been an employee representative Supervisor of SINOPEC SEG since January 2015.

Mr. XU Yijun (許一君) - Employee Representative Supervisor

Mr. XU Yijun (許一君), aged 53, is an employee representative Supervisor of SINOPEC SEG, who is a vice president of Sinopec Ningbo Engineering Co., Ltd. Mr. XU is a senior economist at professor level with a PhD degree. From April 2001 to September 2003, he was the deputy manager of the Third Construction Company of Sinopec Group (中石化集團第三建設公司). From September 2003 to April 2012, he was the vice president of Ningbo Engineering Co., Ltd. He has been the vice president of Sinopec Ningbo Engineering Co., Ltd. since April 2012. He has been an employee representative Supervisor of SINOPEC SEG since January 2015.

Profile of the Supervisors of the Second Session of the Supervisory Committee during the Reporting Period

Name	Gender	Age	Position in the Company	Term of Office as Supervisor
DENG Qunwei	Female	46	Chairman, Supervisory Committee	October 2015 - October 2018
ZHOU Yingguan	Male	48	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	52	Employee Representative Supervisor	October 2015 - October 2018
JIANG Dejun	Male	51	Employee Representative Supervisor	October 2015 - October 2018
XU Yijun	Male	53	Employee Representative Supervisor	October 2015 - October 2018

(3) Other Senior Management

Please refer to the "Director" section of this chapter for biographical information of Mr. XIANG Wenwu.

Mr. XIAO Gang (肖剛) - Vice President

Mr. XIAO Gang (肖剛), aged 58, is a Vice President of SINOPEC SEG. Mr. XIAO is a senior economist at professor level with a university diploma. From July 1986 to March 2004, Mr. XIAO has held positions in the Beijing Yanshan Petrochemical Corporation (北京燕山石化公司), Sinopec Engineering Incorporation, the Engineering & Construction Department of China Petrochemical Corporation and Engineering & Construction Management Department of Sinopec Group. Mr. XIAO served as Secretary of CPC Committee and Secretary of Discipline Inspection Committee of Sinopec Group SCC from March 2004 to January 2006; Manager of Sinopec Group FCC from January 2006 to December 2008; President of Sinopec Group FCC from December 2008 to April 2012; and Director and President of FCC from April 2012 to November 2014. He has been a Vice President of SINOPEC SEG since August 2012.

Mr. GUAN Qingjie (官慶杰) - Chairman of Trade Union

Mr. GUAN Qingjie (官慶杰), aged 57, is the Chairman of the Trade Union of SINOPEC SEG. Mr. GUAN is a senior accountant with a university diploma. Mr. GUAN served as Deputy Chief Accountant of Jinzhou Petrochemical Company (錦州石油化工公司) from June 1995 to October 1997; Deputy Director General of the Assets Management and Administration Department of Sinopec Group (中國石化集團) from October 1997 to February 2000; Deputy Director General of the Enterprise Reform Department of Sinopec Group from February 2000 to December 2000; Deputy Head of the Asset Operation and Finance Section under Corporate Restructuring Office of Sinopec Group from December 2000 to September 2001; Deputy Director General of the Refining and Chemical Engineering Enterprise Management Department of Sinopec Group from September 2001 to May 2007; and Deputy Director General of the Operation and Management Division of Sinopec Asset Management Co., Ltd Sinopec Group. ("SAMC", 中國石化集團資產經營管理公司) from March 2006 to July 2010. He was Deputy Director General of the Capital Operation Department of each of Sinopec Group and China Petroleum & Chemical Corporation as well as vice president of SAMC from July 2010 to June 2012; and has been the Chairman of the Supervisory Committee of SINOPEC SEG from August 2012 to March 2015. He has been the Chairman of the Trade Union of SINOPEC SEG since August 2012.

Mr. QI Guosheng (戚國勝) - Vice President

Mr. QI Guosheng (戚國勝), aged 56, is a Vice President of SINOPEC SEG. Mr. QI is a senior engineer at professor level with a university diploma. From August 1983 to February 2002, Mr. QI has held positions in Anti Chemical Command and Engineering Institute of the Chinese People's Liberation Army, Beijing Petrochemical Engineering Company, Engineering & Construction Department of China Petrochemical Corporation, Engineering & Construction Management Department of Sinopec Group and Sinopec Engineering Incorporation. Mr. QI served as vice president of Sinopec Engineering Incorporation from December 2002 to April 2012 and vice president of Sinopec Engineering Incorporation from April 2012 to November 2014. He has been a Vice President of SINOPEC SEG since November 2014.

Mr. JIA Yiqun (賈益群) - Chief Financial Officer

Mr. JIA Yiqun (賈益群), aged 49, is the Chief Financial Officer of SINOPEC SEG. Mr. JIA is a senior engineer with a master degree. From July 1990 to April 2003, Mr. JIA has held positions in Sinopec Research Institute of Petroleum Engineering (中國石化石油化工科學研究院), China Petrochemical International Company (中國石化國際事業公司), Foreign Affairs Bureau of Sinopec Group; Mr. JIA served as Deputy Chief Representative of the Hong Kong Representative Office of Sinopec Corp. from April 2003 to June 2012 and has been the Chief Financial Officer of SINOPEC SEG since August 2012. Mr. JIA obtained the qualifications of Chartered Financial Analyst issued by CFA Institute in September 2006.

Mr. SANG Jinghua (桑菁華) - Vice President, Secretary to the Board, Company Secretary

Mr. SANG Jinghua (桑菁華), aged 49, is a Vice President, the Secretary to the Board and the Company Secretary of SINOPEC SEG. Mr. SANG is a senior engineer with a university diploma. From July 1990 to September 2012, Mr. SANG has held positions in the Shijiazhuang Refinery (石家莊煉油廠), and Board Secretariat of Sinopec Corp. Mr. SANG served as Securities Representative of Sinopec Corp. from May 2012 to January 2013. He has been the secretary to the Board since August 2012, the Company Secretary of SINOPEC SEG since December 2012 and a Vice President of SINOPEC SEG since May 2014.

Mr. SUN Xiaobo (孫曉波) - Vice President

Mr. SUN Xiaobo (孫曉波), aged 56, is a Vice President of SINOPEC SEG, who is also the president of Sinopec Lift and Transportation Company. Mr. SUN is a senior engineer with a university diploma. From April 1980 to October 2012, Mr. SUN has held positions in the Third Design Institute of the Ministry of Chemical Industry, Beijing Heavy Machinery Company of the Ministry of Chemical Industry, Engineering Department of China Petrochemical Corporation, Sinopec Engineering Incorporation, Engineering & Construction Management Department of Sinopec Group and SINOPEC SEG. Mr. SUN served as President Assistant of SINOPEC SEG and Director of Department for Enterprise Reform and Management from October 2012 to April 2014. He has been a Vice President of SINOPEC SEG and President of Sinopec Lift and Transportation Company Since May 2014.

Profile of other Senior Management as at the date of publication of this Annual Report

Name	Gender	Age	Position in the Company	Date of Taking Office
XIANG Wenwu	Male	50	President	January 2017
XIAO Gang	Male	58	Vice President	August 2012
GUAN Qingjie	Male	57	Chairman of Trade Union	August 2012
QI Guosheng	Male	56	Vice President	November 2014
JIA Yiqun	Male	49	Chief Financial Officer	August 2012
SANG Jinghua	Male	49	Vice President Secretary to the Board Company Secretary	May 2014 August 2012 December 2012
SUN Xiaobo	Male	56	Vice President	May 2014

List of relevant information of the resigned Senior Management after the Reporting Period

Name	Gender	Age	Position in the Company	Term of Office
YAN Shaochun	Male	52	President	April 2013 - January 2017

2 Appointment and Resignation of Directors after the Reporting Period

Due to work adjustments, Mr. ZHANG Jianhua and Mr. YAN Shaochun have no longer served as Directors since February 2017. In February 2017, Mr. LING Yiqun and Mr. XIANG Wenwu were elected as Directors of the Second Session of the Board of the Company at the first extraordinary general meeting of the Company for the year 2017. On 21 February 2017, it was approved at the seventh meeting of the Second Session of the Board of the Company that Mr. LING Yiqun was appointed as the Chairman of the Second Session of the Board of the Company.

3 Appointment and Resignation of other Senior Management after the Reporting Period

Due to work adjustment, Mr. YAN Shaochun have no longer served as President of the Company since January 2017. In January 2017, it was approved at the Sixth Meeting of the Second Session of the Board of the Company that Mr. XIANG Wenwu was appointed as President of the Company.

4 Contract Benefits of Directors and Supervisors

As at 31 December 2016 or any time during the Reporting Period, none of the Directors and Supervisors had signed major contracts which would entitle the Director or the Supervisor with significant benefits with the Company, its holding company or any subsidiaries or fellow subsidiaries.

All executive Directors and non-executive Directors have entered into service agreements with the Company. Such service agreements are effective from the date of their relevant appointment by the shareholders to the expiry of the term of the Second Session of the Board. The service agreements can be renewed in accordance with the Articles of Association and applicable laws and regulations.

All Supervisors have entered into agreements with the Company concerning the issues of compliance with relevant laws and regulations, the Articles of Association and arbitration regulations. The term of office for Supervisors starts from the date of their relevant appointment to the expiry of the Second Session of the Supervisory Committee. The service agreements can be renewed in accordance with the Articles of Association and applicable laws and regulations.

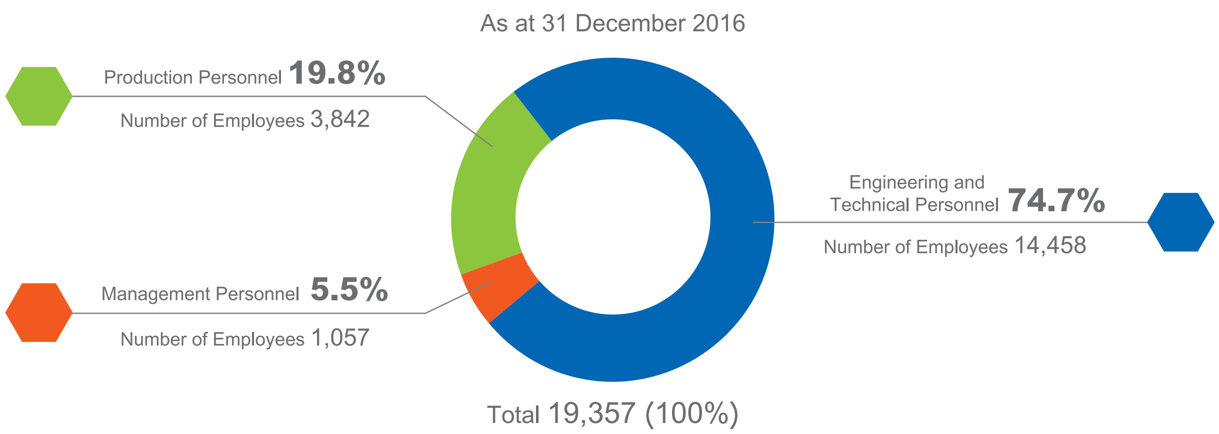
5 Remuneration of Directors, Supervisors and other Senior Management Members

During the Reporting Period, the total number of Directors, Supervisors and other Senior Management Members paid by the Company and its subsidiaries was 18, and the annual total remuneration paid was RMB11.698 million. Please refer to Note 40 to the consolidated financial statements contained in this annual report for details.

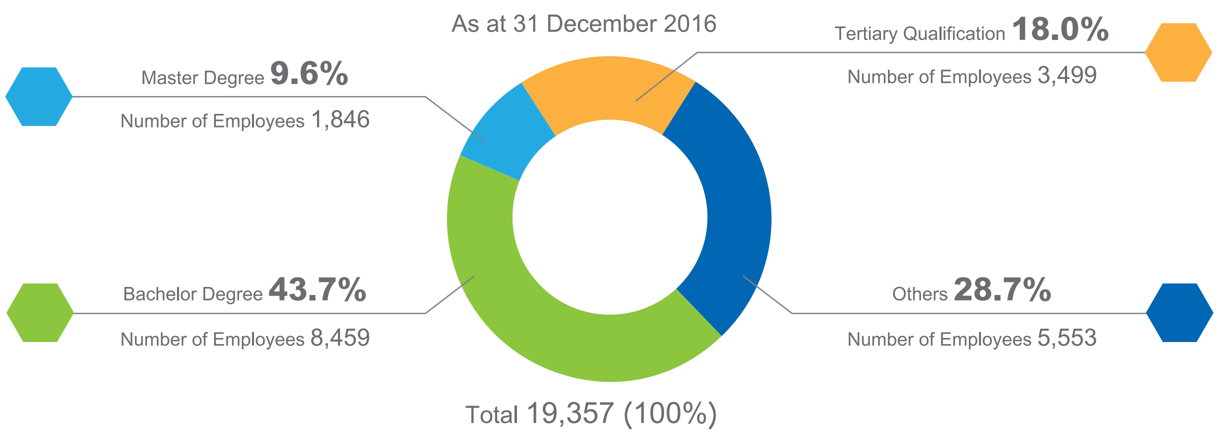
6 Employees

As at 31 December 2016, there were in total 19,357 employees working in the Group.

The following list is a categorisation of employee details in different business sectors as at 31 December 2016.



The following list is a categorisation of employee details in accordance with education level as at 31 December 2016.



7 Employee Remuneration

During the Reporting Period, we maintained good labour relations. The remuneration of our employees mainly consists of salary, discretionary bonuses and contributions to the compulsory social security funds. In accordance with the laws and regulations of the PRC, the Group participates in different retirement pension related programmes for our employees, including the programmes organised by the provincial and municipal governments of the PRC and other complementary retirement pension related plans. Bonuses are usually determined in accordance with the overall performance of the Group's business. For the years ended 31 December 2015 and 31 December 2016, the employment costs of the Group were approximately RMB5.323 billion and RMB5.208 billion, respectively.

8 Employee Training Programmes

During the Reporting Period, the Group organised more than 3,000 key professional training sessions. Throughout the year, a total of 33.2 thousand attendees attended the trainings inside and outside the Group, of which there were 4.2 thousand attendees who are operation management staff, 24.9 thousand attendees who are engineering and technical staff, and 4.1 thousand attendees who are operational staff.

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)

OPINION

We have audited the consolidated financial statements of SINOPEC Engineering (Group) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 115 to 183, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follow:

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition of construction contracts *Refer to notes 5(a) and 6 to the consolidated financial statements and notes 3.21 and 3.22 to the consolidated financial statements for the related accounting policies.* The Group recognised revenue of RMB39,375,434,000 for the year ended 31 December 2016, of which RMB36,605,362,000 is related to construction contracts. Revenue related to construction contracts is recognised according to the percentage of completion of the related contracts. The measurement of the revenue amount generated in each period is based on the percentage of work performed to date as a percentage of total contract value or the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for a contract. These transactions require individual consideration and involve management's estimated and judgement. We have identified the revenue recognition related to construction contracts as a key audit matter.	Our procedures in relation to the revenue recognition of construction contracts included: – assessing and testing the related internal control of the management's accounting estimates and judgement of construction contracts; – discussing with the management on the reasonableness of the basis and assumptions of the total budgeted revenue and total budgeted costs; – checking, on a sample basis, the principal terms set out in the relevant construction contracts and the implementation status; – performing variance analysis between the accumulated costs incurred up to the end of the reporting period and the budgeted costs, and checking, on a sample basis, significant costs incurred to date and assessing the reasonableness of the budgeted costs; and – testing, on a sample basis, the amount and timing of the construction contract revenue recognised having regard to the percentage of work performed to date as a percentage of total contract value or the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for a contract.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of trade receivables *Refer to notes 5(c) and 22 to the consolidated financial statements and note 3.11 to the consolidated financial statements for related accounting policy.* Assessing impairment of trade receivables is a subjective area as it requires the management's judgement and uses of estimates. We have identified impairment assessment of trade receivables as a key audit matter.	Our procedures in relation to management's impairment assessment on trade receivables included: – assessing and testing the related internal controls of impairment assessment of trade receivables established by the management; – assessing the accuracy and consistency of the methods, input data and assumptions used by the management for impairment assessment and whether the provision is sufficient; – reviewing the historical loss rate of trade receivables and comparing the assumptions used to estimate the provision for impairment with the available industry data; and – discussing with the management the estimates of the recoverable amounts for those significant trade receivables over 90 days after the reporting period, including customers' payment history.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue the auditor's report that includes our opinion. We 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

17 March 2017

Shaw Chi Kit

Practising Certificate No.: P04834

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016	2015
		RMB'000	RMB'000
Revenue	6	39,375,434	45,498,354
Cost of sales		(35,084,752)	(39,341,320)
Gross profit		4,290,682	6,157,034
Other income	8	874,696	367,916
Selling and marketing expenses		(106,763)	(100,863)
Administrative expenses		(1,160,375)	(1,116,024)
Research and development costs		(1,113,083)	(1,184,956)
Other operating expenses		(849,099)	(280,384)
Other (losses)/gains - net	9	(1,318)	2,470
Operating profit		1,934,740	3,845,193
Finance income	10	493,794	466,243
Finance expenses	10	(75,226)	(91,678)
Finance income - net		418,568	374,565
Share of profits of joint arrangements	20(a)	463	315
Share of profits of associates	20(b)	15,489	19,974
Profit before taxation	11	2,369,260	4,240,047
Income tax expense	12	(706,209)	(922,064)
Profit for the year		1,663,051	3,317,983

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

For the year ended 31 December 2016

	Note	2016	2015
		RMB'000	RMB'000
Other comprehensive income for the year, net of tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		70,441	(2,534)
Item that will not be reclassified subsequently to profit or loss:			
Losses on revaluation of retirement benefit plans obligations		(40,948)	(216,683)
Other comprehensive income/(expense) for the year, net of tax		29,493	(219,217)
Total comprehensive income for the year		1,692,544	3,098,766
Profit attributable to:			
Equity holders of the Company		1,662,880	3,317,704
Non-controlling interests		171	279
Profit for the year		1,663,051	3,317,983
Total comprehensive income attributable to:			
Equity holders of the Company		1,692,373	3,098,487
Non-controlling interests		171	279
Total comprehensive income for the year		1,692,544	3,098,766
		RMB	RMB
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share) – Basic and diluted	13	0.38	0.75

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016	2015
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	3,974,643	4,013,878
Land use rights	18	2,679,021	2,740,597
Intangible assets	19	271,594	327,104
Investment in joint arrangements	20(a)	4,593	8,131
Investment in associates	20(b)	137,876	125,187
Available-for-sale financial assets	21	2,750	2,750
Deferred income tax assets	36	775,695	721,806
Total non-current assets		7,846,172	7,939,453
Current assets			
Inventories	25	1,196,537	1,829,647
Notes and trade receivables	22	9,989,626	11,870,863
Prepayments and other receivables	23	5,746,361	5,818,509
Amounts due from customers for contract work	24	5,839,435	6,660,306
Loans due from the ultimate holding company	26	14,100,000	11,100,000
Restricted cash	27	16,188	17,932
Time deposits	28	2,222,055	1,762,100
Cash and cash equivalents	29	11,861,946	11,405,560
Total current assets		50,972,148	50,464,917
Total assets		58,818,320	58,404,370

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2016

	Notes	2016	2015
		RMB'000	RMB'000
EQUITY			
Share capital	30	**4,428,000**	4,428,000
Reserves		**20,770,008**	20,206,775
Consolidated equity attributable to equity holders of the Company		**25,198,008**	24,634,775
Non-controlling interests		**3,908**	3,737
Total equity		**25,201,916**	24,638,512
LIABILITIES			
Non-current liabilities			
Retirement and other supplemental benefit obligations	32	**2,637,484**	2,696,264
Provision for litigation claims	33	**261,754**	239,013
Deferred income tax liabilities	36	**—**	32,064
Total non-current liabilities		**2,899,238**	2,967,341
Current liabilities			
Notes and trade payables	34	**14,217,183**	16,679,058
Other payables	35	**5,933,648**	6,918,895
Amounts due to customers for contract work	24	**10,219,486**	6,939,052
Current income tax liabilities		**346,849**	261,512
Total current liabilities		**30,717,166**	30,798,517
Total liabilities		**33,616,404**	33,765,858
Total equity and liabilities		**58,818,320**	58,404,370
Net current assets		**20,254,982**	19,666,400
Total assets less current liabilities		**28,101,154**	27,605,853

Chairman of the Board:
LING Yiqun

Director, President:
XIANG Wenwu

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 30)	RMB'000 (Note 31(v))	RMB'000 (Note 31(iv))	RMB'000 (Note 31(vi))	RMB'000 (Note 31(vii))	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 year	—	—	—	—	—	3,317,704	3,317,704	279	3,317,983
Other comprehensive income:									
Defined benefits obligation revaluation of actuarial gain and loss - gross	—	—	—	—	—	(266,320)	(266,320)	—	(266,320)
Defined benefits obligation revaluation of actuarial gain and loss - tax	—	—	—	—	—	49,637	49,637	—	49,637
Exchange differences arising on translation of foreign operations	—	—	—	—	(2,534)	—	(2,534)	—	(2,534)
Total comprehensive income	—	—	—	—	(2,534)	3,101,021	3,098,487	279	3,098,766
Transactions with owners:									
Final dividends for 2014 (Note 14)	—	—	—	—	—	(828,036)	(828,036)	—	(828,036)
Interim dividends for 2015 (Note 14)	—	—	—	—	—	(504,792)	(504,792)	—	(504,792)
Appropriation of specific reserve	—	—	—	98,052	—	(98,052)	—	—	—
Utilisation of specific reserve	—	—	—	(71,679)	—	71,679	—	—	—
Transfer to statutory surplus reserve	—	—	205,703	—	—	(205,703)	—	—	—
Total transactions with owners	—	—	205,703	26,373	—	(1,564,904)	(1,332,828)	—	(1,332,828)
At 31 December 2015	4,428,000	10,119,313	570,410	179,068	2,581	9,335,403	24,634,775	3,737	24,638,512

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 30)	RMB'000 (Note 31(v))	RMB'000 (Note 31(iv))	RMB'000 (Note 31(vi))	RMB'000 (Note 31(vii))	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 year	—	—	—	—	—	1,662,880	1,662,880	171	1,663,051
Other comprehensive income:									
Defined benefits obligation revaluation of actuarial gain and loss - gross	—	—	—	—	—	(49,243)	(49,243)	—	(49,243)
Defined benefits obligation revaluation of actuarial gain and loss - tax	—	—	—	—	—	8,295	8,295	—	8,295
Exchange differences arising on translation of foreign operations	—	—	—	—	70,441	—	70,441	—	70,441
Total comprehensive income	—	—	—	—	70,441	1,621,932	1,692,373	171	1,692,544
Transactions with owners:									
Final dividends for 2015 (Note 14)	—	—	—	—	—	(810,324)	(810,324)	—	(810,324)
Interim dividends for 2016 (Note 14)	—	—	—	—	—	(318,816)	(318,816)	—	(318,816)
Appropriation of specific reserve	—	—	—	62,248	—	(62,248)	—	—	—
Utilisation of specific reserve	—	—	—	(81,470)	—	81,470	—	—	—
Transfer to statutory surplus reserve	—	—	158,608	—	—	(158,608)	—	—	—
Total transactions with owners	—	—	158,608	(19,222)	—	(1,268,526)	(1,129,140)	—	(1,129,140)
At 31 December 2016	4,428,000	10,119,313	729,018	159,846	73,022	9,688,809	25,198,008	3,908	25,201,916

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	38	5,149,976	6,624,724
Income tax paid		(753,668)	(915,733)
Interest received		126,087	84,152
Net cash generated from operating activities		4,522,395	5,793,143
Cash flows from investing activities			
Purchase of property, plant and equipment		(372,143)	(261,553)
Purchase of intangible assets		(25,400)	(30,729)
Purchase of land use rights		(177)	(143)
Interest income on the loans to the ultimate holding company		367,707	382,091
Proceeds from disposal of property, plant and equipment		3,002	18,703
Proceeds from disposal of land use rights		—	1,123
Proceeds from disposal of available-for-sale financial assets		—	4,757
Proceeds from deregistration of a joint arrangement		4,001	—
Dividends received from associates		2,800	—
Dividends received from joint arrangements		—	746
Net increase in time deposits		(343,150)	(1,216,549)
Loans to the ultimate holding company		(16,100,000)	(15,600,000)
Repayments of loans due from the ultimate holding company		13,100,000	14,100,000
Net cash used in investing activities		(3,363,360)	(2,601,554)
Cash flows from financing activities			
Borrowings from fellow subsidiaries		384,661	490,660
Repayments of borrowings from fellow subsidiaries		(384,661)	(490,660)
Interest paid		(1,512)	(2,039)
Dividends paid		(1,129,140)	(1,332,828)
Net cash used in financing activities		(1,130,652)	(1,334,867)
Net increase in cash and cash equivalents		28,383	1,856,722
Cash and cash equivalents at beginning of year		11,405,560	9,181,852
Exchange gains on cash and cash equivalents		428,003	366,986
Cash and cash equivalents at end of year	29	11,861,946	11,405,560

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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.

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.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 17 March 2017.

2. Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB"). The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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

3. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of the consolidated 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 revised IFRS, which are effective for the accounting period beginning on or after 1 January 2016:

Amendments to IAS 27	Equity Method in Separate Financial Statements
Amendments to IAS 1	Disclosure Initiative
Annual Improvements Project	Annual Improvements 2012-2014 Cycle

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 new and revised accounting standards issued but not yet effective for the accounting period ended 31 December 2016 which are relevant to the Group but the Group has not early adopted are set out below:

Amendments to IAS 7	Disclosure Initiative[1]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unreleased Losses[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
IFRS 9 (2014)	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers[2]
Amendments to IFRS 15	Classifications to IFRS 15 Revenue from Contracts with Customers[2]
IFRS 16	Leases[3]

[1] Accounting periods beginning on or after 1 January 2017

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

[3] 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 principlebased 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. It is not practicable to provide a reasonable estimate of the 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.

In April 2016, the IASB issued Clarifications to IFRS 15 to address the implement issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition.

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.

In the statement of financial position of the Company, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

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 that associate (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 associate.

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 Renminbi ("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 year-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 that relate to borrowings and cash and cash equivalents and all other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other income" and "other operating expense".

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 year 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 - 30 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 "other gains - net" 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 5 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 8 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.

3.12 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. Summary of Significant Accounting Policies (Continued)

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 services 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 year 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 year 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, direct labour cost, 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 year 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 year 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 year 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 currency that gives rise to this risk is primarily in USD and EUR as at 31 December 2016 and 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 31 December 2016	USD	EUR	Others
	RMB’000	RMB’000	RMB’000
Restricted cash, time deposits and cash and cash equivalents	9,243,710	144,223	404,338
Trade and other receivables	684,938	1,209	998,155
Trade and other payables	(448,902)	(11,535)	(1,082,667)
Net exposure in RMB	9,479,746	133,897	319,826

4. Financial and Capital Risks Management (Continued)

4.1 Financial risk management (Continued)

(a) Market risk (Continued)

Foreign exchange 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 31 December 2016 and 2015 would have changed the equity and net profit by the amounts shown below:

	2016	2015
	RMB'000	RMB'000
Decrease in equity and net profit		
– USD	(355,490)	(295,725)
– EUR	(5,021)	(5,481)

A 5% weakening of RMB as at 31 December 2016 and 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 fellow subsidiaries and 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 good credit history and the Group performs 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 31 December 2016							
Borrowings and other liabilities	**N/A**	**15,003,930**	**—**	**—**	**—**	**15,003,930**	**15,003,930**

	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							
Borrowings and other liabilities	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 and 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.

	2016 RMB'000	2015 RMB'000
Total borrowings and other liabilities	15,003,930	17,636,716
Less: Restricted cash, time deposits and cash and cash equivalents	(14,100,189)	(13,185,592)
Net debt	903,741	4,451,124
Total equity (excluding non-controlling interests)	25,198,008	24,634,775
Total capital	26,101,749	29,085,899
Gearing ratio	3%	15%

4.3 Fair value estimation

Fair value measurements

The Group 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 liabilities that are measured at fair value as at 31 December 2016 and 2015.

5. Critical Accounting Estimates And Judgement

Estimates and judgements 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 17). 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 22). 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 judgements 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 36) 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 years in which such estimates are changed.

5. Critical Accounting Estimates And Judgement(Continued)

(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 on current market conditions. Additional information is disclosed in Note 32.

(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 33). 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:

	2016	2015
	RMB'000	RMB'000
Engineering, consulting and licensing	2,611,514	2,625,673
EPC Contracting	20,641,233	27,838,722
Construction	15,964,129	14,913,615
Equipment manufacturing	158,558	120,344
	39,375,434	45,498,354

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 oil refining and chemical etc industries;

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

(iii) Construction – providing infrastructure for oil refining and chemical etc 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.

7. Segment Information (Continued)

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 deferred income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment (Note 17), land use rights (Note 18), intangible assets (Note 19) and other non-current assets, including additions resulting from acquisitions through business combinations.

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

(i) As at and for the year ended 31 December 2016:

The segment results for the year ended 31 December 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	2,611,514	20,641,233	15,964,129	158,558	—	—	39,375,434
Inter-segment revenue	—	—	2,867,093	281,327	—	(3,148,420)	—
Segment revenue	2,611,514	20,641,233	18,831,222	439,885	—	(3,148,420)	39,375,434
Segment result	225,947	1,737,248	(96,287)	(3,955)	71,787	—	1,934,740
Finance income							493,794
Finance expenses							(75,226)
Share of profits of joint arrangements	463	—	—	—	—	—	463
Share of profits of associates	4,537	8,365	2,587	—	—	—	15,489
Profit before taxation							2,369,260
Income tax expense							(706,209)
Profit for the year							1,663,051
Other segment items							
Depreciation	96,765	67,047	397,833	18,523	—	—	580,168
Amortisation	16,747	104,922	19,154	1,793	—	—	142,616
Capital expenditures							
– Property, plant and equipment	81,834	38,712	433,706	—	—	—	554,252
– Land use rights	—	—	177	—	—	—	177
– Intangible assets	7,442	14,575	3,383	—	—	—	25,400
Provision/(Reversal of provision) for impairment on trade and other receivables	66,023	413,424	114,556	(5,399)	—	—	588,604

7. Segment Information (Continued)

(i) As at and for the year ended 31 December 2016: (Continued)

The segment assets and liabilities as at 31 December 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	7,075,479	20,695,219	18,234,296	722,417	(2,858,449)	43,868,962
Investment in joint arrangements	4,593	—	—	—	—	4,593
Investment in associates	109,376	—	28,500	—	—	137,876
Other unallocated assets						14,806,889
Total assets						58,818,320
Liabilities						
Segment liabilities	3,136,662	19,049,049	13,867,051	422,091	(2,858,449)	33,616,404
Other unallocated liabilities						—
Total liabilities						33,616,404

7. Segment Information (Continued)

(ii) As at and for the year ended 31 December 2015:

The segment results for the year ended 31 December 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	2,625,673	27,838,722	14,913,615	120,344	—	—	45,498,354
Inter-segment revenue	—	—	3,209,667	559,173	—	(3,768,840)	—
Segment revenue	2,625,673	27,838,722	18,123,282	679,517	—	(3,768,840)	45,498,354
Segment result	236,647	3,014,790	441,259	75,660	76,837	—	3,845,193
Finance income							466,243
Finance expenses							(91,678)
Share of profits of joint arrangements	315	—	—	—	—	—	315
Share of profits of associates	14,307	—	5,667	—	—	—	19,974
Profit before taxation							4,240,047
Income tax expense							(922,064)
Profit for the year							3,317,983
Other segment items							
Depreciation	101,466	65,948	278,558	22,783	—	—	468,755
Amortisation	71,498	52,032	26,189	787	—	—	150,506
Capital expenditures							
– Property, plant and equipment	17,597	67,899	314,660	11,736	—	—	411,892
– Land use rights	—	—	143	—	—	—	143
– Intangible assets	8,828	18,163	3,738	—	—	—	30,729
Provision/(Reversal of provision) for impairment on trade and ther receivables	13,166	210,077	64,398	(601)	—	—	287,040

7. Segment Information (Continued)

(ii) As at and for the year ended 31 December 2015: (Continued)

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	2,695,462	19,075,882	13,897,103	238,363	(2,173,017)	33,733,793
Other unallocated liabilities						32,065
Total liabilities						33,765,858

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.

7. Segment Information (Continued)

Revenue

	2016	2015
	RMB'000	RMB'000
The PRC	24,892,217	36,407,242
Other countries	14,483,217	9,091,112
	39,375,434	45,498,354

The customers accounted for more than 10% of the total revenue of the Group and revenue from them for the years ended 31 December 2016 and 2015, the details are as follows:

	2016	2015
	RMB'000	RMB'000
A fellow subsidiary and its subsidiaries	9,148,024	9,198,385
Associates of a fellow subsidiary	N/A [1]	8,796,291

The revenue from the customers are derived from the segment of engineering, consulting and licensing, EPC contracting, construction and equipment manufacturing.

[1] The corresponding revenue did not individually contribute over 10% of the total revenue of the Group for the year ended 31 December 2016.

Specified non-current assets

	2016	2015
	RMB'000	RMB'000
The PRC	6,517,186	6,819,822
Other countries	550,541	395,075
	7,067,727	7,214,897

8. Other Income

	2016	2015
	RMB'000	RMB'000
Operating lease rental income on property, plant and equipment	45,614	48,325
Income from write-back long outstanding payables	2,543	8,991
Government grants	151,320	25,979
Exchange gain	622,925	226,581
Others	52,294	58,040
	874,696	367,916

9. Other (Losses)/Gains - Net

	2016	2015
	RMB'000	RMB'000
(Losses)/Gains on disposal/write-off of property, plant and equipment	(1,271)	2,118
(Losses)/Gains on disposal of land use rights	(47)	352
	(1,318)	2,470

10. Finance Income and Finance Expenses

	2016 RMB'000	2015 RMB'000
Finance income		
Interest income from the ultimate holding company	363,659	359,342
Bank interest income	130,135	106,901
	493,794	466,243
Finance expenses		
Interest expenses to fellow subsidiaries on balances wholly repayable within 5 years	(1,512)	(2,039)
Interest expenses on retirement and other supplementary benefit obligation	(73,714)	(89,639)
	(75,226)	(91,678)
	418,568	374,565

11. Profit Before Taxation

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

	2016 RMB'000	2015 RMB'000
Staff costs, including directors and supervisors emoluments (Note 16)	5,208,411	5,322,837
Retirement benefit plan contribution (including in the above mentioned staff costs)	716,367	725,227
Cost of goods sold	10,015,819	14,586,591
Subcontracting costs	14,221,814	17,164,488
Depreciation and amortisation		
– Property, plant and equipment	580,168	468,755
– Land use rights	61,706	62,034
– Intangible assets	80,910	88,472
Operating lease rentals		
– Property, plant and equipment	360,460	440,663
Provision for impairment on trade and other receivables	588,604	287,040
Rental income from property, plant and equipment after relevant expenses	(29,126)	(27,657)
Reversal of provision for litigation claims	—	(29,321)
Research and development costs	1,113,083	1,184,956
Losses/(Gains) on disposal/write-off of property, plant and equipment	1,271	(2,118)
Losses/(Gains) on disposal of land use rights	47	(352)
Auditor's remuneration	4,700	4,700
Exchange gains, net	(622,925)	(226,581)

12. Income Tax Expense

	2016	2015
	RMB'000	RMB'000
Current tax		
PRC enterprise income tax	662,894	871,164
Overseas enterprise income tax	62,076	23,402
Under-provision for income tax in prior years	58,897	45,178
	783,867	939,744
Deferred tax		
Origination and reversal of temporary differences (Note 36)	(77,658)	(17,680)
Income tax expense	706,209	922,064

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 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 years ended 31 December 2016 and 2015, the majority of the members of the Group are subject to 25% income tax rate.

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

The difference between the actual income tax charge in the consolidated statement of comprehensive income and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	2016	2015
	RMB'000	RMB'000
Profit before taxation	2,369,260	4,240,047
Taxation calculated at the statutory tax rate	592,315	1,060,012
Income tax effects of:		
Preferential income tax treatments of certain companies	(169,633)	(321,900)
Difference in overseas profits tax rates	(8,032)	(6,557)
Non-deductible expenses	242,719	164,025
Income not subject to tax	(31,586)	(4,382)
Unrecognised tax losses	21,529	10,661
Utilisation of previously unrecognised tax losses	—	(24,973)
Under provision for income tax in prior years	58,897	45,178
Income tax expense	706,209	922,064
Effective income tax rate	29.8%	21.7%

13. Earnings Per Share

(a) Basic

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

	2016	2015
Profit attributable to equity holders of the Company (RMB'000)	1,662,880	3,317,704
Weighted average number of ordinary shares in issue	4,428,000,000	4,428,000,000
Basic earnings per share (RMB)	0.38	0.75

(b) Diluted

As the Company had no dilutive shares for the each of the years ended 31 December 2016 and 2015, dilutive earnings per share for the years ended 31 December 2016 and 2015 are the same as basic earnings per share.

14. Dividends

Dividends represented dividends declared by the Company during each of years ended 31 December 2016 and 2015.

	2016	2015
	RMB'000	RMB'000
Interim dividends of RMB0.072 per ordinary share (2015: RMB0.114) (1)	318,816	504,792
Proposed final dividends of RMB0.078 per ordinary share (2015: RMB0.183) (2)	345,384	810,324

(1) Pursuant to a resolution passed at the board of Directors' meeting on 28 August 2016, the Directors authorised to declare the interim dividends for the year ended 31 December 2016 of RMB0.072 (2015: RMB0.114) per share totalling RMB318,816,000 (2015: RMB504,792,000). Interim dividends have been paid in October 2016.

(2) Pursuant to the board of Directors' meeting on 17 March 2017, the Directors recommended to declare the final dividends for the year ended 31 December 2016 of RMB0.078 per share totalling RMB345,384,000 (2015: RMB810,324,000). Such recommendation is to be approved by the shareholders at the Annual General Meeting. Dividends declared after the end of the reporting period are not recognised as a liability at the end of the reporting period.

15. Directors' and Supervisors' Emoluments and Five Highest Individuals' Emoluments

(a) Directors' and supervisors' emoluments

Details of directors and supervisors of the Company are as follows:

(i) For the year ended 31 December 2016

	Fee	Basic salaries, other allowances and benefits-in-kind	Discretionary bonus	Contributions to pension plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
LU Dong	—	225	467	69	761
SUN Lili (1)	—	213	455	66	734
WU Derong (1)	—	189	383	51	623
YAN Shaochun	—	225	465	69	759
	—	852	1,770	255	2,877
Non-executive directors					
ZHANG Jianhua (2)	—	—	—	—	—
LI Guoqing	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors					
HUI Chiu Chung, Stephen	180	—	—	—	180
JIN Yong	180	—	—	—	180
YE Zheng	180	—	—	—	180
	540	—	—	—	540
Supervisors					
ZHOU Yingguan (1)	—	180	361	57	598
WANG Guoliang (1)	—	221	401	125	747
ZHU Fei (1)	—	192	343	73	608
JIANG Dejun (1)	—	176	320	64	560
XU Yijun (1)	—	181	378	42	601
DENG Qunwei	—	201	301	69	571
WANG Cunting (1)	—	161	308	53	522
	—	1,312	2,412	483	4,207
	540	2,164	4,182	738	7,624

15. Directors' and Supervisors' Emoluments and Five Highest Individuals' Emoluments (Continued)

(a) Directors' and supervisors' emoluments (Continued)

Details of directors and supervisors of the Company are as follows (Continued):

(ii) For the year ended 31 December 2015

	Fee	Basic salaries, other allowances and benefits-in-kind	Discretionary bonus	Contributions to pension plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
LU Dong	—	219	517	62	798
SUN Lili (1)	—	211	458	62	731
WU Derong (1)	—	180	383	59	622
YAN Shaochun	—	219	473	62	754
	—	829	1,831	245	2,905
Non-executive directors					
ZHANG Jianhua	—	—	—	—	—
LI Guoqing	—	—	—	—	—
CAI Xiyou	—	—	—	—	—
LEI Dianwu	—	—	—	—	—
LING Yiqun	—	—	—	—	—
CHANG Zhenyong	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors					
HUI Chiu Chung, Stephen	180	—	—	—	180
JIN Yong	180	—	—	—	180
YE Zheng	180	—	—	—	180
	540	—	—	—	540

15. Directors' and Supervisors' Emoluments and Five Highest Individuals' Emoluments (Continued)

(a) Directors' and supervisors' emoluments (Continued)

Details of directors and supervisors of the Company are as follows (Continued):

(ii) For the year ended 31 December 2015 (Continued)

	Fee	Basic salaries, other allowances and benefits-in-kind	Discretionary bonus	Contributions to pension plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Supervisors					
ZHOU Yingguan (1)	—	176	323	56	555
FAN Jixian (1)	—	27	136	9	172
WANG Guoliang (1)	—	206	396	143	745
ZHU Fei (1)	—	180	357	67	604
JIANG Dejun (1)	—	163	291	63	517
XU Yijun (1)	—	173	319	39	531
DENG Qunwei	—	190	210	63	463
WANG Cunting (1)	—	26	43	9	78
GUAN Qingjie	—	49	101	16	166
ZHANG Jixing	—	—	—	—	—
ZOU Huiping	—	—	—	—	—
GENG Liming	—	—	—	—	—
ZHU Jinbao	—	—	—	—	—
WANG Renli	—	—	—	—	—
WANG Yuejie	—	—	—	—	—
	—	1,190	2,176	465	3,831
	540	2,019	4,007	710	7,276

Notes:

(1) These supervisors receive no emoluments for their services provided to the Company but they however receive emoluments from the Group for their services as directors and/or supervisors of a number of subsidiaries.

(2) Resigned on 12 September 2016.

For the year ended 31 December 2016, Mr. YAN Shaochun was also the president of the Company and his emoluments disclosed above including his service as the president.

15. Directors' and Supervisors' Emoluments and Five Highest Individuals' Emoluments (Continued)

(b) Five highest paid individuals

The number of director or supervisor and non-director or supervisor included in the five highest paid individuals for the years ended 31 December 2016 and 2015 are set forth below:

	2016	2015
Director or supervisor	—	2
Non-director or supervisor	5	3
	5	5

The aggregate of the emoluments in respect of the remaining highest paid non-director or supervisor are as follows:

	2016	2015
	RMB'000	RMB'000
Basic salaries, other allowances and benefits-in-kind	903	1,030
Discretionary bonuses	2,947	1,354
Contributions to pensions plans	327	351
	4,177	2,735

The emoluments of the five (2015: three) highest paid individuals who are non-director or supervisor are within the following bands:

	2016	2015
HK$1,000,001 to HK$1,500,000	1	1
Nil to HK$1,000,000	4	2
	5	3

No emoluments were paid by the Group to any directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2015: nil).

16. Employment Benefits

	2016	2015
	RMB'000	RMB'000
Salaries, wages and bonuses	3,191,469	3,063,303
Retirement benefits [(1)]	603,990	600,937
Early retirement and supplemental pension benefit (Note32(b))		
– service cost	38,663	34,651
– interest cost	73,714	89,639
Immediate recognition of actuarial losses	7,913	—
Housing fund [(2)]	280,246	264,281
Welfare, medical and other expenses	1,012,416	1,270,026
	5,208,411	5,322,837

Notes:

(1) **Retirement benefits**

The Group is required to make specific contributions to the state-managed retirement plan at a rate of 19% to 22% of the specified salaries of the PRC employees for the years ended 31 December 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 of 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.

17. 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
Year ended 31 December 2015				
Opening net book amount	2,469,426	1,553,524	66,638	4,089,588
Transfers	12,201	125,220	(137,421)	—
Additions	68,276	200,667	142,949	411,892
Depreciation	(133,917)	(334,838)	—	(468,755)
Disposals/write-off	(12,965)	(5,882)	—	(18,847)
Closing net book amount	2,403,021	1,538,691	72,166	4,013,878
At 31 December 2015 and 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
Year ended 31 December 2016				
Opening net book amount	2,403,021	1,538,691	72,166	4,013,878
Transfers	4,801	263,363	(268,164)	—
Additions	1,036	158,055	395,161	554,252
Depreciation	(131,243)	(448,925)	—	(580,168)
Disposals/write-off	(7,196)	(6,123)	—	(13,319)
Closing net book amount	2,270,419	1,505,061	199,163	3,974,643
At 31 December 2016				
Cost	3,506,907	4,206,834	199,163	7,912,904
Accumulated depreciation and impairment	(1,236,488)	(2,701,773)	—	(3,938,261)
Net book amount	2,270,419	1,505,061	199,163	3,974,643

Depreciation expense recognised is analysed as follows:

	2016	2015
	RMB'000	RMB'000
Cost of sales	539,168	422,819
Selling and marketing expenses	2,035	2,073
Administrative expenses	38,965	43,863
	580,168	468,755

18. Land Use Rights

	2016	2015
	RMB'000	RMB'000
Beginning of the year	2,740,597	2,807,632
Additions	177	143
Amortisation	(61,706)	(62,034)
Disposal	(47)	(5,144)
End of the year	2,679,021	2,740,597

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:

	2016	2015
	RMB'000	RMB'000
Cost of sales	35,759	35,400
Selling and marketing expenses	410	610
Administrative expenses	25,537	26,024
	61,706	62,034

19. 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
Year ended 31 December 2015			
Opening net book amount	314,305	70,542	384,847
Additions	—	30,729	30,729
Amortisation	(54,144)	(34,328)	(88,472)
Closing net book amount	260,161	66,943	327,104
At 31 December 2015 and 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
Year ended 31 December 2016			
Opening net book amount	260,161	66,943	327,104
Additions	—	25,400	25,400
Amortisation	(52,980)	(27,930)	(80,910)
Closing net book amount	207,181	64,413	271,594
At 31 December 2016			
Cost	479,882	321,627	801,509
Accumulated amortisation	(272,701)	(257,214)	(529,915)
Net book amount	207,181	64,413	271,594

Amortisation recognised is analysed as follows:

	2016	2015
	RMB'000	RMB'000
Cost of sales	77,147	83,736
Selling and marketing expenses	187	624
Administrative expenses	3,576	4,112
	80,910	88,472

20. Investment in Joint Arrangements, Associates and Subsidiaries

(a) Investment in joint arrangements

	2016 RMB'000	2015 RMB'000
Joint ventures		
Beginning of the year	**8,131**	7,812
Addition of investment costs	**—**	750
Disposal (1)	**(4,001)**	—
Share of total comprehensive income	**463**	315
Dividend distribution	**—**	(746)
End of the year	**4,593**	8,131

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 RMB'000	Registered and fully paid capital USD'000	Indirect effective interest held	Principal activities and place of operations
Hualu Construction Co., Ltd. (1) **(華魯工程有限公司)**	The PRC	—	— (2015: 1,500)	0%	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.

(1) Hualu Construction Co., Ltd (華魯工程有限公司) deregistered on 17 October 2016.

20. Investment in Joint Arrangements, Associates and Subsidiaries (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:

	2016 RMB'000	2015 RMB'000
Current assets	93,280	105,073
Non-current assets	2,909	3,065
Total assets	96,189	108,138
Current liabilities	(87,002)	(91,877)
Total liabilities	(87,002)	(91,877)
Equity	9,187	16,261
Share of equity by the Group (50%) (2015: 50%)	4,593	8,131

	2016 RMB'000	2015 RMB'000
Revenue	64,834	74,964
Profit and total comprehensive income for the year	336	630
Share of total comprehensive income (50%) (2015:50%)	168	315
Gains on disposal of investment in a joint venture	295	—
	463	315

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.

(b) Investment in associates

	2016 RMB'000	2015 RMB'000
Beginning of the year	125,187	105,213
Share of total comprehensive income	15,489	19,974
Dividend distribution	(2,800)	—
End of the year	137,876	125,187

20. Investment in Joint Arrangements, Associates and Subsidiaries (Continued)

(b) Investment in associates (Continued)

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 TechnologyCo., 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 Co., Ltd., its aggregated assets and liabilities, are as follows:

	2016	2015
	RMB'000	RMB'000
Current assets	573,050	534,208
Non-current assets	19,797	35,016
Total assets	592,847	569,224
Current liabilities	(328,501)	(334,047)
Non-current liabilities	(21)	(21)
Total liabilities	(328,522)	(334,068)
Equity attributable to equity holders	254,564	228,653
Non-controlling interests	9,761	6,503
	264,325	235,156
Share of equity by the Group (35%) (2015: 35%)	89,097	80,028

	2016	2015
	RMB'000	RMB'000
Revenue	286,249	217,244
Profit and total comprehensive income for the year attributable to equity holders	25,911	28,034
Profit and total comprehensive income for the year attributable to non-controlling interest holders	3,258	—
Share of total comprehensive income (35%) (2015: 35%)	9,069	9,812

20. Investment in Joint Arrangements, Associates and Subsidiaries (Continued)

(b) Investment in associates (continued)

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

	2016	2015
	RMB'000	RMB'000
Current assets	74,349	97,397
Non-current assets	43,552	34,301
Total assets	117,901	131,698
Current liabilities	(22,901)	(38,320)
Total liabilities	(22,901)	(38,320)
Equity	95,000	93,378
Share of equity by the Group (40%) (2015: 40%)	38,000	37,351

	2016	2015
	RMB'000	RMB'000
Revenue	85,016	141,780
Profit and total comprehensive income for the year	8,622	18,891
Share of total comprehensive income (40%) (2015: 40%)	3,449	7,556

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

	2016	2015
	RMB'000	RMB'000
Current assets	115,878	154,435
Non-current assets	799	944
Total assets	116,677	155,379
Current liabilities	(87,029)	(133,902)
Non-current liabilities	(3)	(3)
Total liabilities	(87,032)	(133,905)
Equity	29,645	21,474
Share of equity by the Group (36.36%) (2015: 36.36%)	10,779	7,808

	2016	2015
	RMB'000	RMB'000
Revenue	123,700	138,530
Profit and total comprehensive income for the year	8,171	7,167
Share of total comprehensive income (36.36%) (2015: 36.36%)	2,971	2,606

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.

21. Available-for-Sale Financial Assets

	2016	2015
	RMB'000	RMB'000
Beginning and end of the year	2,750	2,750

Available-for-sale financial assets include the following:

	2016	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 values cannot be measured reliably.

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

22. Notes and Trade Receivables

	2016	2015
	RMB'000	RMB'000
Trade receivables		
Fellow subsidiaries	2,165,409	2,512,470
Joint ventures of fellow subsidiaries	264,413	346,785
Associates of fellow subsidiaries	1,140,491	2,048,086
Joint ventures	1,280	1,280
Third parties	6,331,811	6,627,077
	9,903,404	11,535,698
Less: Provision for impairment	(882,625)	(466,561)
Trade receivables - net	9,020,779	11,069,137
Notes receivables	968,847	801,726
Notes and trade receivables - net	9,989,626	11,870,863

The carrying amounts of the Group's notes and trade receivables as at 31 December 2016 and 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 judgement and experience of the management. The Group does not hold any collateral as security.

22. Notes and Trade Receivables (Continued)

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

	2016 RMB'000	2015 RMB'000
Within 1 year	7,703,347	10,077,190
Between 1 and 2 years	1,549,673	1,439,886
Between 2 and 3 years	597,919	211,157
Between 3 and 4 years	50,735	76,751
Between 4 and 5 years	34,555	49,312
Over 5 years	53,397	16,567
	9,989,626	11,870,863

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

	2016 RMB'000	2015 RMB'000
Not yet due	4,003,218	6,903,916
Over due within 3 months	1,353,654	1,226,148
Over due 3 months but within 6 months	1,091,521	1,503,487
Over due 6 months but within 1 year	1,845,316	1,323,121
Over due 1 year but within 2 years	1,287,518	726,780
Over due over 2 years	408,399	187,411
	9,989,626	11,870,863

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

	2016 RMB'000	2015 RMB'000
Beginning of the year	466,561	272,620
Provisions	594,556	285,101
Receivables written off as uncollectible	(968)	(3,684)
Reversal	(177,524)	(87,476)
End of the year	882,625	466,561

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

	2016 RMB'000	2015 RMB'000
RMB	8,424,511	10,480,666
USD	663,956	1,088,911
SAR	890,848	291,896
Others	10,311	9,390
	9,989,626	11,870,863

23. Prepayments and other Receivables

	2016	2015
	RMB'000	RMB'000
Prepayments		
Prepayments for construction and materials:		
– Fellow subsidiaries	90,260	177,596
– Associates	2,422	2,422
Prepayments for construction	398,618	764,215
Prepayments for materials and equipments	2,647,852	2,312,393
Prepayments for labour costs	136,291	203,765
Prepayments for rent	1,811	2,219
Others	96,893	13,455
	3,374,147	3,476,065
Other receivables		
Amounts due from fellow subsidiaries (1)	330,669	467,700
Amounts due from associates (1)	60	40
Amounts due from joint ventures of fellow subsidiaries (1)	18,246	51,828
Amounts due from associates of fellow subsidiaries (1)	24,701	15,986
Dividends receivable	750	750
Interests receivable	21,860	17,812
Petty cash funds	31,630	29,545
Retention deposits	2,119,783	1,765,729
Other guarantee deposits and deposits	122,716	127,027
Payment in advance	104,072	129,280
Maintenance funds	78,411	77,880
Others	139,038	107,241
	2,991,936	2,790,818
Less: Provision for impairment	(619,722)	(448,374)
Prepayments and other receivables - net	5,746,361	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 31 December 2016 and 2015 approximate their fair values.

23. Prepayments and other Receivables (Continued)

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

	2016 RMB'000	2015 RMB'000
Beginning of the year	448,374	360,041
Provisions	381,140	235,876
Receivables written off as uncollectible	(224)	(1,082)
Reversal	(209,568)	(146,461)
End of the year	619,722	448,374

24. Contract Work-In-Progress

	2016 RMB'000	2015 RMB'000
Contract cost incurred plus recognised profit less recognised losses	174,833,495	163,283,346
Less: Progress billings	(179,213,546)	(163,562,092)
Contract work-in-progress	(4,380,051)	(278,746)
Representing:		
Amounts due from customers for contract work	5,839,435	6,660,306
Less: Provision for impairment	—	—
Net amounts due from customers for contract work	5,839,435	6,660,306
Amounts due to customers for contract work	(10,219,486)	(6,939,052)
	(4,380,051)	(278,746)

	2016 RMB'000	2015 RMB'000
Contract revenue recognised as revenue in the year	36,605,362	42,752,337

25. Inventories

	2016 RMB'000	2015 RMB'000
Raw materials	987,885	1,276,563
Turnover materials	69,400	57,504
Goods in transit	138,700	495,580
Finished goods	552	—
	1,196,537	1,829,647

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

For the years ended 31 December 2016 and 2015, the cost of inventories recognised as expense and included in cost of sales amounted to RMB10,015,819,000 and RMB14,586,591,000 respectively.

26. 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:

	2016	2015
Loans due from the ultimate holding company	2.50% - 3.00%	2.70% - 4.25%

27. Restricted Cash

	2016	2015
	RMB'000	RMB'000
Restricted cash		
– RMB	15,148	17,190
– AED	94	—
– KZT	946	742
	16,188	17,932

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

As at 31 December 2016 and 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.

28. Time Deposits

	2016	2015
	RMB'000	RMB'000
Time deposits with initial term over three months:		
Time deposits in banks	1,666,175	1,361,180
Time deposits in fellow subsidiaries	555,880	400,920
	2,222,055	1,762,100

	2016	2015
	RMB'000	RMB'000
Denominated in:		
– RMB	920	400,920
– USD	2,221,135	1,361,180
	2,222,055	1,762,100

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

The effective interest rates per annum on time deposits, with maturities of half year to three years (2015: one to three years), are approximately 1.00% to 3.28% as at 31 December 2016 (2015: 1.00% to 3.28%).

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

29. Cash and Cash Equivalents

	2016 RMB'000	2015 RMB'000
Cash at bank and in hand		
– less than three months time deposits	4,661,630	3,792,090
– cash deposits	2,354,199	1,800,892
	7,015,829	5,592,982
Deposits in fellow subsidiaries		
– less than three months time deposits	589,055	—
– cash deposits	4,257,062	5,812,578
	4,846,117	5,812,578
	11,861,946	11,405,560

	2016 RMB'000	2015 RMB'000
Denominated in:		
– RMB	4,291,850	5,380,407
– USD	7,022,575	5,683,065
– SAR	281,178	121,111
– EUR	144,223	155,333
– AED	1	89
– KZT	3,036	2,977
– GBP	5	6
– THB	70,195	45,720
– MYR	9,876	4,048
– Others	39,007	12,804
	11,861,946	11,405,560

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

As at 31 December 2016 and 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 effective interest rates per annum on deposits less than three months, with maturities of one to three months (2015: one to three months), are approximately 0.50% to 4.60% as at 31 December 2016 (2015: 1.00% to 3.28%).

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

30. Share Capital

	2016		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 [(1)]	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

(1) 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).

31. The Statement of Financial Position, the Statement of Changes in Equity and Reserves of the Company

(i) The statement of financial position of the Company

	2016	2015
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	239,993	211,049
Land use rights	59,176	60,887
Intangible assets	10,601	6,368
Investment in subsidiaries	7,234,106	7,215,097
Deferred income tax assets	22,664	8,729
Total non-current assets	7,566,540	7,502,130
Current assets		
Inventories	705,314	1,089,679
Trade receivables	133,309	299,518
Prepayments and other receivables	3,293,267	3,038,114
Amounts due from customers for contract work	208,283	137,405
Loans due from the ultimate holding company	14,100,000	11,100,000
Restricted cash	16,188	742
Time deposits	1,736,465	1,762,100
Cash and cash equivalents	9,182,857	9,749,173
Total current assets	29,375,683	27,176,731
Total assets	36,942,223	34,678,861

31. The Statement of Financial Position, the Statement of Changes in Equity and Reserves of the Company (Continued)

(i) The statement of financial position of the Company (Continued)

	2016 RMB'000	2015 RMB'000
EQUITY		
Share capital	4,428,000	4,428,000
Reserves	13,313,980	12,856,844
Total equity	17,741,980	17,284,844
LIABILITIES		
Non-current liabilities		
Retirement and other supplemental benefit obligations	582	577
Total non-current liabilities	582	577
Current liabilities		
Trade payables	1,049,032	849,388
Other payables	15,815,460	14,786,786
Amounts due to customers for contract work	2,254,395	1,713,618
Current income tax liabilities	80,774	43,648
Total current liabilities	19,199,661	17,393,440
Total liabilities	19,200,243	17,394,017
Total equity and liabilities	36,942,223	34,678,861
Net current assets	10,176,022	9,783,291
Total assets less current liabilities	17,742,562	17,285,421

Approved and authorised for issue by the board of directors on 17 March 2017.

Chairman of the Board:
LING Yiqun

Director, President:
XIANG Wenwu

Chief Financial Officer:
JIA Yiqun

31. The Statement of Financial Position, the Statement of Changes in Equity and Reserves of the Company (Continued)

(ii) The statement of changes in equity of the Company

	Share capital	Capital reserve	Statutory surplus reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	4,428,000	11,217,175	364,707	550,746	16,560,628
Profit for the year	—	—	—	2,057,028	2,057,028
Other comprehensive income:					
Defined benefits obligation revaluation of actuarial gain and loss - gross	—	—	—	21	21
Defined benefits obligation revaluation of actuarial gain and loss - tax	—	—	—	(5)	(5)
Total comprehensive income	—	—	—	2,057,044	2,057,044
Transactions with owners:					
2015 final dividend (Note 14)	—	—	—	(828,036)	(828,036)
2016 interim dividend (Note 14)	—	—	—	(504,792)	(504,792)
Transfer to statutory surplus reserve	—	—	205,703	(205,703)	—
Total transactions with owners	—	—	205,703	(1,538,531)	(1,332,828)
At 31 December 2015 and 1 January 2016	4,428,000	11,217,175	570,410	1,069,259	17,284,844
Profit for the year	—	—	—	1,586,080	1,586,080
Other comprehensive income:					
Defined benefits obligation revaluation of actuarial gain and loss - gross	—	—	—	261	261
Defined benefits obligation revaluation of actuarial gain and loss - tax	—	—	—	(65)	(65)
Total comprehensive income	—	—	—	1,586,276	1,586,276
Transactions with owners:					
2015 final dividend (Note 14)	—	—	—	(810,324)	(810,324)
2016 interim dividend (Note 14)	—	—	—	(318,816)	(318,816)
Transfer to statutory surplus reserve	—	—	158,608	(158,608)	—
Total transactions with owners	—	—	158,608	(1,287,748)	(1,129,140)
At 31 December 2016	4,428,000	11,217,175	729,018	1,367,787	17,741,980

31. The Statement of Financial Position, the Statement of Changes in Equity and Reserves of the Company (Continued)

(iii) Distributable profits

The distributable profits of the Company are as follows:

	2016	2015
	RMB'000	RMB'000
Distributable profits	1,367,787	1,069,259

(iv) 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.

(v) 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.

(vi) 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.

(vii) 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.

32. 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 19% to 22%, 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 16(1)).

The total costs charged to the consolidated statement of comprehensive income during the years ended 31 December 2016 and 2015 are as follows:

	2016	2015
	RMB'000	RMB'000
Contributions to state-managed retirement plan	603,990	600,937

(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 exposure to actuarial risks of the Group's retirement benefit plans include: discount rate risk, benefit growth rate risk.

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

The most recent actuarial valuation as at 31 December 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):

	2016	2015
Retirement with honors benefit plan	2.75%	2.70%
Retirement benefit plan	3.00%	2.90%
Early retirement benefit plan	2.75%	2.50%

(ii) Benefit growth rates (per annum):

	2016	2015
Retirement with honors benefit plan	2.70%	2.90%
Retirement benefit plan	2.70%	2.40%
Early retirement benefit plan	2.00%	2.10%

(iii) Duration:

	2016	2015
Retirement with honors benefit plan	6.0 years	4.8 years
Retirement benefit plan	14.0 years	10.2 years
Early retirement benefit plan	4.0 years	2.9 years

32. Retirement and Other Supplemental Benefit Obligations (Continued)

(b) Group employee retirement benefit plans (Continued)

(iii) Duration: (Continued)

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 0.25% reasonably possible increase or decrease assessed by management in each of the significant actuarial assumptions:

	As at 31 December 2016 Increase/(decrease) in retirement benefit plan obligation		As at 31 December 2015 Increase/(decrease) in retirement benefit plan obligation	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
	RMB'000	RMB'000	RMB'000	RMB'000
Discount rates	(58,467)	60,903	(67,133)	67,133
Benefit growth rates	60,937	(58,778)	67,125	(67,125)

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.

32. 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 year ended 31 December 2015				
Service cost:				
Past service cost	—	—	34,651	34,651
Net interest expenses	3,316	82,979	3,344	89,639
Benefit cost recognised in profit or loss	3,316	82,979	37,995	124,290
Revaluation of net benefit obligation liabilities				
Actuarial revaluation of economic assumptions change	4,164	226,578	—	230,742
Actuarial revaluation of other assumptions change	5,095	30,483	—	35,578
Benefit cost recognised in other comprehensive income	9,259	257,061	—	266,320
Total benefit cost recognised in the consolidated statement of comprehensive income	12,575	340,040	37,995	390,610
For the year ended 31 December 2016				
Service cost:				
Past service cost	(4,928)	(50,748)	94,339	38,663
Net interest expenses	2,215	69,142	2,357	73,714
Immediate recognition of actuarial losses	—	—	7,913	7,913
Benefit cost recognised in profit or loss	(2,713)	18,394	104,609	120,290
Revaluation of net benefit obligation liabilities				
Actuarial revaluation of economic assumptions change	(843)	45,685	—	44,842
Actuarial revaluation of other assumptions change	8,864	(4,463)	—	4,401
Benefit cost recognised in other comprehensive income	8,021	41,222	—	49,243
Total benefit cost recognised in the consolidated statement of comprehensive income	5,308	59,616	104,609	169,533

The Group's benefit plans do not include incumbent employees. No current service cost of each benefit plan incurred during each financial year. 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 year.

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.

32. 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:

	2016	2015
	RMB'000	RMB'000
Net liabilities of retirement benefit plan obligation	2,637,484	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	—	—	34,651	34,651
Net interest expenses	3,316	82,979	3,344	89,639
Revaluation gain/(loss):				
Actuarial revaluation of economic assumptions change	4,164	226,578	—	230,742
Actuarial revaluation of other assumptions change	5,095	30,483	—	35,578
Direct benefit paid by the Group	(25,320)	(173,263)	(25,676)	(224,259)
At 31 December 2015 and 1 January 2016	91,949	2,496,055	108,260	2,696,264
Past service cost	(4,928)	(50,748)	94,339	38,663
Net interest expenses	2,215	69,142	2,357	73,714
Immediate recognition of actuarial losses	—	—	7,913	7,913
Revaluation gain/(loss):				
Actuarial revaluation of economic assumptions change	(843)	45,685	—	44,842
Actuarial revaluation of other assumptions change	8,864	(4,463)	—	4,401
Direct benefit paid by the Group	(18,591)	(170,252)	(39,470)	(228,313)
At 31 December 2016	78,666	2,385,419	173,399	2,637,484

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

33. Provision for Litigation Claims

	2016 RMB'000	2015 RMB'000
Beginning of the year	239,013	302,094
Reversal	—	(29,321)
Exchange difference	23,473	(33,398)
Payment	(732)	(362)
End of the year	261,754	239,013

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 been suspended and the two parties are negotiating settlement.

For the years ended 31 December 2016 and 2015, no additional provision for litigation claims is provided.

34. Notes and Trade Payables

	2016 RMB'000	2015 RMB'000
Trade payables		
Fellow subsidiaries	155,995	203,323
Associates of fellow subsidiaries	14	198
Joint ventures of fellow subsidiaries	223	4
Associates	84	478
Third parties	13,393,147	14,722,657
	13,549,463	14,926,660
Notes payables	667,720	1,752,398
Notes and trade payables	14,217,183	16,679,058

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

Ageing analysis of notes and trade payables based on invoice date is as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	8,888,842	12,445,798
Between 1 and 2 years	2,966,824	2,268,216
Between 2 and 3 years	1,254,546	1,231,741
Over 3 years	1,106,971	733,303
	14,217,183	16,679,058

34. Notes and Trade Payables (Continued)

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

	2016	2015
	RMB'000	RMB'000
RMB	12,781,019	15,685,406
USD	334,564	206,329
EUR	11,535	9,743
KZT	27,952	38,075
SAR	1,030,293	739,505
Others	31,820	—
	14,217,183	16,679,058

35. Other Payables

	2016	2015
	RMB'000	RMB'000
Contract deposits advance:		
Fellow subsidiaries	188,680	328,013
Joint ventures of fellow subsidiaries	757,733	866,628
Associates of fellow subsidiaries	1,205,365	1,533,113
Third parties	2,532,121	3,233,483
Salaries payables	67,303	63,939
Other taxation payables	334,057	277,278
Deposits and guarantee deposits payables	106,077	108,049
Advanced payables	348,356	177,593
Rent, property management and maintenance payables	67,392	63,674
Contracts payables	2,760	21,528
Amounts due to ultimate holding company (1)	—	3
Amounts due to fellow subsidiaries (1)	46,512	23,447
Amounts due to joint ventures (1)	71	71
Amounts due to joint ventures of fellow subsidiaries (1)	282	282
Others	276,939	221,794
Total other payables	5,933,648	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 31 December 2016 and 2015 approximate their fair values.

36. Current and Deferred Taxation

Deferred income tax assets and liabilities recognised:

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

	2016 RMB'000	2015 RMB'000
Deferred income tax assets	775,695	721,806
Deferred income tax liabilities	—	(32,064)
Deferred income tax assets, net	775,695	689,742

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

	2016 RMB'000	2015 RMB'000
Beginning of the year	689,742	622,425
Credited to equity for defined benefit obligations revaluation of actuarial gain or loss	8,295	49,637
Tax credited to profit for the year (Note 12)	77,658	17,680
End of the year	775,695	689,742

The movement in deferred income tax (liabilities)/assets during the years ended 31 December 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 RMB'000	Provision for impairment on assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	495,468	112,741	46,280	654,489
Credited/(Charged) to:				
Profit for the year	(25,958)	53,048	(9,410)	17,680
Equity	49,637	—	—	49,637
At 31 December 2015 and 1 January 2016	519,147	165,789	36,870	721,806
Credited/(Charged) to:				
Profit for the year	(54,528)	96,576	3,546	45,594
Equity	8,295	—	—	8,295
At 31 December 2016	472,914	262,365	40,416	775,695

36. Current and Deferred Taxation (Continued)

Deferred income tax liabilities

	Excess of carrying value of assets over tax bases arising from business combination
	RMB'000
At 1 January 2015	32,064
(Credited) /Charged to:	
Profit for the year	—
At 31 December 2015 and 1 January 2016	32,064
Credited to:	
Profit for the year	(32,064)
At 31 December 2016	—

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:

	2016	2015
	RMB'000	RMB'000
Tax losses for which no deferred income tax asset was recognised	474,421	125,701

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

37. Commitments

(a) Capital commitments

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

	2016	2015
	RMB'000	RMB'000
Contracted but not provided for		
– Property, plant and equipment	21,845	40,463

(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:

	2016	2015
	RMB'000	RMB'000
Less than 1 year	50,923	68,175
1 year to 5 years	25,271	40,495
Over 5 years	32,949	36,244
Total	109,143	144,914

38. Cash Generated From Operations

	2016 RMB'000	2015 RMB'000
Profit before taxation	2,369,260	4,240,047
Adjustments for:		
Provision for impairment on trade and other receivables	588,604	287,040
Reversal of provision for litigation claims	—	(29,321)
Depreciation of property, plant and equipment	580,168	468,755
Amortisation of land use rights	61,706	62,034
Amortisation of intangible assets	80,910	88,472
Net losses/(gains) on disposal/write-off of property, plant and equipment	1,271	(2,118)
Losses/(gains) on disposal of land use rights	47	(352)
Interest income	(493,794)	(466,243)
Interest expense	75,226	91,678
Net foreign exchange gains	(474,367)	(226,581)
Share of profits of joint arrangements	(463)	(315)
Share of profits of associates	(15,489)	(19,974)
Cash flows from operating activities before changes in working capital	2,773,079	4,493,122
Changes in working capital:		
– Inventories	633,110	(205,993)
– Contract work-in-progress	4,101,305	921,007
– Trade and other receivables	1,364,781	(1,465,540)
– Trade and other payables	(3,724,043)	2,874,416
– Restricted cash	1,744	7,712
Cash generated from operations	5,149,976	6,624,724

39. 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 judgements 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 33).

40. 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.

40. Significant Related Party Transactions and Balances (Continued)

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 years ended 31 December 2016 and 2015 and balances as at 31 December 2016 and 2015.

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

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

	2016	2015
	RMB'000	RMB'000
Construction and services provided to		
– Ultimate holding company	2,059	3,501
– Joint ventures of fellow subsidiaries	559,428	1,246,515
– Associates of fellow subsidiaries	3,889,384	8,796,477
– Fellow subsidiaries	9,779,645	10,560,683
– Joint ventures	219,216	—
– Associates	32,693	51,017
	14,482,425	20,658,193
Construction and services received from		
– Ultimate holding company	3,561	186
– Joint ventures of fellow subsidiaries	228	1,084
– Associates of fellow subsidiaries	—	283
– Fellow subsidiaries	1,166,543	1,787,791
– Associates	1,461	3,487
	1,171,793	1,792,831
Technology research and development provided to		
– Ultimate holding company	9,434	32,390
– Fellow subsidiaries	49,415	110,125
	58,849	142,515
Interest income on loans		
– Ultimate holding company	363,659	359,342
Interest expense on borrowings		
– Fellow subsidiaries	280	2,039
Expenses in relation to settlement and other financial services		
– Fellow subsidiaries	2,437	2,943
Deposit interest income from fellow subsidiaries	33,032	30,710

	As at 31 December 2016	As at 31 December 2015
	RMB'000	RMB'000
Deposits and time deposits placed in fellow subsidiaries	5,401,997	6,213,498

40. Significant Related Party Transactions and Balances (Continued)

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

	As at 31 December 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 mainly in 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 26, trade receivables, prepayments and other receivables are unsecured, interest free and repayable on demand.

(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 for employee services is shown below:

	2016	2015
	RMB'000	RMB'000
Basic salaries, other allowances and benefits-in-kind	**3,571**	3,902
Discretionary bonus	**6,906**	6,674
Contributions to pension plans	**1,221**	1,138
	11,698	11,714

Senior management, excluding directors and supervisors, whose remuneration fell within the following bands is as follows:

	2016	2015
	No. of individuals	No. of individuals
RMB500,000 to RMB1,000,000	**7**	6

41. Particulars of Principal Subsidiaries

As at 31 December 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
			Direct held	Indirect 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 (中石化第五建设有限公司)	The PRC/Limited liability company	350,000	100%	—	Engineering contracting/The PRC
TCC (中石化第十建设有限公司)	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
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
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
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 (MYR360,700)	—	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 (THB3,300,000)	—	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 year 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 during normal business hours after 20 March 2017 (Monday) at the registered address of the Company upon request by the relevant regulatory authorities and shareholders in accordance with the laws and regulations of the PRC and the articles of association of the Company:

a) the original annual report signed by the Chairman of the Board and the President;

b) the original audited financial statements and consolidated financial statements for the year ended 31 December 2016 prepared in accordance with the IFRS and signed by the Chairman of the Board, 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

LING Yiqun

Chairman of the Board

Beijing, the PRC

17 March 2017

This annual 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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