中石化炼化工程(集团)股份有限公司
SINOPEC ENGINEERING (GROUP) CO., LTD.

中国石化
SINOPEC

Stock Code: 2386

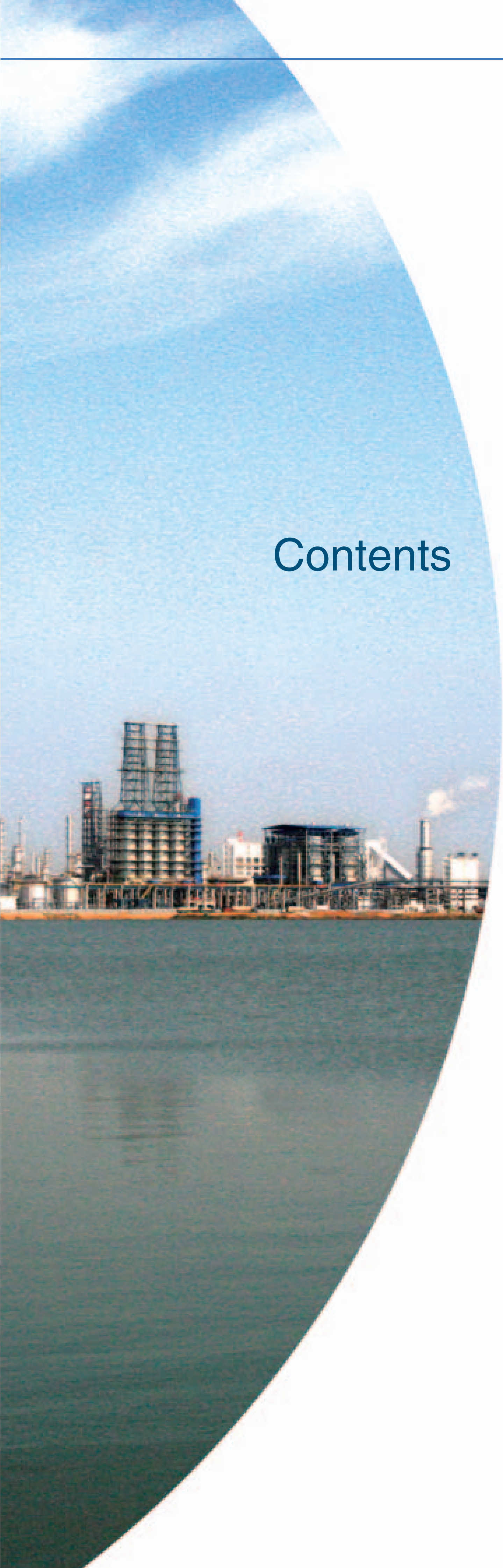
2017 ANNUAL REPORT

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, Mr. Ling Yiqun, Mr. Li Guoqing and Ms. Sun Lili could not attend the Twelfth Meeting of the Second Session of the Board (the "Meeting") due to official duties. Directors, Mr. Ling Yiqun and Mr. Li Guoqing authorised Director, Mr. Lu Dong and Director, Ms. Sun Lili authorised Director, Mr. Xiang Wenwu 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 2017 (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 16 March 2018 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 project consulting, 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
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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

PRC:

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

PRC:

Haiwen & Partners
20/F Fortune Financial Center
5 Dong San Huan Central Road
Chaoyang District, Beijing, People's Republic of China

Overseas:

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 2017	As at 31 December 2016 (restated)	As at 31 December 2015 (restated)	As at 31 December 2014	As at 31 December 2013	Changes from the end of 2016 (%)
Non-current assets	7,540,799	7,871,988	7,977,456	8,052,331	8,166,479	(4.2)
Current assets	51,864,822	51,016,799	50,490,979	44,032,264	39,198,790	1.7
Current liabilities	31,015,076	30,724,440	30,807,397	26,347,950	23,620,920	0.9
Non-current liabilities	2,799,540	2,899,238	2,967,341	2,864,071	2,764,008	(3.4)
Equity attributable to equity holders of the Company	25,586,839	25,201,201	24,689,960	22,869,116	20,976,714	1.3
Net assets per share of equity holders of the Company (RMB)	5.78	5.70	5.58	5.16	4.74	1.3

Note: "Restated" mentioned in this annual report is introduced based on note 2 to the financial statements contained herein since the acquisition of Sinopec Energy Saving Technology Service Co., Ltd. in August 2017 was regarded as business combination under common control.

Unit: RMB'000

Items	Year ended 31 December					Changes over the same period of 2016 (%)
	2017	2016 (restated)	2015	2014	2013	
Revenue	36,208,723	39,402,331	45,498,354	49,345,959	43,571,851	(8.1)
Gross profit	4,026,172	4,295,415	6,157,034	6,290,612	6,406,191	(6.3)
Operating profit	1,112,267	1,942,256	3,845,193	4,039,003	4,413,485	(42.7)
Profit before taxation	1,635,101	2,376,776	4,240,047	4,550,695	4,751,041	(31.2)
Profit attributable to equity holders of the Company	1,129,974	1,670,888	3,317,704	3,489,799	3,656,802	(32.4)
Basic earnings per share (RMB)	0.26	0.38	0.75	0.79	0.93	(32.4)
Net cash flow generated from/(used in) operating activities	4,240,508	4,670,772	5,793,143	333,312	(85,995)	(9.2)
Net cash flow generated from/(used in) operating activities per share (RMB)	0.96	1.05	1.31	0.08	(0.02)	(9.2)

Items	Year ended 31 December				
	2017	2016 (restated)	2015	2014	2013
Gross profit margin (%)	**11.1**	10.9	13.5	12.7	14.7
Net profit margin (%)	**3.1**	4.2	7.3	7.1	8.4
Return on assets (%)	**1.9**	2.8	6.0	7.0	8.7

Items	As at 31 December 2017	As at 31 December 2016 (restated)	As at 31 December 2015 (restated)	As at 31 December 2014	As at 31 December 2013
Asset-liability ratio (%)	**56.9**	57.1	57.8	56.1	55.7

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 2016		Increase/Decrease during the Reporting Period (+, -)			As at 31 December 2017	
	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 1,087 shareholders of the Company. As at 16 March 2018, 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	+15,570,500	—	1,457,944,900	32.93	99.80
WONG CHUI CHUNG	+295,000	—	295,000	0.01	0.02
CHAN LAI KUEN SELINA	+195,500	—	195,500	0.00	0.01
WONG CHUI CHUNG	+195,500	—	195,500	0.00	0.01
WONG MAY JANE	+131,000	—	131,000	0.00	0.01
CHOI LAI MING	+130,000	—	130,000	0.00	0.01
CHEUNG LAI CHU	+100,000	—	100,000	0.00	0.01
YAN TAT CHIU DAVID	+96,500	—	96,500	0.00	0.01
LUK LAN	+60,000	—	60,000	0.00	0.00
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 (%) [8]	Percentage in the total share capital of the Company (%) [9]
China Petrochemical Corporation [1]	Domestic Share	Beneficial owner/Interests of controlled corporation	2,967,200,000 (L)	100.00 (L)	67.01 (L)
National Council for Social Security Fund of the PRC [2]	H Share	Beneficial owner	116,365,000 (L)	7.97 (L)	2.63 (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	146,379,712 (L)	10.02 (L)	3.31 (L)
			2,014,591 (S)	0.13 (S)	0.05 (S)
			105,788,473 (P)	7.24 (P)	2.39 (P)
Prudential plc [5]	H Share	Interests of controlled corporation	117,459,500 (L)	8.04 (L)	2.65 (L)
Templeton Global Advisors Limited [6]	H Share	Investment manager	78,865,000 (L)	5.40 (L)	1.78 (L)
FIL Limited [7]	H Share	Interests of controlled corporation	73,585,000 (L)	5.04 (L)	1.66 (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 1 August 2017 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 19 July 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 7 June 2017 and filed by Prudential plc with the Hong Kong Stock Exchange.
(6) The information is based on the Corporate Substantial Shareholders Notice dated 1 April 2015 and filed by Templeton Global Advisors Limited with the Hong Kong Stock Exchange.
(7) The information is based on the Corporate Substantial Shareholders Notice dated 8 December 2017 and filed by FIL Limited with the Hong Kong Stock Exchange.
(8) It is calculated on the basis that the Company has issued 2,967,200,000 Domestic Shares and 1,460,800,000 H Shares.
(9) It is calculated on the basis that the Company has issued 4,428,000,000 shares in total.

CHAIRMAN'S STATEMENT

Mr. LING Yiqun

Chairman of the Board

Dear Shareholders and Friends,

On behalf of the Board of Directors, I would like to report to the shareholders on SINOPEC SEG's 2017 Annual Report and express our heartfelt thanks to the friends from all walks of life who support and care about the development of the Company.

In 2017, facing the new normal economic development, the new cycle of international oil prices, the new market competition, and the new task of state-owned enterprises reform, the Company faced difficulties and challenges, made efforts and achieved hard-won production and operation performance. For the year 2017, the Company's revenue was RMB36.209 billion, its net profit was RMB1.130 billion; asset-liability ratios remained low and cash flow performance remained strong; and the total value of its new contracts was RMB39.063 billion, representing a big increase of 41.7% on a year-on-year basis. As at the end of 2017, the Group's backlog was RMB91.028 billion, representing an increase of 3.2% on a year-on-year basis. 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 RMB0.144 per Share for the year 2017. After taking into account the interim dividend of RMB0.056 per Share, the total dividend for the year will be RMB0.200 per Share, the annual payout ratio is 79%.

In 2017, the Company continued to guide its development and innovation along with the four strategies which are "energy and petrochemical-oriented, innovation-driven, globalisation-targeted and value-focused", and actively explored domestic and foreign markets, and constantly strengthened engineering support capacity, optimised business structure and internal resources, and achieved stability in the development trend. In market development, we take partial start of some projects of "seven major national petrochemical industry bases" and Sinopec Group to build four "world-class refining bases" as an opportunity, increase market development efforts, and strive to grasp the market to a good opportunity; in the implementation of projects, we strive to reduce operating costs by strengthening safety quality management and project control, ensuring that ongoing projects are carried out smoothly and safely, quality, progress and so on are fully controlled; in our overseas business, we grasp the "Belt and Road" strategic supporting policies to further consolidate the existing market and vigorously explore the national market along the "Belt and Road", and continuously improve the overall profitability of overseas business and risk-resistant ability; 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 the transformation and upgrading, through the acquisition of Sinopec Energy Saving Technology Service Co., Ltd., we set up the platform of integrating internal energy saving engineering and technical resources, rely on the Group's strong engineering and technical strength, to make energy saving and environmental protection business bigger and stronger.

In 2017, 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 General Meetings of Shareholders and guided the Company to develop in the right direction, thereby achieving its sustainable and healthy development. The Board strived to promote the management of mid-and long-term incentive plan - the implementation of H Share Appreciation Rights Scheme. During the Reporting Period, the plan was approved by the SASAC and the second extraordinary general meeting of the Company for the year 2017, and on 20 December 2017, 13.143 million H share appreciation rights were awarded to 89 members including the Company's directors, senior management members and core technical personnel, management and high-skilled personnel who had a direct impact on the Company's overall performance and sustainable development. The implementation of the Company H Share Appreciation Rights Scheme will have a positive impact on the Company's level of governance, promotion of reform and development and promotion of business performance.

In 2017, 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, while promoting the sustainable development of the Company, it will also make due contribution to the sustainable growth of the energy and chemical industry. The Company fully implemented QHSE (quality, health, safety and environment) management, adhered to the people-oriented principle, cared for employees. 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 2017 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 the 2018, the overall recovery of the world economy is good, but there are still many uncertainties and instability factors. China's economy will turn from high-speed growth stage to high-quality development stage, deepening reform, innovation-driven development and supply-side structural reform will bring strong impetus for enterprises' development. The Company will highlight strategic guidance, adhere to reform and innovation, focus on breaking the institutional mechanisms restricting the development of enterprises, adhere to the transformation of development, and while improving the quality and efficiency of traditional business, cultivate and develop new business, adhere to the development of talent support, and strive to build talent advantage. Make efforts to increase revenue from open source, enhance the quality and efficiency, strengthen foundation and cohesion, and bring the full force to promote the reform and development of SINOPEC SEG to a new level.

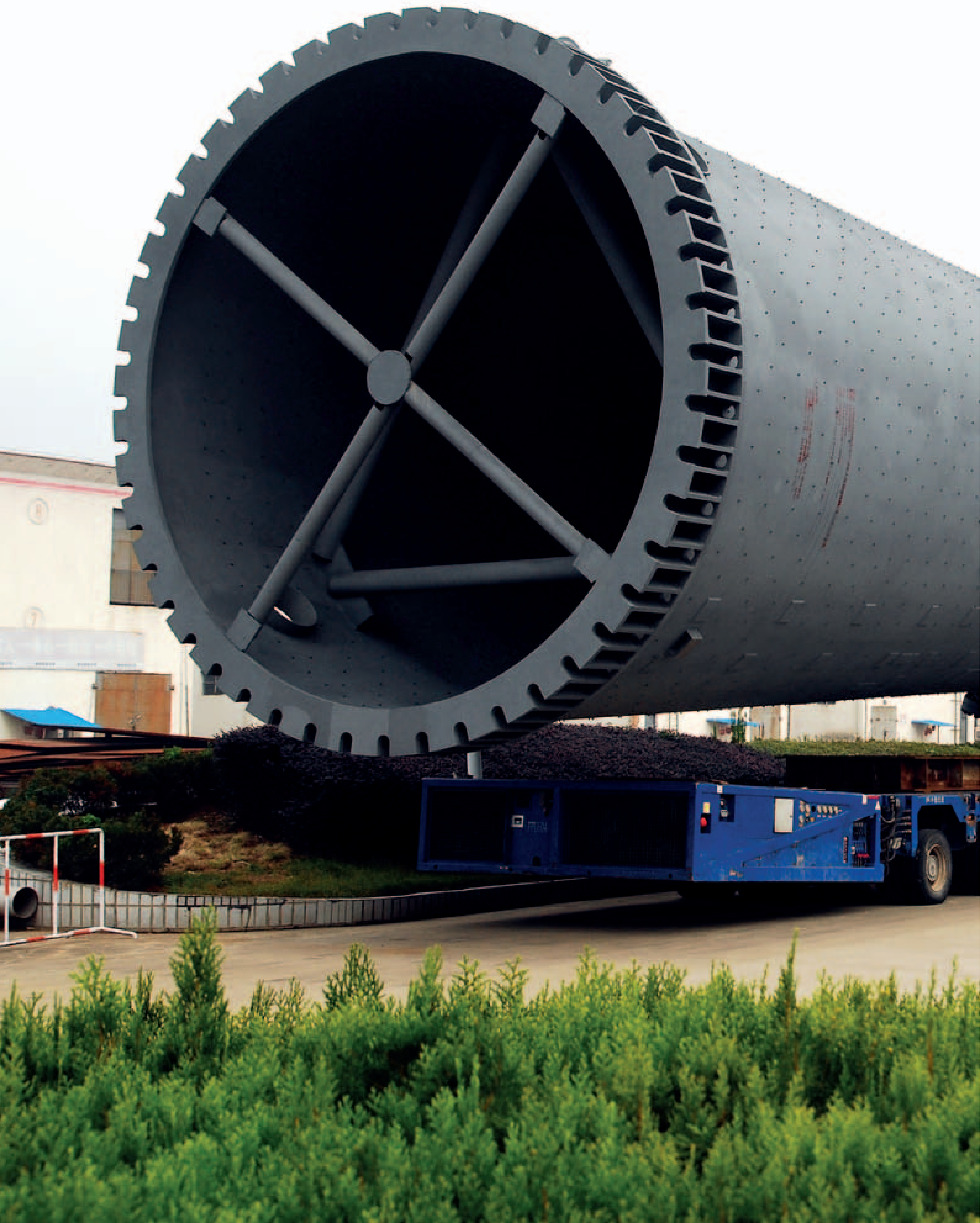
Profound accumulation. As a leading enterprise in the energy engineering industry and an active participant in "Belt and Road" construction, we grasp the opportunity of China's pursuit of high quality development, and share the development concept of "Belt and Road" common win. The new year, we will continue to uphold the "five major development concepts", circle around "four comprehensive" strategic layout, warmly embrace "new era" opportunity, more actively serve the national energy development "Thirteen-Five" planning and "Belt and Road" vision, to stabilise as the basis, to enter as the goal, go all out to ensure growth, control risk, bring benefits, push reform, seize innovation, promote development, and make an effort on "building a world-class engineering company" and create new and greater value for the country, for shareholders and for the community, for the staff.

LING Yiqun

Chairman of the Board

Beijing, the PRC

16 March 2018



BUSINESS REVIEW AND PROSPECTS

1 Business Review

Mr. XIANG Wenwu

Executive Director and President

(1) Market Environment

In 2017, the world economic growth accelerated and the recovery was sound. According to the World Bank, in 2017, the world economic growth rate reached 3%, 0.6% faster than 2016. In 2017, China's economic growth was 6.9%, far higher than the world average growth, becoming the world's economic growth as the main driving force and making important contributions to the world economic recovery.

In 2017, the international crude oil market fundamentals continued to improve, oil price trend presented a V-type reversal. At the beginning of the year, as the OPEC reduction Agreement was implemented and executed, international crude oil prices rebounded sharply, at once close to USD60/barrel; after that, U.S. crude oil production continued to grow, a number of shocks fell with the lowest fell below USD50/barrel; in the second half of the year, the supply and demand side improved markedly, the geopolitical situation was tense in parts of the Middle East, and global demand for crude oil became stronger, global inventories fell sharply, and the price of Brent crude in the end of the year created a maximum of USD65/barrel in two years. In 2017, although the international crude oil market moved further towards the rebalancing state, there were still more uncertain factors and as a whole it was in a fragile "weak equilibrium" state.

In 2017, China's oil and chemical industry maintained a good economic performance trend. National oil and gas and major chemicals' production was stable, market demand had steady growth, the overall price level rose faster, the export continued a better growth momentum; unit cost continued to fall, and the benefit in the whole industry was overall good. China's oil and chemical industry completed the overall decline in fixed assets investment, chemical industry investment decline continued to expand, mainly the basic chemical raw materials, rubber products, fertilisers and pesticides investment declined, but the oil refining industry investment growth accelerated, and synthetic materials investment enjoyed growth. In 2017, the national seven major petrochemical industry base projects started construction successively, Sinopec Group also proposed to build four world-class refining bases in Maozhan, Zhenhai, Shanghai and Nanjing, and the domestic market environment began to gradually improve.

Although the trend of international crude oil prices is full of changes, but the oil in the future for a considerable period of time is still one of the world's most important energies, the oil and petrochemical industry is still a major pillar of the global industry, oil refining, chemical engineering industry still contains long-term growth opportunities, and the key driving factors include:

- In 2017, the apparent consumption of refined oil products increased by 5.9% in China compared with that of the previous year, and the apparent consumption of ethylene grew by 4.7% 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;
- In 2017, Several Advices on Deepening Reform of Petroleum and Natural Gas System was officially issued, which confirms the guidelines, basic principles, general idea and major tasks for deepening the reform of petroleum and natural gas system. The reform of domestic petroleum and natural gas system has been accelerated.
- The low oil price can further stimulate the consumption demand for refined oil products. For example, in 2017, domestic apparent consumption of gasoline achieved a year-on-year increase of 10.2%. 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 2017, domestic chemical industry hit a record high 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 promulgation and implementation of related laws and regulations, including the Environmental Protection Law, 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 RMB36.209 billion and RMB1.130 billion, respectively. As at the end of the Reporting Period, the Group's backlog was RMB91.028 billion. The value of new contracts entered into by the Group during the Reporting Period was RMB39.063 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				
	2017		2016		
	Revenue	Percentage of total revenue	Revenue (restated)	Percentage of total revenue	Change
	(RMB '000)	(%)	(RMB '000)	(%)	(%)
Engineering, consulting and licensing	2,843,657	7.3	2,638,411	6.2	7.8
EPC Contracting	21,056,256	53.9	20,641,233	48.5	2.0
Construction	14,601,399	37.4	18,831,222	44.3	(22.5)
Equipment manufacturing	533,657	1.4	439,885	1.0	21.3
Subtotal	39,034,969	100.00	42,550,751	100.0	(8.3)
Total (after inter-segment elimination) (1)	36,208,723	N/A	39,402,331	N/A	(8.1)

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

During the Reporting Period, the total revenue of the Group was RMB36.209 billion, representing a decrease of 8.1% from the same period of the previous year, which was mainly due to the year-on-year decrease of the workload of construction business and large drop of the income of the construction segment during the Reporting Period.

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

	Year ended 31 December				
	2017		2016		
	Revenue	Percentage of total revenue	Revenue (restated)	Percentage of total revenue	Change
	(RMB '000)	(%)	(RMB '000)	(%)	(%)
Oil refining	13,834,349	38.2	10,760,205	27.3	28.6
Petrochemicals	10,168,655	28.1	12,524,930	31.8	(18.8)
New coal chemicals	7,214,645	19.9	8,562,936	21.7	(15.7)
Other industries	4,991,074	13.8	7,554,260	19.2	(33.9)
Total	36,208,723	100.0	39,402,331	100.0	(8.1)

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 Kuwait Oil Refining Project, Malaysia RAPID Oil Refining Project and etc, which entered into the peak season of procurement or construction, revenue generated from the oil refining industry was RMB13.834 billion, representing an increase of 28.6% on a year-on-year basis; influenced by the decreasing volume of business from new coal chemical industry, petrochemical industry and other industries, revenue generated from the petrochemical industry was RMB10.169 billion, representing a decrease of 18.8% on a year-on-year basis; revenue generated from the new coal chemical industry was RMB7.215 billion, representing a decrease of 15.7% on a year-on-year basis, revenue generated from other industries was RMB4.991 billion, representing a decrease of 33.9% 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				
	2017		2016		
	Revenue	Percentage of total revenue	Revenue (restated)	Percentage of total revenue	Change
	(RMB '000)	(%)	(RMB '000)	(%)	(%)
PRC	**21,946,224**	**60.6**	24,919,114	63.2	(11.9)
Overseas	**14,262,499**	**39.4**	14,483,217	36.8	(1.5)
Total	**36,208,723**	**100.0**	39,402,331	100.0	(8.1)

During the Reporting Period, the Group continued to expand its overseas business steadily, the proportion of the Group's overseas income increased period by period, and the revenue of the Group generated overseas was RMB14.262 billion, representing 39.4% of the total revenue, remaining broadly stable on a year-on-year basis; the revenue of the Group generated in the PRC was RMB21.946 billion, representing 60.6% of the total revenue and a decrease of 11.9% on a year-on-year basis, mainly because certain large EPC Contracting projects, such as Tianjin LNG and Zhongtian Hechuang Coal Chemical project, were almost completed and hence, the revenue decreased on a year-on-year basis.

As at the end of the Reporting Period, the backlog of the Group amounted to RMB9.1028 billion, representing an increase of 3.2% as compared with that as at 31 December 2016, and 2.5 times of the total revenue of RMB36.209 billion in 2017. During the Reporting Period, the value of new contracts amounted to RMB39.063 billion, representing a big increase of 41.7% on a year-on-year basis, completed about of the objectives of the contracts signed in 2017.

During the Reporting Period, representative domestic projects entered into by the Group included ethylene units and other relevant units project of Sinochem Quanzhou 1 Mtpa ethylene and oil refining renovation and expansion project of Sinochem Quanzhou Petrochemical Co., Ltd. ("Sinochem Quanzhou Ethylene Project"), Zhejiang Petrochemical Co., Ltd. signed 40 Mtpa refining-chemical integration project ("Zhejiang Petrochemical and Refining-chemical Integration Project"), Dalian 20 Mtpa refining-chemical integration project of Hengli Petrochemical (Dalian) Refining Co., Ltd. ("Dalian Hengli Refining-chemical Integration Project"), 2.6 Mtpa fluidised bed residue hydrogenation units EPC Contracting project of Sinopec Zhenhai Refining & Chemical Company ("Zhenhai Bubbling Bed Residuum Hydrotreating Project"), 100,000 tpa EVA Unit EPC Contracting Project of Sinopec Yangzi Petrochemical Company Ltd. ("Yangzi Petrochemical 100,000 tpa EVA Unit Project"), Jinan oil refining restructuring and quality upgrade for catalytic cracking unit EPC Contracting project of Sinopec Jinan Company ("Jinan Catalytic Cracking Project"), Ningxia synthetic gas debottlenecking and acetic acid gap-filling EPC Contracting project of Sinopec Great Wall Energy and Chemical (Ningxia) Co., Ltd. ("Great Wall Energy and Chemical Ningxia Synthetic Gas Debottlenecking Project"), etc.

During the Reporting Period, representative overseas projects entered into by the Group included the EPC contracting project in relation to Phase II of Abadan refinery upgrading project of National Iranian Oil Engineering and Construction Company ("Iranian Abadan Refinery Upgrading Project Phase II EPC Contracting Project"); the Package 3 of the project in relation to the 42 billion cubic meters per annum Amur Gas Processing Plant with Public Joint Stock Company Gazprom EPC Contracting project ("AGPP-P3 Project"), EPC Contracting projects of the 3rd newly-built Saudi Kayan petrochemical spare desalted water station system of ("the 3rd Saudi Kayan Spare Desalted Water Station System Project"), etc.

During the Reporting Period, our capital expenditure was RMB487 million, which was mainly for information system construction and constructional temporary equipment construction

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 Environmental, Social and Governance Report" from page 102 to page 105 of this annual report.

Successful implementation of major projects

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, 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 end of the Reporting Period, the overall progress of the project is over half.

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, intermediate handover of the project has been implemented, in the start-up state of keeping conjunction with the owner.

Sinochem Quanzhou Ethylene Project: Please refer to the announcement dated 6 June 2017 published by the Company for further details. As at the end of the Reporting Period, the project has commenced, and the work is in orderly development.

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, about four tenths of the overall construction work of this project was completed, some tanks are being installed and overall progress is controlled.

Dalian Hengli Refining-chemical Integration Project: As at the end of the Reporting Period, the oil refining part of the project is in the overall construction stage of civil engineering, the design is finishing, some equipment has been at the scene in place, the installation of pile foundation and the first level of the construction was basically completed and the installation of the steel structure began, and the overall progress is controlled; The ethylene part of the project is in process design.

Zhejiang Petrochemical and Refining-chemical Integration Project: As at the end of the Reporting Period, the project is in the early stage of civil construction, more than half of the detailed design has been completed, the site is in the civil engineering stage, mainly pile foundation, a level of ground pipe and foundation construction, part of the Pipe Gallery steel installation began, the overall progress was controlled.

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, the overall progress of the project is about 50%, of which: detailed design work is basically completed, procurement work is completed over six tenths, construction work is completed nearly three tenths.

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, about nine tenths of the overall progress of the project was completed, in which, design, procurement work has been completed, construction and installation is near the end and the commissioning work has started at the site.

FCC Project of Kazakhstan Atyrau Refinery: The scope of work under the contract for this project mainly includes Engineering, Procurement, Construction & Commissioning ("EPCC") of 13 process units including 2.43 Mtpa FCC units, and 47 utilities units. As at the end of the Reporting Period, the overall progress of the project is nearing completion and the final commissioning is underway.

Iranian Abadan Refinery Product Upgrading Project: As at the end of the Reporting Period, the first phase of the project is about three tenths and the field work has been started.

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 largely promoted resource integration and strengthened design, subcontracting and settlement management so as to ensure projects in the PRC and foreign countries could be implemented successfully and production and operation objects could be realised successfully.

In order to strengthen the design management and establish the knowledge sharing mechanism, the Group summarises the experiences and lessons of the large-scale construction projects in recent years, compiles and publishes the Design FAQ Manual with engineering examples, and organises the design staff to exchange learning and further improve the design level of the Company.

In order to enhance the Company's project management level, adhere to the standard international first-class, the Group adopts the international general Engineering, Procurement, Construction & Commissioning (EPCC) Project organisation and role design, has a comprehensive coverage of EPCC business content, and write international project management guide.

In order to improve subcontracting management capacity, reduce costs and ensure project revenue, the Group has established and promulgated a unified construction subcontracting management system and management standards, implemented integrated management mode of subcontracting management, and further ensure the quality and safety of subcontracting works under control.

Continuously strengthen risk control, improve the Group's project settlement and inventory management work mechanism, set up a complete project inventory management data system, exert the Group's joint efforts, strengthen the project implementation process to confirm the timeliness of progress, standardize the project settlement, and improve project effectiveness.

Significant results in market development

During the Reporting Period, the Group exploited its overall advantages in its industry, business and technical chains, under the circumstance where domestic market environment was improved, increased home market development efforts; grasped the "Belt and Road" opportunities, strengthened financing project cultivation, and made progress in "Belt and Road" countries and regions. During the Reporting Period, the value of new contracts entered into by the Group was RMB39.063 billion, representing an increase of 41.7% on a year-on-year basis. Among which, the value of newly signed domestic contracts amounted to RMB29.070 billion, representing an increase of 69.1% on a year-on-year basis, and the value of newly signed overseas contracts amounted to approximately RMB9.993 billion, representing a decrease of 3.6% on a year-on-year basis.

In the PRC, during the Reporting Period, the Group entered into new contracts for a number of large projects, such as Sinochem Quanzhou Ethylene Project with a contract value of approximately RMB4.259 billion; Zhejiang Petrochemical and Refining-chemical Integration Project with a contract value of approximately RMB3.713 billion, Dalian Hengli Refining-chemical Integration Project with a contract value of approximately RMB2.201 billion; Zhenhai Bubbling Bed Residuum Hydrotreating Project with a contract value of approximately RMB1.376 billion; Yangzi Petrochemical 100,000 tpa EVA Unit Project with a contract value of approximately RMB996 million; Jinan Catalytic Cracking Project with a contract value of approximately RMB680 million; Great Wall Energy and Chemical Ningxia Syngas Debottleneck Project with a contract value of approximately RMB358 million.

Overseas, during the Reporting Period, the Group signed new contracts for a number of large projects, such as Iranian Abadan Refinery Upgrading Project Phase II EPC Contracting Project with a contract value of approximately RMB6.858 billion; AGPP-P3 Project, under which the Group has formed a consortium with Maire Tecnimont SpA (an Italian company) and has an equity interest of approximately 119 million euros in the contract; the 3rd Saudi Kayan Spare Desalted Water Station System Project with a total contract value of approximately USD 12.8 million, etc.

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.

Continuous promotion of scientific and technological innovation and technology advancement

All engineering technology R&D has been steadily promoted.

- Scientific and technological research has achieved significant results: comprehensive completion of 6 tasks of Hubei chemical fertiliser coal to ethylene glycol, Jinling boiling bed residue hydrogenation, high-voltage xlpe insulating materials, lco production of high octane gasoline, RS-2200 low-cost China V Diesel Fuel, Shanghai petrochemical PAN-carbon fiber, and achieved industrial production smoothly.
- Successful start-up or intermediate handover of 5 sets of equipment of Maoming ethylene oxide plant, Tianjin LNG, Shijiazhuang alkylation device with smooth operation of these research projects. The projects of Zhenhai coal water slurry gasification and second generation aromatic hydrocarbon energy efficiency promotion in Hainan have completed the stage goal.
- Multi-level new topics technology has great prospects: 200,000 tpa solid acid alkylation complete sets of technology, heavy raw materials to increase production of low-carbon olefins and BTX key technology, 2,000 tons of clean and efficient SE pulverised coal gasification technology industry demonstration, gas phase polypropylene products VOC removal process complete technology, Datong Plasma Treatment VOCs complete sets of technology and demonstration 5 projects finalists focus on tackling. Methane oxidation coupling to ethylene, alkylation of waste acid to sulfuric acid, sludge integrated treatment technology, large storage tanks outside the floating roof construction tooling, construction visualisation of the project and other aspects of technical improvement and innovation achieve the stage results.

The technical innovation work conducted by the R&D Center made effective achievements.

- New situation of cooperation and innovation with each subsidiary company: At present, we have developed 65 projects with all the subsidiaries for Joint Research and Development, and have completed 24 projects, involving oil refining, chemical, new coal chemical industry, bioenergy, energy saving and environmental protection and related technologies of construction.
- Many technology development achievements were identified and approved: there were 7 projects that had passed the ministerial and provincial-level higher technical identification and assessment in 2017. Among them, 3 projects of “industrial application for reducing catalysing smoke NOX emission promoter”, “normative research of on-site corrosion lacing film monitoring and data collection”, and “three-mining promotor of oilfield’s influence on corrosion towards oil refining device” had passed technical identification of Sinopec Group. 4 projects of “study on wastewater treatment and reuse of ethylene glycol by coal gasification and its industrial application”, “A/O biochemical treatment system of ethylene glycol comprehensive wastewater by coal gasification process package”, “catalytic cracking simulation optimisation software upgrade and multi-production gasoline technology” and “high standard steam pipe insulation technology development” passed the review of Sinopec Group.

- 16 key research projects made progress: "study on the second generation of catalytic diesel fuel conversion gasoline combination process", "high octane gasoline technology development of mobile bed naphtha coupled methanol production", "delayed Coking Unit reduction processing optimisation process" and other topics successfully completed the test investigation, and entered into the optimisation research stage.

Good momentum persisted in patent applications.

During the Reporting Period, the Group completed 466 new patent applications (including 224 invention patents) and licensing of 312 patents (including 134 invention patents). Highlight the focus, and continuously strengthen the field of new technology and the protection of core technical achievements and continue to improve the quality of patents.

Continuously achieving numerous fruitful results in technology innovation.

During the Reporting Period, the Group was awarded with 95 items (times) of various prizes for scientific and technological advancement above provincial/ministerial levels, including 2 projects of "coal-based oil/olefin large-scale modern coal chemical industry complete technology development and application" and "high efficiency methanol to olefins whole process technology" were awarded the first prize of national science and technology progress in 2017; "deep delayed coking technology to improve the yield of light oil" won second prize. 16 projects such as "continuous reforming new regeneration and supporting technology", "complete technology of gas-liquid fluidised bed polyethylene process" and etc obtained the annual Sinopec Technology Invention Award, Science and Technology Progress Award. 20 projects won the annual Outstanding Engineering Design Award of Sinopec Group, 11 projects won the award of quality engineering. 5 affiliated engineering companies have been named "an innovative enterprise of China Petrochemical Corporation". Science and Technology Innovation Awards fully affirmed the Group's innovative achievements, demonstrated the Company's innovative ability.

Enterprise reform continues to deepen

The Group continues to tap the advantages of integration, and promote the optimisation and integration of internal resources. During the Reporting Period, the Group formed the Soil Management Center of SINOPEC SEG, build the Company's soil management professional team, set up the Company's soil management technology integration platform, market development platform and project co-ordination platform, and formed the Equipment Technology Center of SINOPEC SEG, which will vigorously promote the Company's manufacturing business to achieve high-end transformation development.

The Group continues to promote innovation and development, aiming at incremental business, looking for new profit growth points. During the Reporting Period, the Group completed the first mergers and acquisitions since the IPO, successfully acquired 100% equity of Sinopec Energy Saving Technology Service Co., Ltd. held by Sinopec Consulting Company. The Group plans to make Sinopec Energy Saving Technology Service Co., Ltd. become the Group's energy saving engineering and technical resources platform, and its contract body to contract energy management project.

Continuous expansion of the energy saving and environmental protection business

Attaching great importance to the exploration of the energy saving and environmental protection 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, equipment process flow and heat exchange network optimisation, device-to-device system thermal integration optimisation, and key energy dissipation equipment advanced technology optimisation, low temperature utilisation, etc. The Group was actively involved in Sinopec's "Clear Water & Blue Sky Plan" and "Energy Efficiency Doubling Plan", and actively 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 into new environmental protection business contracts valued at RMB1.234 billion, which was mainly from flue gas desulfurisation and denitrification projects, and new energy saving business contracts valued at approximately RMB36.74 million, which was mainly from energy saving reform projects.

In terms of energy saving business development, the Group has focused on energy and chemical Industry contract energy management, energy saving engineering services, energy saving technical advice and services, energy saving investment, energy saving policy-related topics such as research, provide customers with one-stop, overall energy saving technology services. The Group actively promoted the contract energy management business, successfully implemented a number of contract energy management projects, had access to a number of financial incentives and greater tax relief, is promoting dozens of contracts for energy management, and some projects have been engaged in contract negotiations. The Group is actively engaged in energy saving technology exchanges and cooperation, and further enhance the overall advantages in the field of energy saving services, making efforts to green low-carbon, energy saving emission reduction embodied in the design of digital and intelligent factory, promote the deep integration of energy and modern information technology, and promote the change of energy production management and consumption patterns.

In terms of environmental protection business development, the Group has continued to promote the development of soil management business, and is developing a number of soil management projects, some have completed the pilot. Communicate with the United States, Germany, Czech and other countries, continue to improve soil management technology reserves; actively explore new energy market, carry out the construction of the industrial demonstration project for ten thousand tons of biomass gasoline and carry out the exchange and cooperation of bio-ethanol projects; carry out million-ton CO_2 capture and utilisation cooperation, conduct research of the plan of CO_2 electrochemical conversion and utilisation of industrialisation, lay the foundation for entering the market for carbon emission reduction and carbon trading.

Smooth construction and implementation of ERP system

During the Reporting Period, the Group completed all the on-line promotion of all domestic business ERP of the subsidiaries, basically built a core management platform with ERP as the core, and the innovation of the ERP construction mode of the Group filled the blank of the application of domestic engineering industry ERP system full business chain. The Group's ERP project covers a comprehensive range of engineering technology research, design, procurement, manufacture, construction of business applications, project-level profit center management mechanism, achieves the implementation of the ERP system construction contract accounting, promotes the Project Master contract, Subcontract, procurement contract "connection", and promotes financial contracts, project contracts, and the market development contract "tight coupling", has promoted "strong link" of the project progress inspection and confirmation of the income and the cost, as well as has promoted the "hard correlation" of process project progress, subcontract, purchase and cost accounting. The result of ERP construction is remarkable, and it has precipitated technology, accumulated experience for other large system and large platforms, and laid a solid foundation for the Group's informatisation development.

Continuous promotion of production safety

During the Reporting Period, regarding QHSE (quality, health, safety and environment) management, with long-term mechanism construction as the leader, and tamping "three-base management" and strengthening risk prevention and control as the main line, adhere to people-oriented, pay attention to continuous improvement, focus on QHSE system management and quality safety main responsibility implementation, push forward quality and safety standardisation construction and essential security capacity building, pass multi-level training and deepen the design of the essence of safety management, strengthen supervision and inspection, carry out in-depth implementation of quality promotion activities and other measures, and constantly strengthen QHSE control, lay a more solid foundation for management, and control overall situation of quality, safety and external public security.

As at the end of the Reporting Period, no safety, quality, environment, occupational health and overseas public security accident had happened in the project under execution as a result of the conscientiousness and strict management of all employees of the Group, and 197.64 million safe man-hours had been realised in accumulation.

2 Business Prospects

Looking ahead to 2018, the world economy is expected to continue to grow, and China's economy will continue to develop steadily in a high degree of integration with the world economy. The international oil market is accelerating rebalancing in 2018, and the extension of the reduction agreement has injected more confidence into the recovery and rebalancing of the oil market, but oil demand and non-OPEC supply uncertainties have increased and international oil prices have remained volatile. In 2018, the global industry investment is expected to be difficult to achieve significant growth, some projects in the national seven petrochemical industry base and Sinopec Group's four world-class refining bases will have substantial progress, production and management situation in the domestic refining, chemical engineering industry will be significantly improved. As long as the Group seizes the opportunity to overcome the challenges, better and faster development can be achieved in the new phase.

In 2018, the Group will actively grasp the improvement of the domestic market situation, 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 2018, the target domestic new contract value of the Group is RMB38 billion, and the target overseas new contract value is USD1.5 billion.

(1) Continuously Promote In-depth Reform and Accelerate the Optimisation of Internal Resources

The Group will further strengthen the top level design of the reform and development, promote the reform work; continue to carry out resource optimisation work, sum up the previous work experience and lessons, continue to rely on mature resources, according to specialisation, differentiation principle, the Group will build a unified, shared, efficient and coordinated Service Support Center and Business Specialisation Development Center, promote the healthy development of the Group's incremental business, enhance the overall effectiveness of the Group, promote regional resource optimisation, achieve complementary advantages of engineering companies and construction enterprises, create a total force, reduce marginal costs, and improve overall efficiency and competitiveness; stick to the standard of well-known engineering companies, position around the Company's function and according to the principle of flattening and streamlining, the Company will continue to optimise and adjust the Company's organisational structure.

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

The Group will adhere to the green low-carbon development strategy, and vigorously expand new business areas and new business models. Actively develop biomass gasoline, bio-ethanol and other renewable energy fields, promote the development of new coal chemical market, accelerate into the field of carbon emission reduction and carbon trading with CO_2 capture and utilisation as an opportunity, seize the favorable opportunity of natural gas market, vigorously explore natural gas purification plant, pipeline, receiving station and other engineering markets. Try to help the market development through money-driven ways, try to participate in sewage treatment, industrial park, infrastructure construction, and other PPP projects, explore participation and investment of ancillary engineering companies, patent operators and suppliers in a variety of ways, and achieve efficient and accurate development.

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

The Group will take the benefit as the center, while safety can be assured, and quality, progress can be controlled, highlight the benefit guidance. Continuously promote design optimization work, strengthen the design of the professional infrastructure, optimize the design process, improve the overall efficiency of the design, play the role of design leading, in ensuring the standard is not reduced, reduce the design margin, avoid quality excess, save project costs from the source; continuously promote the effective interface of design and procurement, as well as construction, strengthen the support of design for procurement and construction, and improve the EPC contracting capacity and returns on projects.

Strengthen process management, and control project inventory and receivable level. Strengthen progress confirmation and settlement management, strict visa and claim management, increase project revenue, have strict settlement and revenue recognition of the subcontractors during the process, control planning cost expenditure, control project cost, and improve project benefit.

Continue to deepen subcontracting management, strengthen supervision, and ensure the implementation of subcontracting management system in place. Complete the construction of subcontracting information platform and promote the operation, optimise the subcontract resources, enlarge the cultivation of A level subcontractor, strengthen subcontractors' appraisal, implement fittest appraisal mechanism, while guaranteeing safety and quality of the subcontract project controllable, diligently reduce subcontract cost.

(4) Holding onto the strategic opportunity of the "Belt and Road" initiative to solidly advance global development.

The Group will hold fast to the opportunity of "Belt and Road" strategic initiative, give play to the internal integration advantages of the Group, 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. The Group will strengthen financing project cultivation, closely exchange with the state-related government departments, and actively expand to the high-end business areas, actively try to make Chinese refining technology and equipment "go out" and show the strength and level of the Group.

(5) Focus on technology progression to protect and enhance the industry's leading position

The Group will be guided by the requirements of technology market, protect the Group's leading position through continuous access to technological progress, create business growth through technical innovation, strengthen technical control to support the Group's current situation. Improving and upgrading the ability to build world-class factory is the Group's general requirement. Technical work should firmly grasp two main lines-"technology management for project implementation services, technical innovation for market development services".

With the technical features of the Group in the petrochemical industry, new coal chemical industry, medicine, inorganic chemical industry and large scale construction technology as the turning point, around the Group's development strategy, actively carry out the source of technology, strengthen the work, improve the level and efficiency of research and development, especially the cooperation in the field of environmental engineering technology, and make use of external resources to create a win-win situation.

Utilise the innovative resources of the research and development center, form a network of innovative technologies, enhance the sharing and application efficiency of innovative resources, talents and new technology achievements in the Group, and realise the leading role of technological innovation in the development of the Group.

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

The Group will take energy conservation and environmental protection as a breakthrough, play the synergies of energy saving companies and other subsidiaries, and actively use the energy saving enterprises to carry out the diagnosis, promote the work of contract energy management project; establish the platform of soil governance synergy work, bring the role of soil governance center professional agency into play, actively keep trace of the project of soil governance, and do well in technical recommendation and market development. Continue to increase market development of VOCs management of refinery enterprises, flue gas ultra net discharge, sewage discharge, industrial solid waste treatment and so on, explore and establish energy conservation fund, drive the social capital with small investment, promote contract energy business jointly, enhance the contract environment management, contract energy management project's operational efficiency, strengthen the risk management, and make energy saving and environmental protection business quickly become the Company's new profit growth point.

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

The Group attaches importance to the integration of enterprise strategy, enterprise culture and human resource management, based on the target management, with key performance indicators as the core content, is gradually establishing a normative, adaptable to market economy, systematic strategic human resources management system.

The Group will optimise the allocation of human resources, further improve the labour management, combine with enterprise employment needs and business characteristics, and gradually establish its staff management mechanism of controllable staff scale and flexible employment management, which cannot only orderly control staff size, but also meet the Group project construction's needs of human resources.

The Group will improve the remuneration system, and stimulate the enterprise to create effective power, with optimising the Company's market-oriented compensation system as the goal, and further improve the pay distribution mechanism which can be increased and reduced, in accordance with benefit-oriented principle, establish the management measure of total pay adjustment with dynamic income, and increase payroll with the income of the enterprise and explore the possibility of carrying out the new plan of stock increment right.

(8) Improve the application level of information management in an all-round way

The Group will proceed in accordance with "overall promotion, integration of development, integrated sharing, collaborative intelligence" information work policy, follow the "six unified" and "integration" information construction principles, with building a world-class engineering company as the target, "ERP" and "Digital Factory" as the main directions, make full use of cloud computing, Internet of Things, big data, artificial intelligence and other information technologies, build integrated and shared management platform, collaborative intelligent project execution platform, interconnected efficient digital factory platform, agile security technology support platform, establish a complete and effective information standardisation system and information security management system, form a scientific and efficient information-based control mechanism, and make efforts to greatly improve the Group's overall information capacity and the depth of integration, continue to keep the leading position of industry information, and some fields should be internationally leading.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

1 Consolidated Results of Operations

The following table sets forth the consolidated statement of comprehensive income of the Group for the indicated years.

	Year ended 31 December				
	2017		2016		
	Amount	Percentage of total revenue	Amount (restated)	Percentage of total revenue	Change
	(RMB'000)	(%)	(RMB'000)	(%)	(%)
Revenue	36,208,723	100.0	39,402,331	100.0	(8.1)
Cost of sales	(32,182,551)	(88.9)	(35,106,916)	(89.1)	(8.3)
Gross profit	4,026,172	11.1	4,295,415	10.9	(6.3)
Other income	184,718	0.5	877,973	2.2	(79.0)
Selling and marketing expenses	(114,836)	(0.3)	(106,763)	(0.3)	7.6
Administrative expenses	(1,181,032)	(3.3)	(1,160,869)	(2.9)	1.7
Research and development costs	(1,002,907)	(2.8)	(1,113,083)	(2.8)	(9.9)
Other operating expenses	(797,788)	(2.2)	(849,099)	(2.2)	(6.0)
Other losses - net	(2,060)	(0.0)	(1,318)	(0.0)	56.3
Operating profit	1,112,267	3.1	1,942,256	4.9	(42.7)
Finance income	600,926	1.7	493,794	1.3	21.7
Finance expenses	(90,432)	(0.2)	(75,226)	(0.2)	20.2

	Year ended 31 December				
	2017		2016		
	Amount	Percentage of total revenue	Amount (restated)	Percentage of total revenue	Change
	(RMB'000)	(%)	(RMB'000)	(%)	(%)
Finance income - net	510,494	1.4	418,568	1.1	22.0
Share of (loss)/profit of joint arrangements	(1,372)	(0.0)	463	0.0	–
Share of profit of associates	13,712	0.0	15,489	0.0	(11.5)
Profit before taxation	1,635,101	4.5	2,376,776	6.0	(31.2)
Income tax expense	(504,869)	(1.4)	(705,717)	(1.8)	(28.5)
Profit for the year	1,130,232	3.1	1,671,059	4.2	(32.4)
Exchange differences arising on translation of foreign operations	(119,110)	(0.3)	70,441	0.2	–
Losses on revaluation of retirement benefit plans obligations	(12,984)	(0.0)	(40,948)	(0.1)	(68.3)
Total comprehensive income for the year	998,138	2.8	1,700,552	4.3	(41.3)

(1) Revenue

The revenue of the Group decreased by 8.1% from RMB39.402 billion for the year ended 31 December 2016 to RMB36.209 billion for the year ended 31 December 2017, which was mainly due to the year-on-year decrease of the workload of construction business and large drop of the income of the construction segment during the Reporting Period.

(2) Cost of sales

The cost of sales of the Group decreased by 8.3% from RMB35.107 billion for the year ended 31 December 2016 to RMB32.183 billion for the year ended 31 December 2017, mainly due to the decrease in revenue as well as the decrease in the cost.

(3) Gross profit

The gross profit of the Group decreased by 6.3% from RMB4.295 billion for the year ended 31 December 2016 to RMB4.026 billion for the year ended 31 December 2017, mainly due to falling incomes. Gross profit margin was 11.1%, and remaining broadly stable on a year-on-year basis.

(4) Other income

The other income of the Group decreased by 79.0% from RMB878 million for the year ended 31 December 2016 to RMB185 million for the year ended 31 December 2017, mainly due to the exchange losses caused by the decline of the USD/RMB exchange rate during the Reporting Period, and the exchange gains achieved in the same period last year.

(5) Selling and marketing expenses

The selling and marketing expenses of the Group increased from RMB107 million for the year ended 31 December 2016 to RMB115 million for the year ended 31 December 2017, remaining broadly stable on a year-on-year basis.

(6) Administrative expenses

The administrative expenses of the Group increased from RMB1.161 billion for the year ended 31 December 2016 to RMB1.181 billion for the year ended 31 December 2017, remaining broadly stable on a year-on-year basis.

(7) Research and development costs

The research and development costs of the Group decreased by 9.9% from RMB1.113 billion for the year ended 31 December 2016 to RMB1.003 billion for the year ended 31 December 2017, which was mainly due to the decrease in research and development projects.

(8) Other operating expenses

The other operating expenses of the Group decreased by 6.0% from RMB849 million for the year ended 31 December 2016 to RMB798 million for the year ended 31 December 2017, which is mainly due to decrease in provision for impairment on year-on-year basis.

(9) Other losses - net

The net other losses of the Group increased from loss of RMB0.001 billion for the year ended 31 December 2016 to loss of RMB0.002 billion for the year ended 31 December 2017, remaining broadly stable on a year-on-year basis.

(10) Operating profit

Due to the foregoing reasons, the operating profit of the Group decreased by 42.7% from RMB1.942 billion for the year ended 31 December 2016 to RMB1.112 billion for the year ended 31 December 2017.

(11) Finance income - net

The net finance income of the Group increased by 22.0% from RMB419 million for the year ended 31 December 2016 to RMB510 million for the year ended 31 December 2017, mainly due to the increase in interest income receivable from the final holding company over a year earlier.

(12) Income tax expense

The Group's income tax expense decreased by 28.5% from RMB706 million for the year ended 31 December 2016 to RMB505 million for the year ended 31 December 2017, mainly due to year-on-year reduction of pre-tax profit of the Group. Effective income tax rate increased from 29.7% to 30.9% on a year-on-year basis. Change of effective income tax rate is mainly because of 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 32.4% from RMB1.671 billion for the year ended 31 December 2016 to RMB1.130 billion for the year ended 31 December 2017.

(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 41.3% from RMB1.701 billion for the year ended 31 December 2016 to RMB998 million for the year ended 31 December 2017.

2 Discussion on the Results by Business Segments

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

	Segment revenue		Segment gross profit		Segment gross profit margin		Segment operating profit		Segment operating profit margin	
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2017	2016 (restated)	2017	2016 (restated)	2017	2016 (restated)	2017	2016 (restated)	2017	2016 (restated)
	(RMB '000)		(RMB '000)		(%)		(RMB '000)		(%)	
Engineering, consulting and licensing	2,843,657	2,638,411	881,328	907,750	31.0	34.4	139,576	233,463	4.9	8.8
EPC Contracting	21,056,256	20,641,233	2,517,223	2,520,127	12.0	12.2	1,228,491	1,737,248	5.8	8.4
Construction	14,601,399	18,831,222	590,882	837,798	4.0	4.4	(291,206)	(96,287)	(2.0)	(0.5)
Equipment manufacturing	533,657	439,885	36,739	29,740	6.9	6.8	14,693	(3,955)	2.8	(0.9)
Unallocated	N/A	N/A	N/A	N/A	N/A	N/A	20,713	71,787	N/A	N/A
Subtotal	39,034,969	42,550,751	4,026,172	4,295,415	N/A	N/A	1,112,267	1,942,256	N/A	N/A
Total after inter-segment elimination [3]	36,208,723	39,402,331	4,026,172	4,295,415	11.1 [1]	10.9 [1]	1,112,267	1,942,256	3.1 [2]	4.9 [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 Engineering Construction and Equipment Manufacturing segments to the EPC Contracting segment. Other information on inter-segment sales is set out in note 7 to the financial statements contained in this 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			
	2017		2016 (restated)	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(RMB '000)	(%)	(RMB '000)	(%)
Revenue	2,843,657	100.0	2,638,411	100.0
Cost of sales	(1,962,329)	(69.0)	(1,730,661)	(65.6)
Gross profit	881,328	31.0	907,750	34.4
Selling and marketing expenses	(23,811)	(0.8)	(22,946)	(0.9)
Administrative expenses	(241,787)	(8.5)	(236,637)	(9.0)
Research and development costs	(433,588)	(15.2)	(460,311)	(17.4)
Other income and expenses	(42,566)	(1.5)	45,607	1.7
Operating profit	139,576	4.9	233,463	8.8

(1) Revenue

The revenue generated from the Group's Engineering, Consulting and Licensing segment increased by 7.8% from RMB2.638 billion for the year ended 31 December 2016 to RMB2.844 billion for the year ended 31 December 2017, mainly due to increase of design business quantity.

(2) Cost of sales

The cost of sales of the Group's Engineering, Consulting and Licensing segment increased by 13.4% from RMB1.731 billion for the year ended 31 December 2016 to RMB1.962 billion for the year ended 31 December 2017, mainly due to increase of follow-up income.

(3) Gross profit

The gross profit of the Group's Engineering, Consulting and Licensing segment decreased by 2.9% from RMB908 million for the year ended 31 December 2016 to RMB881 million for the year ended 31 December 2017, mainly due to the fact that the increase margin of the income of this segment is less than the increase margin of the sales cost. The gross profit margin of the Group's Engineering, Consulting and Licensing segment decreased from 34.4% for the year ended 31 December 2016 to 31.0% for the year ended 31 December 2017, being maintained on a relatively high level.

(4) Selling and marketing expenses

The selling and marketing expenses of the Group's Engineering, Consulting and Licensing segment increased from RMB23 million for the year ended 31 December 2016 to RMB24 million for the year ended 31 December 2017, 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 RMB237 million for the year ended 31 December 2016 to RMB242 million for the year ended 31 December 2017, 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 5.8% from RMB460 million for the year ended 31 December 2016 to RMB434 million for the year ended 31 December 2017, which was mainly due to the decrease in research and development projects.

(7) Operating profit

Due to the above reasons, and the impact of the exchange loss, the operating profit of the Group's Engineering, Consulting and Licensing segment decreased from RMB233 million for the year ended 31 December 2016 to RMB140 million for the year ended 31 December 2017.

EPC Contracting

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

	Year ended 31 December			
	2017		2016	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(RMB '000)	(%)	(RMB '000)	(%)
Revenue	21,056,256	100.0	20,641,233	100.0
Cost of sales	(18,539,033)	(88.0)	(18,121,106)	(87.8)
Gross profit	2,517,223	12.0	2,520,127	12.2
Selling and marketing expenses	(43,024)	(0.2)	(39,676)	(0.2)
Administrative expenses	(371,349)	(1.8)	(351,230)	(1.7)
Research and development costs	(315,535)	(1.5)	(339,639)	(1.6)
Other income and expenses	(558,824)	(2.7)	(52,334)	(0.3)
Operating profit	1,228,491	5.8	1,737,248	8.4

(1) Revenue

The revenue generated from the Group's EPC Contracting segment increased by 2.0% from RMB20.641 billion for the year ended 31 December 2016 to RMB21.056 billion for the year ended 31 December 2017, which was mainly due to the fact that such general contracting projects as the Kuwait Oil Refining Project, Malaysia RAPID Oil Refining Project and etc have entered purchase or construction peak period.

(2) Cost of sales

The cost of sales of the Group's EPC Contracting segment increased by 2.3% from RMB18.121 billion for the year ended 31 December 2016 to RMB18.539 billion for the year ended 31 December 2017, which was mainly due to the increase in revenue.

(3) Gross profit

The gross profit of sales of the Group's EPC Contracting segment was RMB2.517 billion, decreased from 12.2% in the same period of last year to 12.0%, and gross profit total and gross profit margin have basically been on the same level on a year-on-year basis.

(4) Selling and marketing expenses

The selling and marketing expenses of the Group's EPC Contracting segment increased from RMB40 million for the year ended 31 December 2016 to RMB43 million for the year ended 31 December 2017, remaining broadly stable on a year-on-year basis.

(5) Administrative expenses

The administrative expense of the Group's EPC Contracting segment increased by 5.7% from RMB351 million for the year ended 31 December 2016 to RMB371 million for the year ended 31 December 2017, mainly due to increase of employee welfare.

(6) Research and development costs

The research and development costs of the Group's EPC Contracting segment decreased by 7.1% from RMB340 million for the year ended 31 December 2016 to RMB316 million for the year ended 31 December 2017, which was mainly due to the decrease in research and development projects.

(7) Operating profit

Due to the above reasons, and the impact of the exchange loss, the operating profit of the Group's EPC Contracting segment decreased from RMB1.737 billion for the year ended 31 December 2016 to RMB1.228 billion for the year ended 31 December 2017.

Construction

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

	Year ended 31 December			
	2017		2016 (restated)	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(RMB '000)	(%)	(RMB '000)	(%)
Revenue	14,601,399	100.0	18,831,222	100.0
Cost of sales	(14,010,517)	(96.0)	(17,993,424)	(95.6)
Gross profit	590,882	4.0	837,798	4.4
Selling and marketing expenses	(43,478)	(0.3)	(39,700)	(0.2)
Administrative expenses	(548,512)	(3.8)	(535,677)	(2.8)
Research and development costs	(252,276)	(1.7)	(312,584)	(1.7)
Other income and expenses	(37,822)	(0.3)	(46,124)	(0.2)
Operating loss	(291,206)	(2.0)	(96,287)	(0.5)

(1) Revenue

The revenue generated from the Group's Construction segment decreased by 22.5% from RMB18.831 billion for the year ended 31 December 2016 to RMB14.601 billion for the year ended 31 December 2017, which was mainly due to the year-on-year decrease of the workload of construction business and large drop of the income of the construction segment during the Reporting Period.

(2) Cost of sales

The cost of sales of the Group's Construction segment decreased by 22.1% from RMB17.993 billion for the year ended 31 December 2016 to RMB14.011 billion for the year ended 31 December 2017, which was mainly due to the decrease in revenue.

(3) Gross profit

The gross profit of the Group's Construction segment decreased by 29.5% from RMB838 million for the year ended 31 December 2016 to RMB591 million for the year ended 31 December 2017, mainly due to decrease in revenue, and the gross profit margin decreased from 4.4% for the year ended 31 December 2016 to 4.0% for the year ended 31 December 2017, mainly due to the fact that the decrease margin of the sales cost was less than the decrease margin of the revenue.

(4) Selling and marketing expenses

The selling and marketing expenses of the Group's Construction segment increased from RMB40 million for the year ended 31 December 2016 to RMB43 million for the year ended 31 December 2017, remaining broadly stable on a year-on-year basis.

(5) Administrative expenses

The administrative expense of the Group's Construction segment increased from RMB536 million for the year ended 31 December 2016 to RMB549 million for the year ended 31 December 2017, 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 decreased by 19.3% from RMB313 million for the year ended 31 December 2016 to RMB252 million for the year ended 31 December 2017, which was mainly due to the decrease in research and development projects.

(7) Operating loss

Due to the above reasons, the operating loss of the Group's Construction segment increased from RMB96 million for the year ended 31 December 2016 to RMB291 million for the year ended 31 December 2017.

Equipment Manufacturing

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

	Year ended 31 December			
	2017		2016 (restated)	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(RMB '000)	(%)	(RMB '000)	(%)
Revenue	533,657	100.0	439,885	100.0
Cost of sales	(496,918)	(93.1)	(410,145)	(93.2)
Gross profit	36,739	6.9	29,740	6.8
Selling and marketing expenses	(4,523)	(0.8)	(4,441)	(1.0)
Administrative expenses	(19,384)	(3.4)	(37,325)	(8.5)
Research and development costs	(1,508)	(0.3)	(549)	(0.1)
Other income and expenses	3,369	0.6	8,620	2.0
Operating profit/(Loss)	14,693	2.8	(3,955)	(0.9)

(1) Revenue

The revenue generated from the Group's Equipment Manufacturing segment increased by 21.3% from RMB440 million for the year ended 31 December 2016 to RMB534 million for the year ended 31 December 2017, which was mainly due to increase of equipment manufacturing orders.

(2) Cost of sales

The cost of sales of the Group's Equipment Manufacturing segment increased by 21.2% from RMB410 million for the year ended 31 December 2016 to RMB497 million for the year ended 31 December 2017, which was mainly due to the increase in revenue.

(3) Gross profit

The gross profit of the Group's Equipment Manufacturing segment increased by 23.5% from RMB30 million for the year ended 31 December 2016 to RMB37 million for the year ended 31 December 2017, which was mainly due to the increase in revenue, the gross profit margin increased to 6.9% from 6.8% on a year-on-year basis, gross profit margin have basically been on the same level.

(4) Selling and marketing expenses

The selling and marketing expenses of the Group's Equipment Manufacturing segment were RMB5 million for the year ended 31 December 2017, remaining broadly stable on a year-on-year basis.

(5) Administrative expenses

The administrative expenses of the Group's Equipment Manufacturing segment decreased by 48.1% from RMB37 million for the year ended 31 December 2016 to RMB19 million for the year ended 31 December 2017, mainly due to the decrease of employee welfare.

(6) Research and development costs

The research and development costs of the Group's Equipment Manufacturing segment were RMB2 million for the year ended 31 December 2017, the total research and development expenditure was basically on the same level on a year-on-year basis.

(7) Operating profit/loss

Due to the above reasons, the operating profit of the Group's Equipment Manufacturing segment increased from a loss of RMB4 million for the year ended 31 December 2016 to a profit of RMB15 million for the year ended 31 December 2017.

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				
	2017		2016 (restated)		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB '000)	(%)	(RMB '000)	(%)	(%)
Oil refining	13,834,349	38.2	10,760,205	27.3	28.6
Petrochemicals	10,168,655	28.1	12,524,930	31.8	(18.8)
New coal chemicals	7,214,645	19.9	8,562,936	21.7	(15.7)
Other industries	4,991,074	13.8	7,554,260	19.2	(33.9)
Total	36,208,723	100.0	39,402,331	100.0	(8.1)

As illustrated by the above revenue generated from different industries, during the Reporting Period, influenced by EPC contracting projects of the oil refining industry, including the Kuwait Oil Refining Project, Malaysia RAPID Oil Refining Project and etc, which entered into the peak season of procurement or construction, revenue generated from the oil refining industry was RMB13.834 billion, representing an increase of 28.6% on a year-on-year basis; influenced by the decreasing volume of business from new coal chemical industry, petrochemical industry and other industries; revenue generated from the petrochemical industry was RMB10.169 billion, representing a decrease of 18.8% on a year-on-year basis; revenue generated from the new coal chemical industry was RMB7.215 billion, representing a decrease of 15.7% on a year-on-year basis; revenue generated from other industries was RMB4.991 billion, representing a decrease of 33.9% 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				
	2017		2016 (restated)		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB '000)	(%)	(RMB '000)	(%)	(%)
PRC	21,946,224	60.6	24,919,114	63.2	(11.9)
Overseas	14,262,499	39.4	14,483,217	36.8	(1.5)
Total	36,208,723	100.0	39,402,331	100.0	(8.1)

During the Reporting Period, the Group continued to expand its overseas business steadily, the proportion of the Group's overseas income increased period by period, and the revenue of the Group generated overseas was RMB14.262 billion, representing 39.4% of the total revenue, remaining broadly stable on a year-on-year basis; the revenue of the Group generated in the PRC was RMB21.946 billion, representing 60.6% of the total revenue and a decrease of 11.9% on a year-on-year basis, mainly because certain large EPC Contracting projects, such as Tianjin LNG and Zhongtian Hechuang Coal Chemical project, were almost completed and hence, the revenue decreased 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				
	2017		2016 (restated)		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB '000)	(%)	(RMB '000)	(%)	(%)
Sinopec Group and its associates	13,163,949	36.4	14,558,737	36.9	(9.6)
Non-Sinopec Group and its associates	23,044,774	63.6	24,843,594	63.1	(7.2)
Total	36,208,723	100.0	39,402,331	100.0	(8.1)

During the Reporting Period, the revenue generated from Sinopec Group and its associates was RMB13.164 billion, representing a decrease of 9.6% on a year-on-year basis; the revenue generated from non-Sinopec Group and its associates was RMB23.045 billion, representing a decrease of 7.2% 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 based on the Group's assumption that the relevant contracts will be performed in accordance with their terms. Backlog is not a measure defined by generally accepted accounting principles. Any modification, termination or suspension of these contracts by the Group's clients may have a substantial and immediate effect on the Group's backlog. Projects may also remain in the Group's backlog for an extended period of time beyond what was initially anticipated due to various factors beyond the Group's control.

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

	As at 31 December 2017 (RMB '000)	As at 31 December 2016 (RMB '000)	Change (%)
Engineering, consulting and licensing	7,838,104	6,977,048	12.3
EPC Contracting	67,712,961	68,930,902	(1.8)
Construction	14,896,489	12,110,670	23.0
Equipment manufacturing	580,390	154,642	275.3
Total	91,027,944	88,173,262	3.2

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 2017 (RMB '000)	As at 31 December 2016 (RMB '000)	Change (%)
Oil refining	32,541,555	32,215,821	1.0
Petrochemicals	24,224,871	17,649,823	37.3
New coal chemicals	15,386,301	20,227,322	(23.9)
Other industries	18,875,217	18,080,296	4.4
Total	91,027,944	88,173,262	3.2

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

	As at 31 December 2017 (RMB '000)	As at 31 December 2016 (RMB '000)	Change (%)
PRC	62,728,624	55,604,482	12.8
Overseas	28,299,320	32,568,780	(13.1)
Total	91,027,944	88,173,262	3.2

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

	As at 31 December 2017 (RMB '000)	As at 31 December 2016 (RMB '000)	Change (%)
Sinopec Group and its associates	37,667,990	37,802,158	(0.4)
Non-Sinopec Group and its associates	53,359,954	50,371,104	5.9
Total	91,027,944	88,173,262	3.2

As at 31 December 2017, the Group's backlog was RMB91.028 billion, representing an increase of 3.2% from that as at 31 December 2016, and 2.5 times of the total revenue of RMB36.209 billion in 2017.

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
	2017	2016	
	(RMB '000)		(%)
Engineering, consulting and licensing	**3,704,714**	2,652,723	39.7
EPC Contracting	**19,838,314**	10,911,030	81.8
Construction	**14,685,028**	13,801,475	6.4
Equipment manufacturing	**835,348**	198,585	320.7
Total	**39,063,404**	27,563,813	41.7

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
	2017	2016	
	(RMB '000)		(%)
Oil refining	**14,160,084**	10,024,575	41.3
Petrochemicals	**16,743,703**	7,444,181	124.9
New coal chemicals	**2,373,623**	2,559,285	(7.3)
Other industries	**5,785,994**	7,535,772	(23.2)
Total	**39,063,404**	27,563,813	41.7

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

	Year ended 31 December		Change
	2017	2016	
	(RMB '000)		(%)
PRC	29,070,365	17,193,356	69.1
Overseas	9,993,039	10,370,457	(3.6)
Total	39,063,404	27,563,813	41.7

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

	Year ended 31 December		Change
	2017	2016	
	(RMB '000)		(%)
Sinopec Group and its associates	13,029,781	10,091,361	29.1
Non-Sinopec Group and its associates	26,033,623	17,472,452	49.0
Total	39,063,404	27,563,813	41.7

During the Reporting Period, the value of the new contracts was RMB39.063 billion, representing an increase of 41.7% 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 2017	As at 31 December 2016 (restated)	Changes
Total assets	59,405,621	58,888,787	516,834
Current assets	51,864,822	51,016,799	848,023
Non-current assets	7,540,799	7,871,988	(331,189)
Total liabilities	33,814,616	33,623,678	190,938
Current liabilities	31,015,076	30,724,440	290,636
Non-current liabilities	2,799,540	2,899,238	(99,698)
Non-controlling interests	4,166	3,908	258
Net assets	25,591,005	25,265,109	325,896
Equity attributable to equity holders of the Company	25,586,839	25,261,201	325,638
Share capital	4,428,000	4,428,000	0.00
Reserves	21,158,839	20,833,201	325,638

As at the end of the Reporting Period, the total assets of the Group were RMB59.406 billion, the total liabilities were RMB33.815 billion, the non-controlling interests were RMB4 million, and the equity attributable to the equity holders of the Company was RMB25.587 billion. The changes in the assets and liabilities as compared with those at the end of 2016 and the main reasons are as follows:

As at the end of the Reporting Period, the total assets were RMB59.406 billion, increased by RMB517 million as compared with that as at the end of 2016. In particular, the current assets were RMB51.865 billion, increased by RMB848 million as compared with that as at the end of 2016, mainly due to the fixed deposits with financial institutions increased by RMB2.184 billion, loans due from the ultimate holding company recorded a growth of RMB1.4 billion, an increase of RMB214 million for amounts due from customers for contract work, the advance payment and other receivables decreased by RMB1.779 billion, a decrease of RMB614 million for inventory, a decrease of RMB317 million for notes and trade receivables, the decrease in cash and cash equivalents was RMB239 million; the non-current assets were RMB7.541 billion, decreased by RMB331 million as compared with that as at the end of 2016, 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 RMB33.815 billion, increased by RMB191 million as compared with that as at the end of 2016. In particular, the current liabilities were RMB31.015 billion, increased by RMB291 million as compared with that as at the end of 2016, mainly due to the other payable items increased by RMB927 million, the fellow subsidiary lendings payable increased by RMB431 million, amounts due to customers for contract work decreased by RMB726 million, the decrease of RMB204 million in notes and trade payables; the non-current liabilities were RMB2.800 billion, decreased by RMB100 million as compared with that as at the end of 2016, mainly due to the decrease of RMB101 million in retirement and other supplemental benefit obligations.

The total equity attributable to shareholders of the Company was RMB25.587 billion, increased by RMB326 million as compared with that as at the end of 2016, 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 RMB260 million and net cash generated from operating activities was RMB4.566 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 2017 and 2016, respectively.

Units: RMB'000

Major items of cash flow	Year ended 31December	
	2017	2016 (restated)
Net cash generated from operating activities	4,240,508	4,670,772
Net cash used in investing activities	(3,801,257)	(3,449,715)
Net cash used in financing activities	(179,063)	(1,130,652)
Net increase in cash and cash equivalents	260,189	40,405

During the Reporting Period, the profit before taxation was RMB1.635 billion, and the profit was RMB2.508 billion after adjusting the items in expenses that did not affect the cash flow in operating activities. Major non-cash expense items are: depreciation, depletion and amortisation were RMB746 million, exchange losses amounted to RMB612 million, impairment of trade and other receivables was RMB96 million, net interest income and expenditure was RMB572 million, loss caused by sale of property, plants, and equipment was RMB2 million. The changes in working capital, which caused a cash inflow of RMB2.181 billion in operating activities, are mainly shown in: reduced inventory balance, causing the cash inflow from operating activities of RMB614 million; reduced trade and other receivables balance, causing the cash inflow from operating activities of RMB2.041 billion; trade and other payables balance was added, causing the cash inflow from operating activities of RMB465 million; the balance of contract work-in-progress was added, and thus resulted in the cash outflow generated from operating activities of RMB940 million.

After adjusting non-cash items, receivables and payables for the profit before taxation, and deducting the income tax paid amounting to RMB584 million, increasing received interests amounting to RMB136 million and the net cash generated from operating activities was RMB4.241 billion.

Net cash used in investing activities was RMB3.801 billion, mainly due to the fact that RMB2.415 billion in cash was used for the Group to handle fixed deposit investment of third-party financial institutions, and RMB1.4 billion in cash was used for lending money to the ultimate holding company.

Net cash used in financing activities was RMB179 million, mainly due to the fact that RMB431 million in cash was gained from fellow affiliated subsidiaries lendings and RMB595 million in cash was used for 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	
	2017	2016 (restated)
Net profit margin (%)	3.1	4.2
Return on assets (%) (1)	1.9	2.8
Return on equity (%) (2)	4.4	6.6
Return on invested capital (%) (3)	4.6	6.8

Main financial ratios	As at 31 December 2017	As at 31 December 2016 (restated)
Gearing ratio (%) (4)	1.7	0.0
Net debt to equity ratio (%) (5)	net cash	net cash
Current ratio (%) (6)	1.7	1.7
Quick ratio (%) (7)	1.7	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 = $\dfrac{\text{Earnings before interest and tax (EBIT) for the year x (1 - effective income tax rate)}}{\text{Total interest bearing debt at the end of the year - Credit loans + Total equity at the end of the year}}$

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

(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

During the Reporting Period, the Group's return on assets decreased to 1.9% from 2.8% in the same period of the previous year, mainly due to the decrease in net profit during the Reporting Period and the increase in average total assets at the end of the Reporting Period.

Return on equity

The Group's return on equity decreased to 4.4% from 6.6% for the same period in 2016, mainly due to the decrease in net profit during the Reporting Period and the increase in equity at the end of the year.

Return on invested capital

The Group's return on invested capital decreased to 4.6% from 6.8% for the same period in 2016, mainly due to the decrease in net profit during the Reporting Period and the increase in equity and interest-payment due amounts at the end of the year.

Gearing ratio

The Group's gearing ratio is 1.7%, attributable to the Group's fellow affiliated subsidiary lendings as at the end of the Reporting Period.

Net debt to equity ratio

The Group maintained positive net cash as at 31 December 2016 and as at 31 December 2017.

Current ratio

The Group's current ratio was 1.7, remaining stable on a period-on-period basis.

Quick ratio

The Group's quick ratio was 1.7, remaining broadly stable on a period-on-period basis.

SIGNIFICANT EVENTS

1 H Shares appreciation rights scheme

For the details of H Shares appreciation rights scheme of the Company, please refer to the announcement entitled "The Proposed Initial Terms of H Share Appreciation Rights Scheme" published by the Company on 21 August 2017, the circular of the second extraordinary general meeting of the Company for the year 2017 published on 3 November 2017, the "Announcement in Relation to the Approval of the Proposed Initial Terms of H-Share Appreciation Rights Scheme by State-owned Assets Supervision and Administration Commission of the State Council ("SASAC")" published on 12 December 2017, and the "Announcement of Resolutions Passed at the Second Extraordinary General Meeting for the Year 2017" and the announcement entitled "Grant of H Share Appreciation Rights" published on 20 December 2017.

On 20 December 2017, the Company granted 13,143,000 units H Shares appreciation rights (representing 0.30% of the total issued shares of the Company and 0.90% of the total issued H shares of the Company as at the date of the announcement) to 89 incentive recipients, accounting for approximately 0.5% of the total number of contracted employees as at the date of the announcement, including the Directors (other than the independent non-executive Directors), the Company's senior management members (including presidents, vice presidents and chief financial officer) and the core management, technical and highly skilled personnel of the Company's subsidiaries. The exercise price of each H Shares appreciation right granted under the initial grant is HK$6.35.

Details of the initial grant are as follows:

Total number of Shares in issue	4,428,000,000
Total number of units of H Share Appreciation Rights granted under the Initial Grant	13,143,000
Proportion of the amount of the H Share Appreciation Rights granted under the Initial Grant to the total number of Shares in issue	0.30%

Name/Category of Recipients		Number of individual(s)	Average number of units of H Share Appreciation Rights granted per individual in this category (thousand)	Total number of units of H Share Appreciation Rights in this Category (thousand)	Proportion of units of H Share Appreciation Rights granted in this category to the total number of issued Shares (%)	Proportion to the total number of units of H Share Appreciation Rights granted under the Initial Grant (%)
LU Dong	Vice Chairman and Executive Director	1	210	210	0.005%	1.60%
XIANG Wenwu	Executive Director and President	1	210	210	0.005%	1.60%
SUN Lili	Executive Director and President of Sinopec Engineering Incorporation	1	200	200	0.005%	1.52%
WU Derong	Executive Director and President of SINOPEC Shanghai Engineering Co., Ltd	1	180	180	0.004%	1.37%
XIAO Gang	Vice President	1	180	180	0.004%	1.37%
GUAN Qingjie	Chairman of Trade Union	1	180	180	0.004%	1.37%
QI Guosheng	Vice President	1	180	180	0.004%	1.37%
JIA Yiqun	Chief Financial Officer	1	180	180	0.004%	1.37%

Name/Category of Recipients		Number of individual(s)	Average number of units of H Share Appreciation Rights granted per individual in this category (thousand)	Total number of units of H Share Appreciation Rights in this Category (thousand)	Proportion of units of H Share Appreciation Rights granted in this category to the total number of issued Shares (%)	Proportion to the total number of units of H Share Appreciation Rights granted under the Initial Grant (%)
SANG Jinghua	Vice President and Secretary to the Board	1	180	180	0.004%	1.37%
SUN Xiaobo	Vice President and President of Sinopec Lift and Transportation Company	1	180	180	0.004%	1.37%
Senior management of subsidiaries (Chief position A)		1	180	180	0.004%	1.37%
Senior management of subsidiaries (Deputy position A, Chief position B)		17	160	2,720	0.061%	20.70%
Senior management of subsidiaries (Deputy position B)		19	150	2,850	0.064%	21.68%
Senior management of subsidiaries (Chief position C)		3	140	420	0.009%	3.20%
Senior management of subsidiaries (Deputy position C)		21	120	2,520	0.057%	19.17%
Key engineering technical expert A		8	160	1,280	0.029%	9.74%
Key engineering technical expert B		7	150	1,050	0.024%	7.99%
Key engineering technical expert C		1	108	108	0.002%	0.82%
Key skills expert A		1	80	80	0.002%	0.61%
Key skills expert B		1	55	55	0.001%	0.42%
Total		89	148	13,143	0.30%	100.00%

Note (1): The percentage is calculated based on the total of 4,428,000,000 issued shares of the Company on 19 December 2017 and the initial grant of 13,143,000 units of H Share Appreciation Rights.

Notes (2): The difference between the figures in the list and the subtotal/aggregate figures is due to rounding.

During the Reporting Period, other than the initial grant under the H Share Appreciation Rights Scheme, there is no other case involving adjustments to the taking effect of, the amount of and the exercise price of the H Share appreciation rights under the H Share Appreciation Rights Scheme.

2 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 RMB15.287 billion. In particular, the expenses amounted to RMB1.597 billion and the revenue amounted to RMB13.690 billion.

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 RMB1.582 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 RMB13.164 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 RMB1 million, which was within the annual cap. The maximum daily balance of deposits and interest income was RMB5.631 billion, which was within the annual cap. The maximum daily balance of entrustment loans was RMB15.500 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 RMB35 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 RMB6 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 RMB5 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 42 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 Twelfth 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.

Acquisition of 100% Equity Interests in Sinopec Energy-Saving Technology Service Co., Ltd.

For the details of the Company's acquisition of 100% equity interests in Sinopec Energy-Saving Technology Service Co., Ltd., please refer to the announcement entitled "Connected Transaction – Proposed Acquisition of 100% Equity Interests in Sinopec Energy-Saving Technology Service Co., Ltd." published by the Company on 18 August 2017 and the announcement entitled "Completion of Connected Transaction in Relation to Proposed Acquisition of 100% Equity Interests in Sinopec Energy-Saving Technology Service Co., Ltd." published on 29 September 2017.

As passed by the Tenth Meeting of the Second Session of the Board held by the Company on 18 August 2017, the Company acquired 100% equity interests in Sinopec Energy-Saving Technology Service Co., Ltd. ("Sinopec Energy-Saving Company") held by Sinopec Consulting Co., Ltd. ("Consulting Company") through equity transfer (the "Acquisition"). On 18 August 2017, the Company entered into with Consulting Company the equity transfer agreement in relation to the transfer of 100% of the equity interests in Sinopec Energy-Saving Company (the "Equity Transfer Agreement"). After acquisition of Sinopec Energy-Saving Company by the Company, Sinopec Energy-Saving Company has become the special operating company for the Company to expand the energy-saving engineering market and develop and strengthen its energy-saving engineering business, and will become the major vehicle of the Company to implement its contract energy management business and its platform for integrating internal energy-saving engineering and technical resources and consolidating external technical resources. By making full use of internal synergy, Sinopec Energy-Saving Company provides clients with high-quality services and one-stop comprehensive solutions. According to the Equity Transfer Agreement, Consulting Company transfers to the Company 100% equity interests in Sinopec Energy-Saving Company, the consideration is RMB90 million (the "Consideration"), and the Consideration will be settled in cash by the Company by way of two installments, each as to 51% and 49% of the Consideration.

Consulting Company is a wholly-owned subsidiary of Sinopec Group, which is the controlling shareholder of the Company. Since Sinopec Group directly and/or indirectly holds 67.01% of the equity interests of the Company, Consulting Company is a connected person of the Company under the Hong Kong Listing Rules. Acquisition of 100% equity interests in Energy-Saving Company by the Company constitutes connected transactions under Chapter 14A of the Hong Kong Listing Rules. As the Acqusition is entered into on normal commercial terms where each of the applicable "percentage ratios" (as defined under the Hong Kong Listing Rules) in respect of the Acquisition is less than 5% (but the total consideration exceeds HK$3 million), the Acquisition is subject to the reporting, announcement and annual review requirements under Chapter 14A of the Hong Kong Listing Rules, but is exempted from independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

As all the conditions precedent set out in the Equity Transfer Agreement had been fulfilled, the completion of the Acquisition took place on 30 September 2017. Following the completion, the Company holds 100% equity interests in Sinopec Energy-Saving Company. Accordingly, Sinopec Energy-Saving Company becomes a wholly-owned subsidiary of the Company, and the financial results of Sinopec Energy-Saving Company are consolidated into the consolidated financial statements of the Group.

3 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.

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

4 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.

5 Repurchase, Sale and Redemption of Shares

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

6 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.

7 Use of IPO Proceeds

During the Reporting Period, the Group's total amount of proceeds used was RMB91 million, mainly for the research and development center for engineering technology, construction of information system and equity acquisition. As at the end of the Reporting Period, the Group's total amount of proceeds used was RMB3.254 billion, and as at the end of the Reporting Period, the remaining net balance of proceeds was approximately HKD9.384 billion.

8 Assets Transactions

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

9 Insolvency and Restructuring

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

10 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.

11 Significant Acquisitions and Disposal

During the Reporting Period, except for the acquisition of Sinopec Energy-Saving Company disclosed in "SIGNIFICANT EVENTS - 2. Connected Transactions - Acquisition of 100% Equity Interests in Sinopec Energy-Saving Technology Service Co., Ltd." of this annual report, the Group had no other substantial acquisition or disposal.

12 Financial Derivatives for Hedging Purposes

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

13 Pledged Assets

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

14 Debt

The Group had USD66 million (about RMB431 million) loan to a fellow subsidiary as at the end of the Reporting Period.

15 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 22 years of experience in auditing, internal control and consultancy.

16 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's Optimisation of Internal Resources and Organisational Reform of the Company

During the Reporting Period, the Group built Soil Treatment Center of SINOPEC SEG and Equipment Technique Center of SINOPEC SEG. During the Reporting Period, the Group successfully acquired 100% equity interests in Sinopec Energy-Saving Company held by Sinopec Consulting Company.

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; it has conducted more than one domestic and oversea investigations & surveys, deeply learning internal control, internal auditing, risk management, environmental protection and social responsibility, information disclosure, and oversea project implementation of the Company; 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 2017 to 31 December 2017, 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 undertakings. 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 (2017 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 defense 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 annually the updated internal control manual. 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 general internal control deficiencies were discovered within the Company during the Reporting Period. The failure to effectively implement control measures in certain areas discovered during the inspections is not considered a deficiency according to the standard of the Company 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 rectified or rectification measures were adopted. The 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 Iranian Abadan Refinery Product Upgrading Project Phase II (the "Project"). The Group will pursue approximately RMB6.858 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

The implementation details of the H Shares appreciation rights scheme of the Group are carried in the section "SIGNIFICANT EVENTS - 1. H Shares appreciation rights scheme" from page 68 to page 69 of this annual report.

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

(1) Compliance with Corporate Governance Code

From the listing date of the Company to 31 December 2017, 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 2017, 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 listened to the opinions 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 has purchased liability insurance for all the Directors to minimise any risk which may arise from the performance of their duties.

A.2 Chairman of the Board and President

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 4 executive Directors (including 2 employee representative Directors), 2 non-executive Directors and 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 2017. 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 term of office (excluding the first tenure) of any independent non-executive director may not be renewed for more than 6 years. If an independent non-executive director has already served nine years, his further appointment shall be subject to a separate resolution to be approved at the shareholders' general meeting.

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 requirements 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 Chairman of the Board 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 2017 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. In the First Meeting of the Remuneration Committee of the Second Session of the Board held on 5 January 2017, the Remuneration Committee reviewed and approved "H Shares appreciation rights scheme (draft)" etc.

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 statements for the year 2017 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 statements 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 measures have been modified and improved to take risk prevention counter-measures 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 counter-measures 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 onsite inspection and evaluation; identifying the defects in internal control; re-checking 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 semi-annual 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 reports and interim reports 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 Supervisory Committee 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 during the Reporting Period either in writing or through meeting in person and discussed the auditing of financial reports and the auditing fee for the year and coordinated 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 the Special Committees of the Board have clear terms of reference. The Articles of Association, the Rules of Procedures for the General Meetings of Shareholders, the Rules and Procedures 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 of the committee. 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 Special Committee of the Board 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.

d. During the Reporting Period, the following two aspects of revisions were made by the Company to Articles of Association. In order to further improve corporate governance, adapt to the business needs to the Company, and do adjustment according to the actual conditions of the Company, revision was made to previous Article 1, Article 93, and Article 94 of Articles of Association; in accordance with related guidance documents of State-owned Assets Supervision and Administration Commission and the actual conditions of the Company, the general requirements of party building work were written into Articles of Association, Article 8 being added to the first chapter "General Principles" of Articles of Association and Article 103 being added to the tenth chapter "Board of Directors". For details, please refer to in the Articles of Association of Sinopec Engineering (Group) Co., Ltd. (H-Share) published on 20 December 2017.

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" section on the website of the Company.

(2) Auditors

In the 2016 annual general meeting of the Company held on 16 May 2017, the Company approved the 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 2017 and authorised the Board to determine their remuneration. As approved at the Eighth Meeting of the Second Session of the Board, the audit fee for 2017 is RMB4.7 million. The financial statements of 2017 was audited by Grant Thornton Hong Kong Limited.

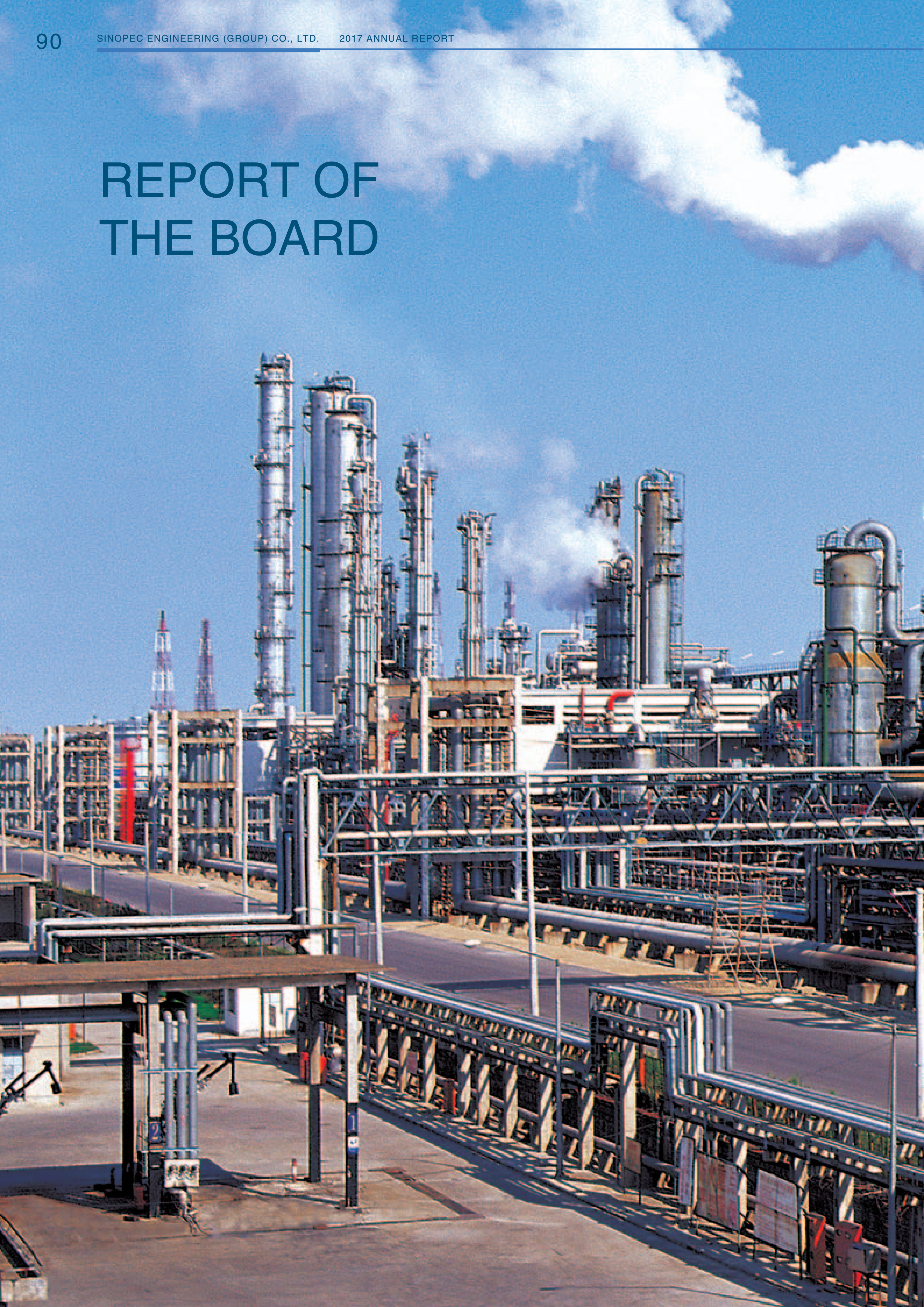
During the Reporting Period, Grant Thornton China (Special General Partnership) and Grant Thornton Hong Kong Limited did not provide significant non-audit services to the Company.

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 2017, the Company will put forward an ordinary resolution in the annual general meeting for the year 2017 to re-appoint the domestic auditor and international auditor of the Company and fix their remuneration for the year 2018.

(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 14 to page 15; for information regarding meetings of the Board, please refer to page 92; for information regarding the equity interests of Directors, Supervisors and other Senior Management, please refer to page 79; for information regarding the resume and annual remuneration of Directors, Supervisors and other Senior Management Members, please refer to page 112 to page 121.

REPORT OF THE BOARD



The Board is pleased to present the report for the year ended 31 December 2017 for shareholders review.

1 Meetings of the Board

During the Reporting Period, the Company held five (5) Board meetings. The details are as follows:

The Sixth Meeting of the Second Session of the Board was held in Beijing, the PRC on 5 January 2017, whereby the resolutions of the "Proposed Appointment of Mr. LING Yiqun as the Director Candidate of the Company", "Proposed Appointment of Mr. XIANG Wenwu as the Director candidate of the Company", "Appointment of Mr. XIANG Wenwu as President of the Company" and "Proposal to hold the First Extraordinary General Meeting of the Company for the Year 2017" were considered and approved.

The Seventh Meeting of the Second Session of the Board was held in Beijing, the PRC on 21 February 2017, whereby the resolutions of the "Election of the Chairman of the Board of the Company", "Appointment of Members of the Special Committees of the Board of the Company" and "Appointment of the Authorised Representative of the Company" were considered and approved.

The Eighth Meeting of the Second Session of the Board was held in Beijing, the PRC on 17 March 2017, whereby the following resolutions were considered and approved: report of the Board for the year 2016, report on the fulfillment of major targets for the year 2016 and the key work arrangements for the year 2017, report on the operating results, financial conditions and other relevant matters for the year 2016, audited financial statements for the year 2016, 2016 annual report and results announcement, report on environment, social and governance for the year 2016, business operation plan, investment plan and financial budget for the year 2017, cap for the amount of performance guarantee(s) to be provided by the Company (as the parent company) for the year 2017, re-appointment of domestic auditor and international auditor and the authorisation to the Board to fix their remuneration for the year 2017, final dividend distribution plan for the year 2016 and the authorisation to the Board to determine the interim profit distribution plan for the year 2017 to be put forward for approval at the Company's annual general meeting for the year 2016, grant of a mandate to the Board to repurchase domestic shares and/or H shares of the Company to be put forward for approval at the annual general meeting and the class meeting for shareholders, grant of a general mandate to the Board to issue domestic shares and/or H shares of the Company to be put forward for approval at the annual general meeting, authorisation to the President of the Company to sign relevant contracts and documents with external parties and approval to convene the annual general meeting and the class meetings.

The Ninth Meeting of the Second Session of the Board was held in the form of a written meeting in Beijing, the PRC on 19 June 2017, the resolutions of the "Approval of H Share Appreciation Rights Scheme", "Amendments of Articles of Association", "Amendments of the Rules and Procedures for the Meetings of the Board", and "Approval to Convene the Second Extraordinary General Meeting for the Year 2017" were considered and approved.

The Tenth Meeting of the Second Session of the Board was held in Beijing, the PRC on 18 August 2017, the resolutions of the "report on the fulfillment of the key targets for the first half of 2017 and the report on the work arrangements for the second half of 2017", "report on the operating results, financial conditions and other relevant matters for the first half of 2017", "audited 2017 interim financial report", "2017 interim report and results announcement" and "2017 interim dividend distribution plan", "acquisition of 100% equity interests in Sinopec Energy-Saving Technology Service Co., Ltd." and "Internal Control Manuals of SINOPEC SEG (Edition 2017)" 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)	Attendance at 2016 annual shareholders meeting and the 2017 extraordinary shareholders meeting	Training
	Physical Meeting	Written Resolutions			
LING Yiqun	2	1	1	1	yes
LU Dong	4	1	0	3	yes
XIANG Wenwu	3	1	0	2	yes
LI Guoqing	4	1	0	2	yes
SUN Lili	3	1	1	3	yes
WU Derong	2	1	2	1	yes
HUI Chiu Chung, Stephen	4	1	0	3	yes
JIN Yong	3	1	1	3	yes
YE Zheng	4	1	0	2	yes

Notes: On 21 February 2017, Mr. LING Yiqun and Mr. XIANG Wenwu were approved and appointed 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.

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, 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 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.

The third meeting of the Audit Committee of the Second Session of the Board was held in Beijing, the PRC on 16 March 2017, whereby they reviewed annual financial report for year 2016, annual report for the year 2016, appointment of auditors, execution of continuing connected transactions in 2016, non-competition situation for the year 2016, work report of internal audit for the year 2016, work report of risk management and internal control for the year 2016 and other issues, and provided review opinions.

The fourth meeting of the Audit Committee of the Second Session of the Board was held in Beijing, the PRC on 17 August 2017, whereby they reviewed the audited 2017 interim financial statements, the 2017 interim report, the work report of risk management and internal control in the first half of 2017, the execution of continuing connected transactions in the first half of 2017 and other issues, and provided review opinions.

5 Performance

The financial results of the Group for the year ended 31 December 2017 were prepared in accordance with the IFRS and its financial position as at that date and the accompanying analysis are set out from page 129 to page 211 of this annual report.

6 Dividends

At the annual general meeting for the year 2016 convened on 6 May 2017, an ordinary resolution was passed to approve the authorisation to the Board to determine the interim profit distribution plan for the year 2017. The dividend distribution plan of RMB0.056 per share (inclusive of applicable tax) for the six months ended 30 June 2017 was approved at the Tenth Meeting of the Second Session of the Board convened on 18 August 2017. The dividend distribution plan was implemented.

The final dividend distribution plan for the year ended 31 December 2017 was approved at the Twelfth 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 2018 (the “Record Date”) and the final cash dividend distribution shall be based on RMB0.144 per Share (inclusive of applicable tax). That distribution plan will be implemented after being reviewed and approved at the annual general meeting on 8 May 2018 to be held by the Company. The final dividend for the year 2017 will be paid on or before Friday, 13 July, 2018 to all shareholders of the Company whose names appear on the register of members of the Company at the close of business on Tuesday, 29 May 2018. 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 Wednesday, 23 May 2018 for registration. For the purpose of ascertaining Shareholders who qualify for the dividend, the register of members for H Shares will be closed from Thursday, 24 May 2018 to Tuesday, 29 May 2018 (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 week 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, 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 (hereinafter referred to as 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. 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 (including enterprises and individuals) investing in the H Shares (the "Southbound Trading") of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange, 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 26.5% of the total purchases of the Group, of which the purchases from the largest supplier accounted for 13.0% of the total purchases of the Group. The total sum of purchase made by the Group from the top-five suppliers accounts for less than 30% of the purchase total sum of the Group mainly because: the project general contracting business and construction business of the Group is in need to equipment, material, and consumables that are in great quantity and are in rich kinds, including dynamic & static equipment, electrical instrument, pipe, valve, steel parts, and welded material.

The total sales to the top-five clients of the Group accounted for 52.3% of the total sales of the Group of which sales to the largest client accounted for 21.0% 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 Board - 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's fellow affiliated subsidiary lendings amounted to USD66 million (about RMB431 million).

9 Fixed Assets

During the Reporting Period, changes to the fixed assets of the Group are set out in note 17 to the financial statements prepared in accordance with the IFRS in this annual report.

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 RMB0.473 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 equipment, 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 hits 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 2018. 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 the future, if there are unfavorable conditions such as a serious imbalance in international crude oil supply and demand, and a large number of new energy alternatives to traditional energy sources, then the construction, transformation and expansion of oil refining and petrochemical engineering projects will be restricted in the world. 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, EU euros and Saudi Riyals. 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 the Group's 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 associated with pursuit of petroleum and natural gas projects in sanctioned countries when the sanction is partially lifted

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”, the “Work Safety Law of the People’s Republic of China”, the “Provisions on the Administration of Qualifications of Construction Enterprises”, the “Regulation on the Administration of Exploration and Design of Construction Projects”, the “Provisions on the Administration of Qualifications for Assessment of Environmental Impact of Construction Projects” have been amended recently and their amendments have taken effect and also been put into force as at the date hereof. 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 this Company.

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 established 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

16 March 2018

REPORT OF THE SUPERVISORY COMMITTEE

Mr. ZHU Fei

Chairman of the Supervisory Committee

Dear Shareholders,

The Supervisory Committee of the Company 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 three meetings, in which the 2016 annual report, the 2017 interim report, financial reports, production and operation plans, investment plans and financial budgets, dividend distribution plan were reviewed.

The fourth meeting of the Second Session of the Supervisory Committee was held on 17 March 2017. The 2016 annual report, the 2016 financial report, the business operation plan, investment plan and financial budget for the year 2017, the dividend distribution plan for the year 2016, and the report of the Supervisory Committee for the year 2016 were considered and approved at the meeting.

The fifth meeting of the Second Session of the Supervisory Committee was held on 16 May 2017, the meeting agreed that Ms. DENG Qunwei, the previous chairman of Supervisory Committee, resigns from her post of supervisor due to work adjustment, and I was elected as chairman of Supervisory Committee.

The sixth meeting of the Second Session of the Supervisory Committee was held on 18 August 2017. The 2017 interim financial report, the 2017 interim report, the 2017 interim dividend distribution plan and the proposed acquisition of 100% equity interests in Sinopec Energy-Saving Technology Service Co., Ltd. were considered and approved at the meeting.

The Supervisory Committee, through its supervision over the Group's major decision-making and operation conditions, is of the opinion that: in 2017, under the "energy and petrochemical-oriented, innovation-driven, globalisation-targeted and value-focused" development strategies, and in the adverse circumstances that the domestic and foreign markets were feeble and production and operation met quite a lot of difficulties, the Group has effectively improved quality efficiency by calmly responding to the pressure and challenges, working hard to explore the market, technical innovation is actively promoted, enterprise specialisation reorganisation is deepened, ERP management is fully put online, and streamlined management is strengthened, tapping potentials and increasing efficiency 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 and Directors diligently fulfilled their obligations and exercised their 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 laws, regulations or the Articles of the Association 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 2017 annual report prepared by the Company is in compliance with relevant regulations of domestic and overseas securities regulators, and truly and fairly represents the Group'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 Group, put greater efforts in inspection and supervision and protect the interests of the Company and its shareholders.

ZHU Fei

Chairman of the Supervisory Committee

Beijing, the PRC

16 March 2018

DIRECTORS, SUPERVISORS, OTHER SENIOR MANAGEMENT MEMBERS AND EMPLOYEES

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 55, is the Chairman of the Board of SINOPEC SEG, Vice President of Sinopec Group and the senior vice president of Sinopec. 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 to February 2018; 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; the Chairman of the Board of SINOPEC SEG since February 2017; the Vice President of Sinopec Group since March 2017; he has been the senior vice president of Sinopec Corp. since February 2018..

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

Mr. LU Dong (陸東), aged 54, 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 51, 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; 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 60, 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 56, is an employee representative Director of SINOPEC SEG, and an executive 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 57, is an employee representative Director of SINOPEC SEG and also an executive 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 70, 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)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 82, 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 53, 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 22 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

Name	Gender	Age	Position in the Company	Term of Office as Director
LING Yiqun	Male	55	Chairman of the Board and Non-executive Director	February 2017 - October 2018
LU Dong	Male	54	Vice Chairman of the Board and Executive Director	October 2015 - October 2018
XIANG Wenwu	Male	51	Executive Director and President	February 2017 - October 2018
LI Guoqing	Male	60	Non-executive Director	October 2015 - October 2018
SUN Lili	Female	56	Executive Director	October 2015 - October 2018
WU Derong	Male	57	Executive Director	October 2015 - October 2018
HUI Chiu Chung, Stephen	Male	70	Independent non-executive Director	October 2015 - October 2018
JIN Yong	Male	82	Independent non-executive Director	October 2015 - October 2018
YE Zheng	Male	53	Independent non-executive Director	October 2015 - October 2018

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

Name	Gender	Age	Position in the Company	Term of office
ZHANG Jianhua	Male	53	Non-executive Director	October 2015 - February 2017
YAN Shaochun	Male	53	Executive Director	October 2015 - February 2017

(2) Supervisors

Mr. ZHU Fei (朱斐) - Chairman, Supervisory Committee

Mr. ZHU Fei (朱斐), aged 53, is the Chairman of the Supervisory Committee of SINOPEC SEG. 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. From November 2014 to April 2017, he was the vice president of Sinopec Fourth Construction Co., Ltd. He has been an employee representative Supervisor of the Company since January 2015, he has been the Chairman of the Supervisory Committee of SINOPEC SEG since May 2017.

Mr. ZHOU Yingguan (周贏冠) - Supervisor

Mr. ZHOU Yingguan (周贏冠), aged 49, is a Supervisor of SINOPEC SEG and also an executive director and president of Sinopec Fourth Construction Co., Ltd. (中石化第四建設有限公司). 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. From April 2012 to April 2017, he has been the vice president of Sinopec Group Nanjing Engineering Co., Ltd. (中国石化集团南京工程有限公司). He has been the Supervisor of SINOPEC SEG since January 2015. He has been an executive director and president of Sinopec Fourth Construction Co., Ltd. since April 2017.

Mr. WANG Guoliang (王國良) - Supervisor

Mr. WANG Guoliang (王国良), aged 57, 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 50, 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. JIANG Dejun (蔣德軍) - Employee Representative Supervisor

Mr. JIANG Dejun (蔣德軍), aged 52, 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 54, is an employee representative Supervisor of SINOPEC SEG, who is also an executive director 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 was the vice president of Sinopec Ningbo Engineering Co., Ltd. from April 2012 to November 2017. He has been an employee representative Supervisor of SINOPEC SEG since January 2015. He has been an executive director of Sinopec Ningbo Engineering Co. Ltd. since November 2017.

Profile of the Supervisors of the Second Session of the Supervisory Committee

Name	Gender	Age	Position in the Company	Term of Office as Supervisor
ZHU Fei	Male	53	Chairman, Supervisory Committee	October 2015 - October 2018
ZHOU Yingguan	Male	49	Supervisor	October 2015 - October 2018
WANG Guoliang	Male	57	Supervisor	October 2015 - October 2018
WANG Cunting	Male	50	Supervisor	October 2015 - October 2018
JIANG Dejun	Male	52	Employee Representative Supervisor	October 2015 - October 2018
XU Yijun	Male	54	Employee Representative Supervisor	October 2015 - October 2018

Relevant situation of the resigned Supervisors during the Reporting Period

Name	Gender	Age	Position in the Company	Term of office
DENG Qunwei	Female	47	Chairman, Supervisory Committee	October 2015 - May 2017

(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 59, 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 58, 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 57, 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 50, 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 50, 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 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 57, 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

Name	Gender	Age	Position in the Company	Date of Taking Office
XIANG Wenwu	Male	51	President	January 2017
XIAO Gang	Male	59	Vice President	August 2012
GUAN Qingjie	Male	58	Chairman of Trade Union	August 2012
QI Guosheng	Male	57	Vice President	November 2014
JIA Yiqun	Male	50	Chief Financial Officer	August 2012
SANG Jinghua	Male	50	Vice President Secretary to the Board Company Secretary	May 2014 August 2012 December 2012
SUN Xiaobo	Male	57	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	53	President	April 2013 - January 2017

2 Appointment and Resignation of Directors, Supervisors and Other Members of the Senior Management during the Reporting Period

Due to work adjustments, Mr. ZHANG Jianhua and Mr. YAN Shaochun have no longer served as Directors since 21 February 2017. On 21 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 elected as the Chairman of the Second Session of the Board of the Company.

Due to work adjustments, Ms. DENG Qunwei has no longer served as Supervisor and Chairman of Supervisory Committee of the Company since 16 May 2017. On 16 May 2017, it was approved at the fifth meeting of the Second Session of the Supervisory Committee of the Company that Mr. ZHU Fei (Supervisor of the Company) was appointed as Chairman of the Second Session of the Supervisory Committee of the Company.

Due to work adjustment, Mr. YAN Shaochun has no longer served as President of the Company since 5 January 2017. On 5 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.

3 Contract Benefits of Directors and Supervisors

As at 31 December 2017 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.

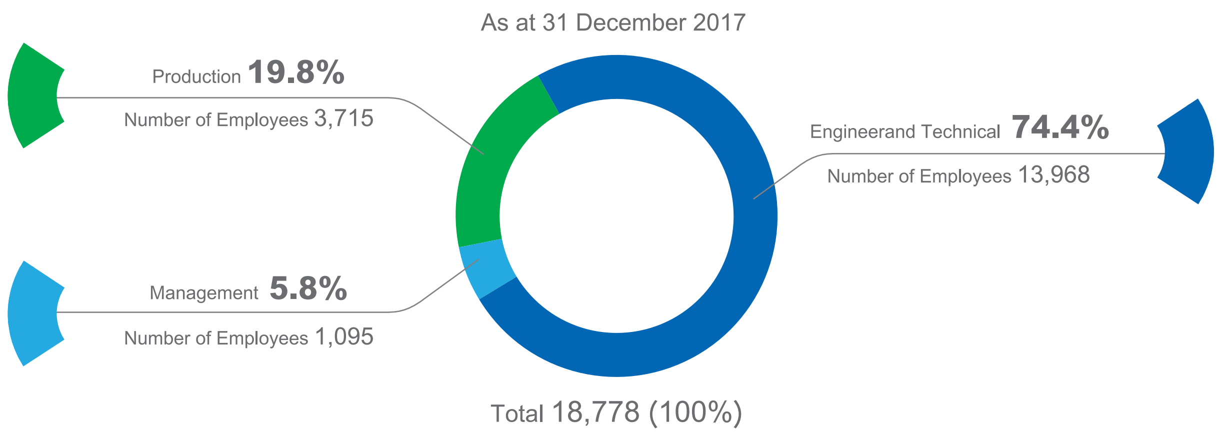
4 Remuneration of Directors, Supervisors and other Senior Management Members

During the Reporting Period, the total number of Directors, Supervisors and other Senior Management Members paid by the Company was 20, and the annual total remuneration paid was RMB 14,176 million. Please see notes 15 and 42(b) to the financial statements of this annual report for details.

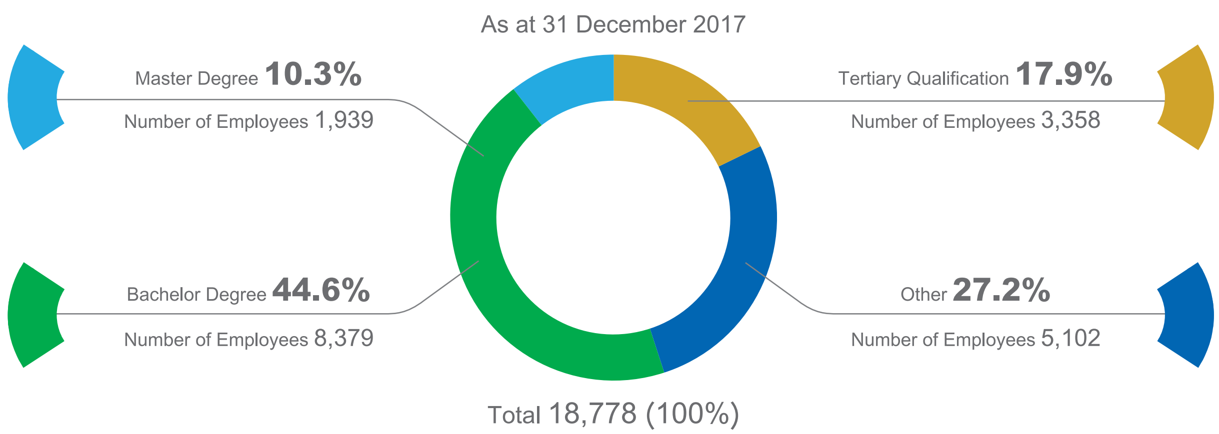
5 Employees

As at 31 December 2017, there were in total 18,778 employees working in the Group.

The following list is a categorisation of employee details in different business sectors as at 31 December 2017.



The following list is a categorisation of employee details in accordance with education level as at 31 December 2017.



6 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 2016 and 31 December 2017, the employment costs of the Group were approximately RMB5.213 billion and RMB5.373 billion, respectively. The details of H Shares appreciation rights scheme adopted by the Group are seen in the section "SIGNIFICANT EVENTS - 1H Shares appreciation rights scheme" of this annual report.

7 Employee Training Programmes

During the Reporting Period, over 10 key special trainings have been organised by the Group including "SEG Outbound Project Contract Management Training" and "SEG Systematic Internal Control Management Training Class". Throughout the year, a total of 33.9 thousand attendees attended the trainings inside and outside the Group, of which there were 4.3 thousand attendees who are operation management staff, 25.0 thousand attendees who are engineering and technical staff, and 4.5 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 129 to 211, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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 3.22 and 3.23 to the consolidated financial statements for the related accounting policies.* The Group recognised revenue of RMB36,208,723,000 for the year ended 31 December 2017, of which RMB 32,955,466,000 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 estimates 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

16 March 2018

Shaw Chi Kit

Practising Certificate No.: P04834

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
Revenue	6	36,208,723	39,402,331
Cost of sales		(32,182,551)	(35,106,916)
Gross profit		4,026,172	4,295,415
Other income	8	184,718	877,973
Selling and marketing expenses		(114,836)	(106,763)
Administrative expenses		(1,181,032)	(1,160,869)
Research and development costs		(1,002,907)	(1,113,083)
Other operating expenses		(797,788)	(849,099)
Other losses - net	9	(2,060)	(1,318)
Operating profit		1,112,267	1,942,256
Finance income	10	600,926	493,794
Finance expenses	10	(90,432)	(75,226)
Finance income - net		510,494	418,568
Share of (loss)/profit of joint arrangements	20(a)	(1,372)	463
Share of profit of associates	20(b)	13,712	15,489
Profit before taxation	11	1,635,101	2,376,776
Income tax expense	12	(504,869)	(705,717)
Profit for the year		1,130,232	1,671,059

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000 (Restated)
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		**(119,110)**	70,441
Item that will not be reclassified subsequently to profit or loss:			
Losses on revaluation of retirement benefit plans obligations		**(12,984)**	(40,948)
Other comprehensive (expense)/income for the year, net of tax		**(132,094)**	29,493
Total comprehensive income for the year		**998,138**	1,700,552
Profit attributable to:			
Equity holders of the Company		**1,129,974**	1,670,888
Non-controlling interests		**258**	171
Profit for the year		**1,130,232**	1,671,059
Total comprehensive income attributable to:			
Equity holders of the Company		**997,880**	1,700,381
Non-controlling interests		**258**	171
Total comprehensive income for the year		**998,138**	1,700,552
		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	**0.26**	0.38

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	31 December 2017	31 December 2016	1 January 2016
		RMB'000	RMB'000 (Restated)	RMB'000 (Restated)
ASSETS				
Non-current assets				
Property, plant and equipment	17	3,855,852	4,000,459	4,051,881
Land use rights	18	2,580,781	2,679,021	2,740,597
Intangible assets	19	223,440	271,594	327,104
Investment in joint arrangements	20(a)	3,221	4,593	8,131
Investment in associates	20(b)	123,788	137,876	125,187
Available-for-sale financial assets	21	2,750	2,750	2,750
Deferred income tax assets	36	750,967	775,695	721,806
Total non-current assets		7,540,799	7,871,988	7,977,456
Current assets				
Inventories	25	582,257	1,196,537	1,829,647
Notes and trade receivables	22	9,676,444	9,993,241	11,870,863
Prepayments and other receivables	23	3,970,334	5,749,323	5,818,519
Amounts due from customers for contract work	24	6,053,340	5,839,435	6,660,306
Loans due from the ultimate holding company	26	15,500,000	14,100,000	11,100,000
Restricted cash	27	16,087	16,188	17,932
Time deposits	28	4,405,700	2,222,055	1,762,100
Cash and cash equivalents	29	11,660,660	11,900,020	11,431,612
Total current assets		51,864,822	51,016,799	50,490,979
Total assets		59,405,621	58,888,787	58,468,435

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2017

	Notes	31 December 2017	31 December 2016	1 January 2016
		RMB'000	RMB'000 (Restated)	RMB'000 (Restated)
EQUITY				
Share capital	30	4,428,000	4,428,000	4,428,000
Reserves		21,158,839	20,833,201	20,261,960
Equity attributable to equity holders of the Company		25,586,839	25,261,201	24,689,960
Non-controlling interests		4,166	3,908	3,737
Total equity		25,591,005	25,265,109	24,693,697
LIABILITIES				
Non-current liabilities				
Retirement and other supplemental benefit obligations	32	2,536,615	2,637,484	2,696,264
Provision for litigation claims	33	262,925	261,754	239,013
Deferred income tax liabilities	36	—	—	32,064
Total non-current liabilities		2,799,540	2,899,238	2,967,341
Current liabilities				
Notes and trade payables	34	14,020,233	14,224,292	16,689,805
Other payables	35	6,860,590	5,933,158	6,916,440
Amounts due to customers for contract work	24	9,493,684	10,219,486	6,939,052
Loans due to a fellow subsidiary	37	431,257	—	—
Current income tax liabilities		209,312	347,504	262,100
Total current liabilities		31,015,076	30,724,440	30,807,397
Total liabilities		33,814,616	33,623,678	33,774,738
Total equity and liabilities		59,405,621	58,888,787	58,468,435
Net current assets		20,849,746	20,292,359	19,683,582
Total assets less current liabilities		28,390,545	28,164,347	27,661,038

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
Balance at 1 January 2016 (as previously reported)	4,428,000	10,119,313	570,410	179,068	2,581	9,335,403	24,634,775	3,737	24,638,512
Business combination under common control (Note 2)	—	50,055	887	—	—	4,243	55,185	—	55,185
Balance at 1 January 2016 (restated)	4,428,000	10,169,368	571,297	179,068	2,581	9,339,646	24,689,960	3,737	24,693,697
Profit for the year	—	—	—	—	—	1,670,888	1,670,888	171	1,671,059
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	1,629,940	1,700,381	171	1,700,552
Transactions with owners:									
Final dividends for 2015	—	—	—	—	—	(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	—	—	158,854	—	—	(158,854)	—	—	—
Total transactions with owners	—	—	158,854	(19,222)	—	(1,268,772)	(1,129,140)	—	(1,129,140)
Balance at 31 December 2016 (Restated)	4,428,000	10,169,368	730,151	159,846	73,022	9,700,814	25,261,201	3,908	25,265,109

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
Balance at 1 January 2017 (as previously reported)	4,428,000	10,119,313	729,018	159,846	73,022	9,688,809	25,198,008	3,908	25,201,916
Business combination under common control (Note 2)	—	50,055	1,133	—	—	12,005	63,193	—	63,193
Balance at 1 January 2017 (restated)	4,428,000	10,169,368	730,151	159,846	73,022	9,700,814	25,261,201	3,908	25,265,109
Profit for the year	—	—	—	—	—	1,129,974	1,129,974	258	1,130,232
Other comprehensive income:									
Defined benefits obligation revaluation of actuarial gain and loss - gross	—	—	—	—	—	(10,864)	(10,864)	—	(10,864)
Defined benefits obligation revaluation of actuarial gain and loss - tax	—	—	—	—	—	(2,120)	(2,120)	—	(2,120)
Exchange differences arising on translation of foreign operations	—	—	—	—	(119,110)	—	(119,110)	—	(119,110)
Total comprehensive income	—	—	—	—	(119,110)	1,116,990	997,880	258	998,138
Transactions with owners:									
Final dividends for 2016 (Note 14)	—	—	—	—	—	(345,384)	(345,384)	—	(345,384)
Interim dividends for 2017 (Note 14)	—	—	—	—	—	(247,968)	(247,968)	—	(247,968)
Acquisition of Sinopec Energy-Saving Company (Notes 2 and 43)	—	(76,999)	—	—	—	—	(76,999)	—	(76,999)
Dividends paid to a former shareholder of Sinopec Energy-Saving Company	—	—	—	—	—	(1,891)	(1,891)	—	(1,891)
Appropriation of specific reserve	—	—	—	63,780	—	(63,780)	—	—	—
Utilisation of specific reserve	—	—	—	(59,233)	—	59,233	—	—	—
Transfer to statutory surplus reserve	—	—	142,843	—	—	(142,843)	—	—	—
Total transactions with owners	—	(76,999)	142,843	4,547	—	(742,633)	(672,242)	—	(672,242)
Balance at 31 December 2017	4,428,000	10,092,369	872,994	164,393	(46,088)	10,075,171	25,586,839	4,166	25,591,005

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
Cash flows from operating activities			
Cash generated from operations	40	4,689,116	5,298,257
Income tax paid		(584,192)	(753,572)
Interest received		135,584	126,087
Net cash generated from operating activities		4,240,508	4,670,772
Cash flows from investing activities			
Purchase of property, plant and equipment		(456,737)	(558,956)
Purchase of intangible assets		(30,163)	(25,400)
Purchase of land use rights		—	(177)
Acquisition of a subsidiary		(45,900)	—
Interest income on the loans to the ultimate holding company		502,325	418,915
Proceeds from disposal of property, plant and equipment		33,251	3,002
Proceeds from deregistration of a joint arrangement		—	4,001
Dividends received from joint arrangements		10,600	2,050
Net increase in time deposits		(2,414,633)	(343,150)
Loans to the ultimate holding company		(15,500,000)	(16,100,000)
Repayments of loans due from the ultimate holding company		14,100,000	13,100,000
Net cash used in investing activities		(3,801,257)	(3,499,715)
Cash flows from financing activities			
Borrowings from fellow subsidiaries		835,625	384,661
Repayments of borrowings from fellow subsidiaries		(404,368)	(384,661)
Interest paid		(15,076)	(1,512)
Dividends paid		(595,243)	(1,129,140)
Net cash used in financing activities		(179,062)	(1,130,652)
Net increase in cash and cash equivalents		260,189	40,405
Cash and cash equivalents at beginning of year		11,900,020	11,431,612
Exchange (losses)/gains on cash and cash equivalents		(499,549)	428,003
Cash and cash equivalents at end of year	29	11,660,660	11,900,020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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.

The consolidated financial statements for the year ended 31 December 2017 have been approved for issue by the Board of Directors on 16 March 2018.

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.

On 18 August 2017, the Group entered into an equity transfer agreement with a fellow subsidiary of the Group, China Petrochemical Consulting Company Limited (previously named as Sinopec Consulting Co., Ltd.), (the "Agreement"). Pursuant to the Agreement, the Group agreed to purchase, and China Petrochemical Consulting Company Limited agreed to sell, the entire equity interest in Sinopec Energy-Saving Technology Service Co., Ltd. ("Sinopec Energy-Saving Company") for a cash consideration of RMB90,000,000, of which RMB45,900,000 has been paid in 2017 and the remaining consideration of RMB44,100,000 is included in the amounts due to fellow subsidiaries as at 31 December 2017 and it has been settled in January 2018. The acquisition was completed on 30 September 2017, and Sinopec Energy-Saving Company, which its principal activities are energy-saving technical service, contractual energy management and engineering research, has become a wholly owned subsidiary of the Group since then. As Sinopec Energy-Saving Company and the Group are ultimately controlled by Sinopec Group, the acquisition of Sinopec Energy-Saving Company was regarded as business combination under common control. The consolidated financial statements of the Group have been prepared using the merger basis of accounting as if the current group structure had been in existence throughout the periods presented. The comparative information in these consolidated financial statements has been restated accordingly under merger accounting. The details of the business combination under common control is disclosed in note 43 to the consolidated financial statements.

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 2017:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements Project	Annual Improvements 2012-2014 Cycle

Other than as noted below, the adoption of the new and amended IFRS had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

The amendments to IAS 7 require an entity to provide disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. A reconciliation between the opening and closing balances of liabilities arising from financing activities is set out in note 44.

The amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount or expected manner of recovery of the asset. The amendments also provide guidance on how an entity should determine future taxable profits to support the recognition of a deferred tax asset arising from a deductible temporary difference. The Group has applied these amendments retrospectively. The application of these amendments had no impact on the Group's consolidated financial statements as the Group has no deductible temporary difference.

3. Summary of Significant Accounting Policies (Continued)

3.1 New and revised IFRS (Continued)

The new and revised accounting standards issued but not yet effective for the accounting period ended 31 December 2017 which are relevant to the Group but the Group has not early adopted are set out below:

Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
IFRS 9	Financial Instruments[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
IFRS 15	Revenue from Contracts with Customers[1]
Amendments to IFRS 15	Classifications to IFRS 15 Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[3]
Amendments to IAS 40	Transfers of Investment Property[1]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle[2]

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

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

[3] Accounting periods beginning on or after 1 January 2021

[4] Effective date not yet been determined

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 Financial Instruments

IFRS 9, "Financial instruments", addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Key requirements of IFRS 9 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, 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 Financial Instruments (Continued)

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 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 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 introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle based approach, IFRS 9 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.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The Group currently classifies its financial assets into loans and receivables (cash and cash equivalents, trade and other receivables and net financed sales receivable) which are measured at amortised cost, and available-for-sale financial assets which are measured at cost. The Group's debt instruments currently classified as measured at amortised cost which meet the condition for classification at amortised cost under IFRS 9. Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect material change to the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The new standard must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

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.

The directors of the Company anticipate that the application of IFRS 15 may result in more disclosures. Effective from 1 January 2018, for the year ended 31 December 2018, the Group adopted "Revenue from Contracts with Customers" (IFRS 15), and the Group has assessed its performance obligations under its arrangements pursuant to IFRS 15 and has concluded that there are no significant differences between the performance obligations required to be units of account under IFRS 15 and the deliverables considered to be units of account under IAS 18.

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)

3.1 New and revised IFRS (Continued)

IFRS 16 Leases (Continued)

As disclosed in note 39(b), the Group as lessee has non-cancellable operating lease commitments of RMB123,062,000 as at 31 December 2017. IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the statement of financial position. Instead, all non-current leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus, each lease will be mapped in the Group's consolidated statements of financial position. Short term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in property, plant and equipment and an increase in financial liabilities in the consolidated statement of financial position. Leases will be recognised in the future as capital expenditure on the purchasing side and will no longer be recorded as an operating expense in the consolidated statement of comprehensive income.

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.

Merger accounting for common control combinations

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 combinations 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.

Acquisition method of accounting for non-common control combinations

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.

3. Summary of Significant Accounting Policies (Continued)

3.2 Consolidation (Continued)

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.

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. Summary of Significant Accounting Policies (Continued)

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".

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. Summary of Significant Accounting Policies (Continued)

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 (losses)/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.

3.7 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. Summary of Significant Accounting Policies (Continued)

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.

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.

3. Summary of Significant Accounting Policies (Continued)

3.9 Financial assets (Continued)

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.

3.13 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 Share-based payment transactions

Cash-settled share-based payment transactions

The Group operates a cash-settled H share appreciation rights plan. The related cost of services received from the employees and the liability to pay for such services are measured at fair value of the liability. Fair value is established at the grant date and re-measured at each reporting date until the liability settled. The fair value of the liability at each reporting date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the cash-settled share appreciation rights that will eventually vest. At the end of each reporting period, the Group revises its estimation of the number of the cash-settled share appreciation rights expected to vest. The impact of the revision and remeasurement, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimation. After the vesting date, changes in fair value of the liability is recognised in profit or loss until the liability is settled.

3. Summary of Significant Accounting Policies (Continued)

3.15 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.

3.16 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.

3.17 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.

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.

3. Summary of Significant Accounting Policies (Continued)

3.17 Employee benefits (Continued)

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.

3.18 Taxation

Current and deferred income tax

The tax expense for the year comprises current and deferred income tax. Income tax is recognised in profit or loss, 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.

Value-added taxation ("VAT") and business tax

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.

Revenue resulting from providing construction services was subject to business tax at 3% of gross service income before 1 May 2016. Taxable revenue from construction services is subject to VAT at the rate of 11% after offsetting deductible input VAT of the period from 1 May 2016.

3. Summary of Significant Accounting Policies (Continued)

3.19 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.

3.20 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.

3.21 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.

3.22 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.

3. Summary of Significant Accounting Policies (Continued)

3.22 Contract work (Continued)

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.

3.23 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.

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.

3. Summary of Significant Accounting Policies (Continued)

3.23 Revenue recognition (Continued)

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.

3.24 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.

3.25 Dividend distribution

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

3.26 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)

3.27 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.

3.28 Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group, or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) the party is an entity and if any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (o of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provided key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

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 2017 and 2016.

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 2017	USD	EUR	Others
	RMB'000	RMB'000	RMB'000
Restricted cash, time deposits and cash and cash equivalents	10,285,747	238,388	1,191,711
Trade and other receivables	384,025	3,916	1,058,216
Trade and other payables	(243,700)	(39,396)	(1,460,549)
Net exposure in RMB	10,426,072	202,908	789,378

At 31 December 2016	USD	EUR	Others
	RMB'000 (Restated)	RMB'000 (Restated)	RMB'000 (Restated)
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)	(1,114,487)
Net exposure in RMB	9,479,746	133,897	288,006

4. Financial and Capital Risks Management (Continued)

4.1 Financial risk management (Continued)

(a) Market risk (Continued)

Foreign exchange risk (Continued)

A 5% strengthening of RMB against the USD and EUR as at 31 December 2017 and 2016 would have changed the equity and net profit by the amounts shown below:

	2017	2016
	RMB'000	RMB'000 (Restated)
Decrease in equity and net profit		
– USD	**(390,978)**	(355,490)
– EUR	**(7,609)**	(5,021)

A 5% weakening of RMB as at 31 December 2017 and 2016 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.

	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 2017							
Trade and other liabilities	N/A	15,022,903	—	—	—	15,022,903	15,022,903
Loans due to a fellow subsidiary	2.75%	443,109	—	—	—	443,109	431,257
Borrowings and other liabilities		15,466,012	—	—	—	15,466,012	15,454,160

	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 (Restated)	RMB'000 (Restated)	RMB'000 (Restated)	RMB'000 (Restated)	RMB'000 (Restated)	RMB'000 (Restated)
At 31 December 2016							
Trade and other liabilities	N/A	15,011,204	—	—	—	15,011,204	15,011,204
Loans due to a fellow subsidiary	N/A	—	—	—	—	–	–
Borrowings and other liabilities		15,011,204	—	—	—	15,011,204	15,011,204

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.

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.

	2017	2016
	RMB'000	RMB'000 (Restated)
Total borrowings and other liabilities	15,454,160	15,011,204
Less: Restricted cash, time deposits and cash and cash equivalents	(16,082,447)	(14,138,263)
Net debt	(628,287)	872,941
Total equity (excluding non-controlling interests)	25,586,839	25,261,201
Total capital	24,958,552	26,134,142
Gearing ratio	N/A	3.3%

4. Financial and Capital Risks Management (Continued)

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 2017 and 2016.

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. As at 31 December 2017, amounts due from customers for contract work and amounts due to customers for contract work (Note 24) are RMB6,053,340,000 and RMB9,493,684,000 respectively (2016: RMB5,839,435,000 and RMB10,219,486,000 respectively).

(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. As at 31 December 2017, the carrying amount of property, plant and equipment is RMB3,855,852,000 (2016 restated: RMB4,000,459,000).

5. Critical Accounting Estimates and Judgement (Continued)

(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. As at 31 December 2017, the provision for impairment on trade receivables is RMB1,171,218,000 (2016: RMB882,625,000).

(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. As at 31 December 2017, deferred tax assets recognised in the consolidated statement of financial position is RMB750,967,000 (2016: RMB775,695,000).

(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. As at 31 December 2017, the net liabilities of retirement benefit plan obligations (Note 32) is RMB2,536,615,000 (2016: RMB2,637,484,000).

(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. As at 31 December 2017, provision for litigation claims is RMB262,925,000 (2016: RMB261,754,000).

6. Revenue

The Group's revenue is set out below:

	2017 RMB'000	2016 RMB'000 (Restated)
Engineering, consulting and licensing	2,843,657	2,638,411
EPC Contracting	21,056,256	20,641,233
Construction	11,899,210	15,964,129
Equipment manufacturing	409,600	158,558
	36,208,723	39,402,331

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.

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.

7. Segment Information (Continued)

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

(i) As at and for the year ended 31 December 2017:

The segment results for the year ended 31 December 2017 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	2,843,657	21,056,256	11,899,210	409,600	—	—	36,208,723
Inter-segment revenue	—	—	2,702,189	124,057	—	(2,826,246)	—
Segment revenue	2,843,657	21,056,256	14,601,399	533,657	—	(2,826,246)	36,208,723
Segment result	139,576	1,228,491	(291,206)	14,693	20,713	—	1,112,267
Finance income							600,926
Finance expenses							(90,432)
Share of loss of joint arrangements	(1,372)	—	—	—	—	—	(1,372)
Share of profit of associates	3,826	7,489	2,397	—	—	—	13,712
Profit before taxation							1,635,101
Income tax expense							(504,869)
Profit for the year							1,130,232
Other segment items							
Depreciation	92,867	80,360	420,384	13,199	—	—	606,810
Amortisation	69,292	43,402	25,193	1,794	—	—	139,681
Capital expenditures							
– Property, plant and equipment	65,657	61,603	327,552	1,925	—	—	456,737
– Intangible assets	4,083	21,627	4,453	—	—	—	30,163
Provision/(Reversal of provision) for impairment on trade and other receivables, net	(696)	11,672	86,188	(1,161)	—	—	96,003

7. Segment Information (Continued)

(i) As at and for the year ended 31 December 2017: (Continued)

The segment assets and liabilities as at 31 December 2017 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	6,311,409	22,191,356	15,217,033	943,927	(3,960,017)	40,703,708
Investment in joint arrangements	3,221	—	—	—	—	3,221
Investment in associates	108,490	—	15,298	—	—	123,788
Other unallocated assets						18,574,904
Total assets						59,405,621
Liabilities						
Segment liabilities	3,726,552	18,495,889	15,027,305	524,887	(3,960,017)	33,814,616
Other unallocated liabilities						—
Total liabilities						33,814,616

7. Segment Information (Continued)

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

The segment results for the year ended 31 December 2016 are restated 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	2,638,411	20,641,233	15,964,129	158,558	—	—	39,402,331
Inter-segment revenue	—	—	2,867,093	281,327	—	(3,148,420)	—
Segment revenue	2,638,411	20,641,233	18,831,222	439,885	—	(3,148,420)	39,402,331
Segment result	233,463	1,737,248	(96,287)	(3,955)	71,787	—	1,942,256
Finance income							493,794
Finance expenses							(75,226)
Share of profit of joint arrangements	463	—	—	—	—	—	463
Share of profit of associates	4,537	8,365	2,587	—	—	—	15,489
Profit before taxation							2,376,776
Income tax expense							(705,717)
Profit for the year							1,671,059
Other segment items							
Depreciation	113,656	67,047	397,833	18,523	—	—	597,059
Amortisation	16,747	104,922	19,154	1,793	—	—	142,616
Capital expenditures							
– Property, plant and equipment	86,538	38,712	433,706	—	—	—	558,956
– 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, net	66,023	413,424	114,556	(5,399)	—	—	588,604

7. Segment Information (Continued)

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

The segment assets and liabilities as at 31 December 2016 are restated 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	5,403,815	20,695,219	18,171,156	722,417	(2,858,449)	42,134,158
Investment in joint arrangements	4,593	—	—	—	—	4,593
Investment in associates	109,376	—	28,500	—	—	137,876
Other unallocated assets						16,612,160
Total assets						58,888,787
Liabilities						
Segment liabilities	3,143,937	19,049,049	13,867,051	422,090	(2,858,449)	33,623,678
Other unallocated liabilities						—
Total liabilities						33,623,678

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

	2017 RMB'000	2016 RMB'000 (Restated)
The PRC	21,946,224	24,919,114
Malaysia	4,412,290	3,539,602
Kuwait	4,031,916	809,298
Saudi Arabia	3,048,730	5,124,509
Other countries	2,769,563	5,009,808
	36,208,723	39,402,331

The customers accounted for more than 10% of the total revenue of the Group and revenue from them for the years ended 31 December 2017 and 2016, the details are as follows:

	2017 RMB'000	2016 RMB'000
A fellow subsidiary and its subsidiaries	7,606,166	9,148,024

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 2017.

Specified non-current assets

	2017 RMB'000	2016 RMB'000 (Restated)
The PRC	6,246,415	6,543,002
Other countries	540,667	550,541
	6,787,082	7,093,543

8. Other Income

	2017 RMB'000	2016 RMB'000 (Restated)
Operating lease rental income on property, plant and equipment	55,198	45,614
Income from write-back long outstanding payables	24,309	2,543
Government grants	80,906	154,597
Net foreign exchange gain	—	622,925
Others	24,305	52,294
	184,718	877,973

9. Other Losses - Net

	2017 RMB'000	2016 RMB'000
Losses on disposal/write-off of property, plant and equipment	(2,060)	(1,271)
Losses on disposal of land use rights	—	(47)
	(2,060)	(1,318)

10. Finance Income and Finance Expenses

	2017 RMB'000	2016 RMB'000
Finance income		
Interest income from the ultimate holding company	440,929	363,659
Interest income from fellow subsidiaries	44,426	33,032
Bank interest income	115,571	97,103
	600,926	493,794
Finance expenses		
Interest expenses to fellow subsidiaries on balances wholly repayable within 5 years	(15,076)	(1,512)
Interest expenses on retirement and other supplementary benefit obligation	(75,356)	(73,714)
	(90,432)	(75,226)
	510,494	418,568

11. Profit Before Taxation

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

	2017 RMB'000	2016 RMB'000 (Restated)
Staff costs, including directors and supervisors emoluments (Note 16)	5,373,250	5,213,062
Retirement benefit plan contribution (including in the above mentioned staff costs)	703,367	717,056
Cost of goods sold	10,339,154	10,015,819
Subcontracting costs	12,281,668	14,221,814
Depreciation and amortisation		
– Property, plant and equipment	606,810	597,059
– Land use rights	61,364	61,706
– Intangible assets	78,317	80,910
Operating lease rentals		
– Property, plant and equipment	303,358	360,460
Provision for impairment on trade and other receivables, net	96,003	588,604
Rental income from property, plant and equipment after relevant expenses	(37,533)	(29,126)
Research and development costs	1,002,907	1,113,083
Losses on write-off/disposal of property, plant and equipment	2,060	1,271
Losses on disposal of land use rights	—	47
Auditor's remuneration		
– Audit service	4,700	4,700
Exchange losses/(gains), net	666,150	(622,925)
Cash-settled share-based payment	753	—

12. Income Tax Expense

	2017 RMB'000	2016 RMB'000 (Restated)
Current tax		
PRC enterprise income tax	344,656	662,894
Overseas enterprise income tax	113,373	62,076
Under-provision for income tax in prior years	24,232	58,405
	482,261	783,375
Deferred tax		
Origination and reversal of temporary differences (Note 36)	22,608	(77,658)
Income tax expense	504,869	705,717

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 2017 and 2016 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 2017 and 2016, 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.

12. Income Tax Expense (Continued)

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:

	2017	2016
	RMB'000	RMB'000 (Restated)
Profit before taxation	1,635,101	2,376,776
Taxation calculated at the statutory tax rate	408,775	594,194
Income tax effects of:		
Preferential income tax treatments of certain companies	(118,051)	(169,633)
Difference in overseas profits tax rates	(12,294)	(8,032)
Non-deductible expenses	218,797	242,719
Income not subject to tax	(25,517)	(31,586)
Unrecognised tax losses	13,327	19,650
Utilisation of previously unrecognised tax losses	(4,400)	—
Under provision for income tax in prior years	24,232	58,405
Income tax expense	504,869	705,717
Effective income tax rate	30.9%	29.7%

13. Earnings Per Share

(a) Basic

The basic earnings per share for each of the years ended 31 December 2017 and 2016 is calculated based on the profit attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue.

	2017	2016
		(Restated)
Profit attributable to equity holders of the Company (RMB'000)	1,129,974	1,670,888
Weighted average number of ordinary shares in issue	4,428,000,000	4,428,000,000
Basic earnings per share (RMB)	0.26	0.38

(b) Diluted

As the Company had no dilutive shares for the each of the years ended 31 December 2017 and 2016, dilutive earnings per share for the years ended 31 December 2017 and 2016 are the same as basic earnings per share.

14. Dividends

Dividends represented dividends declared by the Company during each of years ended 31 December 2017 and 2016.

	2017	2016
	RMB'000	RMB'000
Interim dividends of RMB0.056 per ordinary share (2016: RMB0.072) (1)	247,968	318,816
Proposed final dividends of RMB0.144 per ordinary share (2016: RMB0.078) (2)	637,632	345,384

(1) Pursuant to a resolution passed at the board of Directors' meeting on 28 August 2017, the Directors authorised to declare the interim dividends for the year ended 31 December 2017 of RMB0.056 (2016: RMB0.072) per share totalling RMB247,968,000 (2016: RMB318,816,000). Interim dividends have been paid in October 2017.

(2) Pursuant to the board of Directors' meeting on 16 March 2018, the Directors recommended to declare the final dividends for the year ended 31 December 2017 of RMB0.144 per share totalling RMB637,632,000 (2016: RMB345,384,000). 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 2017

	Fee	Basic salaries, other allowances and benefits-in-kind	Discretionary bonus	Contributions to pension plans	Cash-settled share-based payment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
LU Dong	—	259	445	73	12	789
XIANG Wenwu	—	257	416	73	12	758
SUN Lili (1)	—	218	429	68	11	726
WU Derong (1)	—	193	379	68	10	650
YAN Shaochun (3)	—	—	—	—	—	—
	—	927	1,669	282	45	2,923
Non-executive directors						
LING Yiqun	—	—	—	—	—	—
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)	—	186	337	58	—	581
WANG Guoliang (1)	—	251	424	120	—	795
ZHU Fei (1)	—	214	314	73	—	601
JIANG Dejun (1)	—	184	237	87	—	508
XU Yijun (1)	—	185	383	47	—	615
DENG Qunwei (4)	—	96	295	28	—	419
WANG Cunting (1)	—	171	119	58	—	348
	—	1,287	2,109	471	—	3,867
	540	2,214	3,778	753	45	7,330

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 2016

	Fee	Basic salaries, other allowances and benefits-in-kind	Discretionary bonus	Contributions to pension plans	Cash-settled share-based payment	Total
	RMB'000	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 (3)	—	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 (4)	—	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):

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.

(3) Resigned on 21 February 2017.

(4) Resigned on 16 May 2017.

For the year ended 31 December 2017, Mr. XIANG Wenwu was also the president of the Company and his emoluments disclosed above including his service as the president.

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

(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 2017 and 2016 are set forth below:

	2017	2016
Director or supervisor	—	—
Non-director or supervisor	5	5
	5	5

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

	2017	2016
	RMB'000	RMB'000
Basic salaries, other allowances and benefits-in-kind	976	903
Discretionary bonuses	2,999	2,947
Contributions to pensions plans	319	327
Cash-settled share-based payment	18	—
	4,312	4,177

The emoluments of the five (2016: five) highest paid individuals who are non-director or supervisor are within the following bands:

	2017	2016
HK$1,000,001 to HK$1,500,000	4	1
Nil to HK$1,000,000	1	4
	5	5

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 (2016: nil).

16. Employment Benefits

	2017	2016
	RMB'000	RMB'000 (Restated)
Salaries, wages and bonuses	3,511,280	3,194,588
Retirement benefits (1)	584,470	604,679
Early retirement and supplemental pension benefit (Note32(b))		
– service cost	43,541	38,663
– interest cost	75,356	73,714
Immediate recognition of actuarial losses	6,076	7,913
Housing fund (2)	289,785	280,570
Welfare, medical and other expenses	861,989	1,012,935
Cash-settled shared-based payment	753	—
	5,373,250	5,213,062

Notes:

(1) **Retirement benefits**

The Group is required to make specific contributions to the state-managed retirement plan at a rate of 19% to 25% (2016: 19% to 22%) of the specified salaries of the PRC employees for the year ended 31 December 2017. 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 2016 (Restated)				
Cost	3,512,213	3,942,247	95,967	7,550,427
Accumulated depreciation and impairment	(1,108,803)	(2,389,743)	—	(3,498,546)
Net book amount	2,403,410	1,552,504	95,967	4,051,881
Year ended 31 December 2016 (Restated)				
Opening net book amount	2,403,410	1,552,504	95,967	4,051,881
Transfers	4,801	290,271	(295,072)	—
Additions	1,036	158,055	399,865	558,956
Depreciation	(131,285)	(465,774)	—	(597,059)
Disposals/write-off	(7,196)	(6,123)	—	(13,319)
Closing net book amount	2,270,766	1,528,933	200,760	4,000,459
At 31 December 2016 and 1 January 2017 (Restated)				
Cost	3,508,048	4,260,836	200,760	7,969,644
Accumulated depreciation and impairment	(1,237,282)	(2,731,903)	—	(3,969,185)
Net book amount	2,270,766	1,528,933	200,760	4,000,459
Year ended 31 December 2017				
Opening net book amount	2,270,766	1,528,933	200,760	4,000,459
Transfers	35,717	253,367	(289,084)	—
Transfers from land use rights	36,876	—	—	36,876
Additions	14,932	163,435	278,370	456,737
Depreciation	(131,903)	(474,907)	—	(606,810)
Disposals/write-off	(20,504)	(10,906)	—	(31,410)
Closing net book amount	2,205,884	1,459,922	190,046	3,855,852
At 31 December 2017				
Cost	3,570,953	4,494,076	190,046	8,255,075
Accumulated depreciation and impairment	(1,365,069)	(3,034,154)	—	(4,399,223)
Net book amount	2,205,884	1,459,922	190,046	3,855,852

Depreciation expense recognised is analysed as follows:

	2017	2016
	RMB'000	RMB'000 (Restated)
Cost of sales	568,756	556,012
Selling and marketing expenses	1,977	2,035
Administrative expenses	36,077	39,012
	606,810	597,059

18. Land Use Rights

	2017	2016
	RMB'000	RMB'000
Beginning of the year	2,679,021	2,740,597
Additions	—	177
Amortisation	(61,364)	(61,706)
Disposal	—	(47)
Transfers	(36,876)	—
End of the year	2,580,781	2,679,021

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:

	2017	2016
	RMB'000	RMB'000
Cost of sales	36,951	35,759
Selling and marketing expenses	3	410
Administrative expenses	24,410	25,537
	61,364	61,706

19. Intangible Assets

	Patent	Computer software	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2016			
Cost	479,882	296,227	776,109
Accumulated amortisation	(219,721)	(229,284)	(449,005)
Net book amount	260,161	66,943	327,104
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 and 1 January 2017			
Cost	479,882	321,627	801,509
Accumulated amortisation	(272,701)	(257,214)	(529,915)
Net book amount	207,181	64,413	271,594
Year ended 31 December 2017			
Opening net book amount	207,181	64,413	271,594
Additions	—	30,163	30,163
Amortisation	(52,980)	(25,337)	(78,317)
Closing net book amount	154,201	69,239	223,440
At 31 December 2017			
Cost	479,882	351,790	831,672
Accumulated amortisation	(325,681)	(282,551)	(608,232)
Net book amount	154,201	69,239	223,440

Amortisation recognised is analysed as follows:

	2017	2016
	RMB'000	RMB'000
Cost of sales	**72,506**	77,147
Selling and marketing expenses	**3**	187
Administrative expenses	**5,808**	3,576
	78,317	80,910

20. Investment in Joint Arrangements, Associates and Subsidiaries

(a) Investment in joint arrangements

	2017	2016
	RMB'000	RMB'000
Joint ventures		
Beginning of the year	4,593	8,131
Disposal [(1)]	—	(4,001)
Share of total comprehensive (expense)/income	(1,372)	463
End of the year	3,221	4,593

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

Name	Establishment/ Place of incorporation	Registered and fully paid capital		Indirect effective interest held	Principal activities and place of operations
		RMB'000	USD'000		
Hualu Construction Co., Ltd. [(1)] (華魯工程有限公司)	The PRC	—	— (2016: -)	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 (2016: 3,000)	—	50%	Technical development, sales of equipment/ 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 (2016: 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:

	2017	2016
	RMB'000	RMB'000
Current assets	64,057	93,280
Non-current assets	2,597	2,909
Total assets	66,654	96,189
Current liabilities	(60,211)	(87,002)
Total liabilities	(60,211)	(87,002)
Equity	6,443	9,187
Share of equity by the Group (50%) (2016: 50%)	3,221	4,593

	2017	2016
	RMB'000	RMB'000
Revenue	41,565	64,834
(Loss)/profit and total comprehensive (expense)/income for the year	(2,744)	336
Share of total comprehensive (expense)/income (50%) (2016:50%)	(1,372)	168
Gains on disposal of investment in a joint venture	—	295
	(1,372)	463

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

	2017	2016
	RMB'000	RMB'000
Beginning of the year	137,876	125,187
Share of total comprehensive income	13,712	15,489
Dividend distribution	(27,800)	(2,800)
End of the year	123,788	137,876

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 Technology Co., Ltd. (中國石油化工科技開發有限公司) (1)	The PRC	50,000 (2016: 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 (2016: 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 (2016: 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:

	2017	2016
	RMB'000	RMB'000
Current assets	603,891	573,050
Non-current assets	30,379	19,797
Total assets	634,270	592,847
Current liabilities	(360,774)	(328,501)
Non-current liabilities	(16)	(21)
Total liabilities	(360,790)	(328,522)
Equity attributable to equity holders	256,424	254,564
Non-controlling interests	17,056	9,761
	273,480	264,325
Share of equity by the Group (35%) (2016: 35%)	89,748	89,097

	2017	2016
	RMB'000	RMB'000
Revenue	201,462	286,249
Profit and total comprehensive income for the year attributable to equity holders	21,860	25,911
Profit and total comprehensive income for the year attributable to non-controlling interest holders	3,581	3,258
Share of total comprehensive income (35%) (2016: 35%)	7,651	9,069

For the year ended 31 December 2017, China Petrochemical Technology Co., Ltd. declared dividends of RMB7,000,000 (2016: Nil).

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:

	2017 RMB'000	2016 RMB'000
Current assets	87,719	74,349
Non-current assets	42,135	43,552
Total assets	129,854	117,901
Current liabilities	(78,862)	(22,901)
Total liabilities	(78,862)	(22,901)
Equity	50,992	95,000
Share of equity by the Group (40%) (2016: 40%)	20,397	38,000

	2017 RMB'000	2016 RMB'000
Revenue	105,266	85,016
Profit and total comprehensive income for the year	7,992	8,622
Share of total comprehensive income (40%) (2016: 40%)	3,197	3,449

For the year ended 31 December 2017, Huizhou Tianxin Petrochemical Engineering Co., Ltd declared dividends of RMB 20,800,000 (2016: RMB 2,800,000).

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

(b) Investment in associates (Continued)

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

	2017 RMB'000	2016 RMB'000
Current assets	149,042	115,878
Non-current assets	715	799
Total assets	149,757	116,677
Current liabilities	(112,231)	(87,029)
Non-current liabilities	(4)	(3)
Total liabilities	(112,235)	(87,032)
Equity	37,522	29,645
Share of equity by the Group (36.36%) (2016: 36.36%)	13,643	10,779

	2017 RMB'000	2016 RMB'000
Revenue	50,115	123,700
Profit and total comprehensive income for the year	7,877	8,171
Share of total comprehensive income (36.36%) (2016: 36.36%)	2,864	2,971

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

	2017 RMB'000	2016 RMB'000
Beginning and end of the year	2,750	2,750

Available-for-sale financial assets include the following:

	2017 RMB'000	2016 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

	2017 RMB'000	2016 RMB'000 (Restated)
Trade receivables		
Fellow subsidiaries	2,285,142	2,166,196
Joint ventures of fellow subsidiaries	629,559	267,241
Associates of fellow subsidiaries	1,161,406	1,140,907
Joint ventures	1,280	1,280
Third parties	5,755,232	6,331,395
	9,832,619	9,907,019
Less: Provision for impairment	(1,171,218)	(882,625)
Trade receivables - net	8,661,401	9,024,394
Notes receivables	1,015,043	968,847
Notes and trade receivables - net	9,676,444	9,993,241

The carrying amounts of the Group's notes and trade receivables as at 31 December 2017 and 2016 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.

22. Notes and Trade Receivables (Continued)

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.

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

	2017	2016
	RMB'000	RMB'000 (Restated)
Within 1 year	7,592,168	7,706,962
Between 1 and 2 years	1,336,029	1,549,673
Between 2 and 3 years	520,404	597,919
Between 3 and 4 years	180,232	50,735
Between 4 and 5 years	35,881	34,555
Over 5 years	11,730	53,397
	9,676,444	9,993,241

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

	2017	2016
	RMB'000	RMB'000 (Restated)
Not yet due	4,132,486	4,006,833
Over due within 3 months	1,603,184	1,353,654
Over due 3 months but within 6 months	230,281	1,091,521
Over due 6 months but within 1 year	1,668,294	1,845,316
Over due 1 year but within 2 years	1,255,304	1,287,518
Over due over 2 years	786,895	408,399
	9,676,444	9,993,241

22. Notes and Trade Receivables (Continued)

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

	2017 RMB'000	2016 RMB'000
Beginning of the year	882,625	466,561
Provisions	514,830	594,556
Receivables written off as uncollectible	(5,810)	(968)
Reversal	(220,427)	(177,524)
End of the year	1,171,218	882,625

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

	2017 RMB'000	2016 RMB'000 (Restated)
RMB	8,287,319	8,428,126
USD	372,691	663,956
SAR	1,006,002	890,848
Others	10,432	10,311
	9,676,444	9,993,241

23. Prepayments and other Receivables

	2017 RMB'000	2016 RMB'000 (Restated)
Prepayments		
Prepayments for construction and materials:		
– Fellow subsidiaries	117,339	90,260
– Associates	2,422	2,422
– Joint ventures of fellow subsidiaries	385	—
Prepayments for construction	426,949	398,618
Prepayments for materials and equipment	1,061,757	2,647,852
Prepayments for labour costs	90,916	136,291
Prepayments for rent	766	1,811
Others	31,352	85,687
	1,731,886	3,362,941
Other receivables		
Amounts due from fellow subsidiaries (1)	119,405	108,598
Amounts due from associates (1)	—	60
Amounts due from joint ventures of fellow subsidiaries (1)	22,588	11,289
Amounts due from associates of fellow subsidiaries (1)	21,014	17,830
Dividends receivable	17,200	750
Interests receivable	46,273	21,860
Petty cash funds	22,865	31,630
Retention deposits	1,823,187	2,133,611
Other guarantee deposits and deposits	115,553	122,716
Payment in advance	156,984	104,072
Maintenance funds	79,024	78,411
Value-added tax credit	102,768	223,229
Prepaid income tax	8,089	6,351
Value-added tax to be certified	14,708	3,022
Others	110,112	142,675
	2,659,770	3,006,104
Less: Provision for impairment	(421,322)	(619,722)
Prepayments and other receivables - net	3,970,334	5,749,323

(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 2017 and 2016 approximate their fair values.

23. Prepayments and other Receivables (Continued)

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

	2017 RMB'000	2016 RMB'000
Beginning of the year	619,722	448,374
Provisions	177,772	381,140
Receivables written off as uncollectible	—	(224)
Reversal	(376,172)	(209,568)
End of the year	421,322	619,722

24. Contract Work-In-Progress

	2017 RMB'000	2016 RMB'000
Contract cost incurred plus recognised profit less recognised losses	181,125,877	174,833,495
Less: Progress billings	(184,566,221)	(179,213,546)
Contract work-in-progress	(3,440,344)	(4,380,051)
Representing:		
Amounts due from customers for contract work	6,053,340	5,839,435
Less: Provision for impairment	—	—
Net amounts due from customers for contract work	6,053,340	5,839,435
Amounts due to customers for contract work	(9,493,684)	(10,219,486)
	(3,440,344)	(4,380,051)

	2017 RMB'000	2016 RMB'000
Contract revenue recognised as revenue in the year	32,955,466	36,605,362

25. Inventories

	2017	2016
	RMB'000	RMB'000
Raw materials	352,410	987,885
Turnover materials	190,879	69,400
Goods in transit	38,968	138,700
Finished goods	—	552
	582,257	1,196,537

As at 31 December 2017 and 2016, no provision for impairment on inventories of the Group has been made.

For the years ended 31 December 2017 and 2016, the cost of inventories recognised as expense and included in cost of sales amounted to RMB10,339,154,000 and RMB10,015,819,000 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:

	2017	2016
Loans due from the ultimate holding company	3.00% - 3.60%	2.50% - 3.00%

27. Restricted Cash

	2017	2016
	RMB'000	RMB'000
Restricted cash		
– RMB	15,228	15,148
– AED	89	94
– KZT	770	946
	16,087	16,188

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

As at 31 December 2017 and 2016, 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

	2017 RMB'000	2016 RMB'000
Time deposits with initial term over three months:		
Time deposits in banks	3,063,855	1,666,175
Time deposits in fellow subsidiaries	1,341,845	555,880
	4,405,700	2,222,055

	2017 RMB'000	2016 RMB'000
Denominated in:		
– RMB	400,920	920
– USD	3,844,070	2,221,135
– MYR	160,710	—
	4,405,700	2,222,055

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 (2016: half year to three years), are approximately 1.20% to 7.50% as at 31 December 2017 (2016: 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

	2017 RMB'000	2016 RMB'000 (Restated)
Cash at bank and in hand		
– less than three months time deposits	4,395,468	4,661,630
– cash deposits	3,009,067	2,354,316
	7,404,535	7,015,946
Deposits in fellow subsidiaries		
– less than three months time deposits	320,788	589,055
– cash deposits	3,935,337	4,295,019
	4,256,125	4,884,074
	11,660,660	11,900,020

29. Cash and Cash Equivalents (Continued)

	2017	2016
	RMB'000	RMB'000 (Restated)
Denominated in:		
– RMB	3,790,742	4,329,924
– USD	6,441,677	7,022,575
– SAR	255,748	281,178
– EUR	238,388	144,223
– KZT	11,959	3,036
– THB	13,952	70,195
– MYR	484,735	9,876
– Others	423,459	39,013
	11,660,660	11,900,020

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

As at 31 December 2017 and 2016, 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 (2016: one to three months), are approximately 1.05% to 7.50% as at 31 December 2017 (2016: 0.50% to 4.60%).

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

	2017		2016	
	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

	2017	2016
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	263,014	239,993
Land use rights	57,466	59,176
Intangible assets	13,657	10,601
Investment in subsidiaries	7,322,515	7,234,106
Deferred income tax assets	39,278	22,664
Total non-current assets	7,695,930	7,566,540
Current assets		
Inventories	115,777	705,314
Trade receivables	325,306	133,309
Prepayments and other receivables	1,916,886	3,293,267
Amounts due from customers for contract work	484,945	208,283
Loans due from the ultimate holding company	15,500,000	14,100,000
Restricted cash	769	16,188
Time deposits	2,977,355	1,736,465
Cash and cash equivalents	7,635,361	9,182,857
Total current assets	28,956,399	29,375,683
Total assets	36,652,329	36,942,223

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)

	2017	2016
	RMB'000	RMB'000
EQUITY		
Share capital	4,428,000	4,428,000
Reserves	14,129,918	13,313,980
Total equity	18,557,918	17,741,980
LIABILITIES		
Non-current liabilities		
Retirement and other supplemental benefit obligations	510	582
Total non-current liabilities	510	582
Current liabilities		
Trade payables	717,470	1,049,032
Other payables	15,725,799	15,815,460
Amounts due to customers for contract work	1,131,572	2,254,395
Loans due to a fellow subsidiary	431,257	—
Current income tax liabilities	87,803	80,774
Total current liabilities	18,093,901	19,199,661
Total liabilities	18,094,411	19,200,243
Total equity and liabilities	36,652,329	36,942,223
Net current assets	10,862,498	10,176,022
Total assets less current liabilities	18,558,428	17,742,562

Approved and authorised for issue by the board of directors on 16 March 2018.

Chairman of the Board:	Director, President:	Chief Financial Officer:
LING Yiqun	**XIANG Wenwu**	**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 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	—	—	—	(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 and 1 January 2017	**4,428,000**	**11,217,175**	**729,018**	**1,367,787**	**17,741,980**
Profit for the year	**—**	**—**	**—**	**1,428,690**	**1,428,690**
Other comprehensive income:					
Defined benefits obligation revaluation of actuarial gain and loss - gross	**—**	**—**	**—**	**(13,492)**	**(13,492)**
Defined benefits obligation revaluation of actuarial gain and loss - tax	**—**	**—**	**—**	**3,373**	**3,373**
Total comprehensive income	**—**	**—**	**—**	**1,418,571**	**1,418,571**
Transactions with owners:					
2016 final dividend (Note 14)	**—**	**—**	**—**	**(345,384)**	**(345,384)**
2017 interim dividend (Note 14)	**—**	**—**	**—**	**(247,968)**	**(247,968)**
Transfer to statutory surplus reserve	**—**	**—**	**142,869**	**(142,869)**	**—**
Acquisition of Sinopec Sinopec Energy- Saving Company (Notes 2 and 43)	**—**	**(9,281)**	**—**	**—**	**(9,281)**
Total transactions with owners	**—**	**(9,281)**	**142,869**	**(736,221)**	**(602,633)**
At 31 December 2017	**4,428,000**	**11,207,894**	**871,887**	**2,050,137**	**18,557,918**

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:

	2017	2016
	RMB'000	RMB'000
Distributable profits	2,050,137	1,367,787

(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 shareholding 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.

For the year ended 31 December 2017, the movement is from the acquisition of Sinopec Energy-Saving Company as described in Note 2.

(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

For the year ended 31 December 2017, 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 25% (2016: 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 2017 and 2016 are as follows:

	2017	2016
	RMB'000	RMB'000
Contributions to state-managed retirement plan	584,470	603,990

(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 2017 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):

	2017	2016
Retirement with honors benefit plan	3.75%	2.75%
Retirement benefit plan	4.00%	3.00%
Early retirement benefit plan	3.75%	2.75%

(ii) Benefit growth rates (per annum):

	2017	2016
Retirement with honors benefit plan	2.60%	2.70%
Retirement benefit plan	2.40%	2.70%
Early retirement benefit plan	1.70%	2.00%

32. Retirement and Other Supplemental Benefit Obligations (Continued)

(b) Group employee retirement benefit plans (Continued)

(iii) Duration:

	2017	2016
Retirement with honors benefit plan	8.0 years	6.0 years
Retirement benefit plan	16.0 years	14.0 years
Early retirement benefit plan	4.0 years	4.0 years

The below sensitivity analysis details how the Group's retirement benefit plan obligation as at the reporting date would have increased/(decreased) as a result of 0.25% reasonably possible increase or decrease assessed by management in each of the significant actuarial assumptions:

	As at 31 December 2017 Increase/(decrease) in retirement benefit plan obligation		As at 31 December 2016 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	(55,608)	58,713	(58,467)	60,903
Benefit growth rates	57,933	(56,595)	60,937	(58,778)

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 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
For the year ended 31 December 2017				
Service cost:				
Past service cost	—	—	**43,541**	**43,541**
Net interest expenses	**1,998**	**69,187**	**4,171**	**75,356**
Immediate recognition of actuarial losses	—	—	**6,076**	**6,076**
Benefit cost recognised in profit or loss	**1,998**	**69,187**	**53,788**	**124,973**
Revaluation of net benefit obligation liabilities				
Actuarial revaluation of economic assumptions change	**(4,029)**	**(319,079)**	—	**(323,108)**
Actuarial revaluation of demographic assumptions change	**8,895**	**313,618**	—	**322,513**
Actuarial revaluation of other assumptions change	**7,434**	**4,025**	—	**11,459**
Benefit cost recognised in other comprehensive income	**12,300**	**(1,436)**	—	**10,864**
Total benefit cost recognised in the consolidated statement of comprehensive income	**14,298**	**67,751**	**53,788**	**135,837**

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:

	2017	2016
	RMB'000	RMB'000
Net liabilities of retirement benefit plan obligation	2,536,615	2,637,484

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 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 and 1 January 2017	78,666	2,385,419	173,399	2,637,484
Past service cost	—	—	43,541	43,541
Net interest expenses	1,998	69,187	4,171	75,356
Immediate recognition of actuarial losses	—	—	6,076	6,076
Revaluation gain/(loss):				
Actuarial revaluation of economic assumptions change	(4,029)	(319,079)	—	(323,108)
Actuarial revaluation of demographic assumptions change	8,895	313,618	—	322,513
Actuarial revaluation of other assumptions change	7,434	4,025	—	11,459
Direct benefit paid by the Group	(16,523)	(166,668)	(53,515)	(236,706)
At 31 December 2017	76,441	2,286,502	173,672	2,536,615

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

	2017 RMB'000	2016 RMB'000
Beginning of the year	261,754	239,013
Exchange difference	3,053	23,473
Payment	(1,882)	(732)
End of the year	262,925	261,754

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.

For the year ended 31 December 2016, fhe 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 2017 and 2016, no additional provision for litigation claims is provided.

34. Notes and Trade Payables

	2017 RMB'000	2016 RMB'000 (Restated)
Trade payables		
Fellow subsidiaries	224,681	156,176
Associates of fellow subsidiaries	93	14
Joint ventures of fellow subsidiaries	264	223
Associates	3,540	84
Third parties	13,241,160	13,400,075
	13,469,738	13,556,572
Notes payables	550,495	667,720
Notes and trade payables	14,020,233	14,224,292

The carrying amounts of the Group's notes and trade payables as at 31 December 2017 and 2016 approximate their fair values.

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

	2017 RMB'000	2016 RMB'000 (Restated)
Within 1 year	8,475,498	8,889,532
Between 1 and 2 years	2,718,020	2,973,243
Between 2 and 3 years	1,470,005	1,254,546
Over 3 years	1,356,710	1,106,971
	14,020,233	14,224,292

34. Notes and Trade Payables (Continued)

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

	2017 RMB'000	2016 RMB'000 (Restated)
RMB	12,412,865	12,788,128
USD	185,463	334,564
EUR	13,265	11,535
KZT	24,279	27,952
SAR	1,226,420	1,030,293
Others	157,941	31,820
	14,020,233	14,224,292

35. Other Payables

	2017 RMB'000	2016 RMB'000 (Restated)
Contract deposits advance:		
Fellow subsidiaries	570,790	535,497
Joint ventures of fellow subsidiaries	866,676	757,733
Associates of fellow subsidiaries	60,957	1,205,365
Third parties	4,153,492	2,532,121
Salaries payables	142,820	67,303
Other taxation payables	192,120	106,169
Output value-added tax to be recognised	13,885	9,361
Deposits and guarantee deposits payables	133,968	106,116
Advanced payables	262,211	348,427
Rent, property management and maintenance payables	74,141	67,392
Contracts payables	12,955	16,280
Amounts due to fellow subsidiaries (1)	77,476	24,158
Amounts due to joint ventures (1)	71	71
Amounts due to joint ventures of fellow subsidiaries (1)	282	282
Amounts due to associates of fellow subsidiaries (1)	111	—
Others	298,635	156,883
Total other payables	6,860,590	5,933,158

(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 2017 and 2016 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:

	2017	2016
	RMB'000	RMB'000
Deferred income tax assets	750,967	775,695
Deferred income tax liabilities	—	—
Deferred income tax assets, net	750,967	775,695

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

	2017	2016
	RMB'000	RMB'000
Beginning of the year	775,695	689,742
Credited to equity for defined benefit obligations revaluation of actuarial gain or loss	(2,120)	8,295
Tax credited to profit for the year (Note 12)	(22,608)	77,658
End of the year	750,967	775,695

The movement in deferred income tax (liabilities)/assets during the years ended 31 December 2017 and 2016, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Tax losses	Provision for retirement and other supplemental benefit obligation	Provision for impairment on assets	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 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 and 1 January 2017	—	472,914	262,365	40,416	775,695
Credited/(Charged) to:					
Profit for the year	36,497	(43,958)	(6,566)	(8,581)	(22,608)
Equity	—	(2,120)	—	—	(2,120)
At 31 December 2017	36,497	426,836	255,799	31,835	750,967

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 2016	32,064
Credited to:	
Profit for the year	(32,064)
At 31 December 2016	—
At 1 January 2017 and 31 December 2017	—

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:

	2017	2016
	RMB'000	RMB'000
Tax losses for which no deferred income tax asset was recognised	538,350	474,421

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. Loans Due to A Fellow Subsidiary

Loans due to a fellow subsidiary are unsecured, repayable within one year and interest bearings as follows:

	As at 31 December 2017	As at 31 December 2016
Loans due to a fellow subsidiary	2.73%-3.63%	N/A

The fellow subsidiary is Sinopec Century Bright Capital Investment Limited.

38. Cash-Settled Share-Based Payment

Pursuant to the announcement in relation to the approval of the proposed initial terms of H share appreciation rights scheme by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC (the "SASAC") on 12 December 2017 and the resolution passed at the second extraordinary general meeting for the year 2017 dated 20 December 2017, the proposed adoption of the H share appreciation rights scheme and the proposed initial grant have been approved at the second extraordinary general meeting.

38. Cash-Settled Share-Based Payment (Continued)

According to the Company's H Share appreciation rights scheme, the Company granted 13,143,000 units of cash settled H share appreciation rights to a total of 89 incentive recipients on 20 December 2017. The H Share appreciation rights are valid for 10 years from the date of grant. Subject to a lock-up period of two years following the date of grant, H share appreciation rights should be exercised from the second anniversary of the date of grant in 3 years on equal proportion, subject to the following conditions:

Conditions based on the Group's performance:

Effective Phases	Performance Evaluation Targets
First Effective Phase	• the ROE of the financial year immediately before the year of the effective date shall not be lower than 10.0% and shall not be lower than 75 percentile of such growth rate of revenue of benchmark companies; • the growth rate of revenue of the financial year immediately before the effective date as compared with that of the financial year immediately before the grant shall not be lower than 14.2% and shall not be lower than 75 percentile of such growth rate of revenue of benchmark companies; • the EVA of the financial year immediately before the year of the effective date shall not be less than RMB2.099 billion.
Second Effective Phase	• the ROE of the financial year immediately before the year of the effective date shall not be lower than 10.0% and shall not be lower than 75 percentile of such growth rate of revenue of benchmark companies; • the growth rate of revenue of the financial year immediately before the effective date as compared with that of the financial year immediately before the grant shall not be lower than 21.6% and shall not be lower than 75 percentile of such growth rate of revenue of benchmark companies; • the EVA of the financial year immediately before the effective date shall not be less than RMB2.233 billion.
Third Effective Phase	• the ROE of the financial year immediately before the year of the effective date shall not be lower than 10.0% and shall not be lower than 75 percentile of such growth rate of revenue of benchmark companies; • the growth rate of revenue of the financial year immediately before the effective date as compared with that of the financial year immediately before the grant shall not be lower than 29.3% and shall not be lower than 75 percentile of such growth rate of revenue of benchmark companies; • the EVA of the financial year immediately before the effective date shall not be less than RMB2.373 billion.

If the aforementioned conditions based on the Group's performance are satisfied, the H share appreciation rights granted to the incentive recipients shall become effective as determined based on the following:

- If the incentive recipient's performance evaluation rating for the previous year is "A", then 100% of the share appreciation rights in the relevant phase shall become effective;
- If the incentive recipient's performance evaluation rating for the previous year is "B", then 90% of the share appreciation rights in the relevant phase shall become effective;
- If the incentive recipient's performance evaluation rating for the previous year is "C", then 30% of the share appreciation rights in the relevant phase shall become effective;
- If the incentive recipient's performance evaluation rating for the previous year is"D", irrespective of whether the Company has satisfied the performance conditions or not, all the share appreciation rights in the relevant phase shall lapse; or
- If the incentive recipient does not satisfy the condition precedent set out above, then the share appreciation rights granted to such incentive recipient for the corresponding effective phase shall lapse.

38. Cash-Settled Share-Based Payment (Continued)

As at 31 December 2017, the details of the H share appreciation rights were as follows:

Date of grant	Exercise price	Vesting period	Exercisable period	Number of underlying H share appreciation rights		
				Outstanding At 1 January 2017	Grant during the year	Outstanding At 31 December 2017
	HKD					
Directors						
20 December 2017	6.35	20 December 2017 to 19 December 2027	20 December 2020 to 20 December 2023	—	80,000	80,000
Employees						
20 December 2017	6.35	20 December 2017 to 19 December 2027	20 December 2020 to 20 December 2023	—	13,063,000	13,063,000
				—	13,143,000	13,143,000

The total fair value of share options as at 31 December 2017 has been valued using Black-Scholes valuation model.

The significant inputs into the model were as follows:

Exercise price	HKD 6.35
Expected volatility	32.29%
Maturity (years)	6.5 years
Risk-free interest rate	1.655%
Expected dividend yield	0%

39. Commitments

(a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding at 31 December 2017 and 2016 not provided for in the consolidated financial statements are as follows:

	2017	2016
	RMB'000	RMB'000
Contracted but not provided for		
– Property, plant and equipment	**18,974**	21,845

39. Commitments (Continued)

(b) Operating leasing commitments

The Group leases various residential properties, office and equipment 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:

	2017 RMB'000	2016 RMB'000
Less than 1 year	44,598	50,923
1 year to 5 years	48,359	25,271
Over 5 years	30,105	32,949
Total	123,062	109,143

40. Cash Generated From Operations

	2017 RMB'000	2016 RMB'000 (Restated)
Profit before taxation	1,635,101	2,376,776
Adjustments for:		
Provision for impairment on trade and other receivables	96,003	588,604
Depreciation of property, plant and equipment	606,810	597,059
Amortisation of land use rights	61,364	61,706
Amortisation of intangible assets	78,317	80,910
Net losses on disposal/write-off of property, plant and equipment	2,060	1,271
Losses on disposal of land use rights	—	47
Interest income	(662,322)	(549,050)
Interest expense	90,432	75,226
Net foreign exchange losses/(gains)	612,009	(474,367)
Share of loss/(profit) of joint arrangements	1,372	(463)
Share of profit of associates	(13,712)	(15,489)
Cash-settled share-based payment	753	—
Cash flows from operating activities before changes in working capital	2,508,187	2,742,230
Changes in working capital:		
– Inventories	614,280	633,110
– Contract work-in-progress	(939,707)	4,101,305
– Trade and other receivables	2,040,814	1,363,012
– Trade and other payables	465,441	(3,543,144)
– Restricted cash	101	1,744
Cash generated from operations	4,689,116	5,298,257

41. 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).

42. Significant Related Party Transactions And Balances

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

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

In addition to the related party information shown elsewhere in this report, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the years ended 31 December 2017 and 2016 and balances as at 31 December 2017 and 2016.

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

42. 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:

	2017	2016
	RMB'000	RMB'000 (Restated)
Construction and services provided to		
– Ultimate holding company	3,979	2,059
– Joint ventures of fellow subsidiaries	2,823,151	559,428
– Associates of fellow subsidiaries	1,680,229	3,889,384
– Fellow subsidiaries	8,587,610	9,806,542
– Joint ventures	—	219,216
– Associates	68,980	32,693
	13,163,949	14,509,322
Construction and services received from		
– Ultimate holding company	36,737	3,561
– Joint ventures of fellow subsidiaries	902	228
– Associates of fellow subsidiaries	78	—
– Fellow subsidiaries	1,535,161	1,166,543
– Associates	9,168	1,461
	1,582,046	1,171,793
Technology research and development provided to		
– Ultimate holding company	—	9,434
– Fellow subsidiaries	35,353	49,415
	35,353	58,849
Interest income on loans		
– Ultimate holding company	440,926	336,659
Interest expense on borrowings		
– Fellow subsidiaries	15,076	1,512
Expenses in relation to settlement and other financial services		
– Fellow subsidiaries	1,027	2,437
Deposit interest income from fellow subsidiaries	44,426	33,032

	As at 31 December 2017	As at 31 December 2016
	RMB'000	RMB'000 (Restated)
Deposits and time deposits placed in fellow subsidiaries	5,597,970	5,439,954

42. 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 2017	As at 31 December 2016
	USD'000	USD'000
Guarantee received		
– Ultimate holding company	52,000	52,000

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 and loans due to a fellow subsidiary in Note 37, trade receivables, prepayments and other receivables are unsecured, interest free and repayable on demand.

(b) Key management personnel remuneration

Key management includes directors, supervisors and other key management personnel to the Board of Directors. The compensation paid or payable to key management for employee services is shown below:

	2017	2016
	RMB'000	RMB'000
Fee	540	540
Basic salaries, other allowances and benefits-in-kind	3,588	3,571
Discretionary bonus	6,052	6,906
Contributions to pension plans	1,191	1,221
Cash-settled share-based payment	78	—
	11,476	12,238

42. Significant Related Party Transactions And Balances (Continued)

(b) Key management personnel remuneration (Continued)

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

	2017	2016
	No. of individuals	No. of individuals
Nil to HK$ 1,000,000	6	7

43. Business Combination Under Common Control

As mentioned in Note 2 to the consolidated financial statements, the Group adopts merger accounting for common control combination in respect of the acquisition of Sinopec Energy-Saving Company ("the acquired company"). The effects of the application of merger accounting for business combination under common control occurred during the year ended 31 December 2017 on the Group's financial position as at 31 December 2016 and 1 January 2016 and the results for the year ended 31 December 2016 are summarised as follows:

(a) The effects of consolidated statement of comprehensive income for the year ended 31 December 2016:

	As previously reported	The acquired company	Adjustments	Restated
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	39,375,434	23,282	3,615	39,402,331
Cost of sales	(35,084,752)	(22,164)	—	(35,106,916)
Gross profit	4,290,682	1,118	3,615	4,295,415
Other income	874,696	2,000	1,277	877,973
Selling and marketing expenses	(106,763)	—	—	(106,763)
Administrative expenses	(1,160,375)	(494)	—	(1,160,869)
Research and development costs	(1,113,083)	—	—	(1,113,083)
Other operating expenses	(849,099)	—	—	(849,099)
Other losses – net	(1,318)	—	—	(1,318)
Operating profit	1,934,740	2,624	4,892	1,942,256
Finance income	493,794	—	—	493,794
Finance expenses	(75,226)	—	—	(75,226)
Finance income –net	418,568	—	—	418,568
Share of profit of joint arrangements	463	—	—	463
Share of profit of associates	15,489	—	—	15,489
Profit before taxation	2,369,260	2,624	4,892	2,376,776
Income tax expense	(706,209)	(164)	656	(705,717)
Profit for the year	1,663,051	2,460	5,548	1,671,059

43. Business Combination Under Common Control (Continued)

(a) The effects of consolidated statement of comprehensive income for the year ended 31 December 2016 (Continued):

	As previously reported	The acquired company	Adjustments	Restated
	RMB'000	RMB'000	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	—	—	70,441
Item that will not be reclassified subsequently to profit or loss:				
Losses on revaluation of retirement benefit plans obligations	(40,948)	—	—	(40,948)
Other comprehensive income for the year, net of tax	29,493	—	—	29,493
Total comprehensive income for the year	1,692,544	2,460	5,548	1,700,552
Profit attributable to:				
Equity holders of the Company	1,662,880	2,460	5,548	1,670,888
Non-controlling interests	171	—	—	171
Profit for the year	1,663,051	2,460	5,548	1,671,059
Total comprehensive income attributable to:				
Equity holders of the Company	1,692,373	2,460	5,548	1,700,381
Non-controlling interests	171	—	—	171
Total comprehensive income for the year	1,692,544	2,460	5,548	1,700,552
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)				
– Basic and diluted	0.38			0.38

43. Business Combination Under Common Control (Continued)

(b) The effects of consolidated statement of financial position at 31 December 2016:

	As previously reported	The acquired company	Adjustments	Restated
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	3,974,643	25,816	—	4,000,459
Land use rights	2,679,021	—	—	2,679,021
Intangible assets	271,594	—	—	271,594
Investment in joint arrangements	4,593	—	—	4,593
Investment in associates	137,876	—	—	137,876
Available-for-sale financial assets	2,750	—	—	2,750
Deferred income tax assets	775,695	—	—	775,695
Total non-current assets	7,846,172	25,816	—	7,871,988
Current assets				
Inventories	1,196,537	—	—	1,196,537
Notes and trade receivables	9,989,626	—	3,615	9,993,241
Prepayments and other receivables	5,746,361	2,962	—	5,749,323
Amounts due from customers for contract work	5,839,435	—	—	5,839,435
Loans due from the ultimate holding company	14,100,000	—	—	14,100,000
Restricted cash	16,188	—	—	16,188
Time deposits	2,222,055	—	—	2,222,055
Cash and cash equivalents	11,861,946	38,074	—	11,900,020
Total current assets	50,972,148	41,036	3,615	51,016,799
Total assets	58,818,320	66,852	3,615	58,888,787

43. Business Combination Under Common Control (Continued)

(b) The effects of consolidated statement of financial position at 31 December 2016 (Continued):

	As previously reported	The acquired company	Adjustments	Restated
	RMB'000	RMB'000	RMB'000	RMB'000
EQUITY				
Share capital	4,428,000	50,000	(50,000)	4,428,000
Reserves	20,770,008	7,645	55,548	20,833,201
Equity attributable to equity holders of the Company	25,198,008	57,645	5,548	25,261,201
Non-controlling interests	3,908	—	—	3,908
Total equity	25,201,916	57,645	5,548	25,265,109
LIABILITIES				
Non-current liabilities				
Retirement and other supplemental benefit obligations	2,637,484	—	—	2,637,484
Provision for litigation claims	261,754	—	—	261,754
Total non-current liabilities	2,899,238	—	—	2,899,238
Current liabilities				
Notes and trade payables	14,217,183	7,109	—	14,224,292
Other payables	5,933,648	1,443	(1,933)	5,933,158
Amounts due to customers for contract work	10,219,486	—	—	10,219,486
Current income tax liabilities	346,849	655	—	347,504
Total current liabilities	30,717,166	9,207	(1,933)	30,724,440
Total liabilities	33,616,404	9,207	(1,933)	33,623,678
Total equity and liabilities	58,818,320	66,852	3,615	58,888,787
Net current assets	20,254,982	31,829	1,682	20,292,359
Total assets less current liabilities	28,101,154	57,645	1,682	28,164,347

43. Business Combination Under Common Control (Continued)

(c) The effects of consolidated statement of financial position at 1 January 2016:

	As previously reported	The acquired company	Adjustments	Restated
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	4,013,878	38,003	—	4,051,881
Land use rights	2,740,597	—	—	2,740,597
Intangible assets	327,104	—	—	327,104
Investment in joint arrangements	8,131	—	—	8,131
Investment in associates	125,187	—	—	125,187
Available-for-sale financial assets	2,750	—	—	2,750
Deferred income tax assets	721,806	—	—	721,806
Total non-current assets	7,939,453	38,003	—	7,977,456
Current assets				
Inventories	1,829,647	—	—	1,829,647
Notes and trade receivables	11,870,863	—	—	11,870,863
Prepayments and other receivables	5,818,509	10	—	5,818,519
Amounts due from customers for contract work	6,660,306	—	—	6,660,306
Loans due from the ultimate holding company	11,100,000	—	—	11,100,000
Restricted cash	17,932	—	—	17,932
Time deposits	1,762,100	—	—	1,762,100
Cash and cash equivalents	11,405,560	26,052	—	11,431,612
Total current assets	50,464,917	26,062	—	50,490,979
Total assets	58,404,370	64,065	—	58,468,435

43. Business Combination Under Common Control (Continued)

(c) The effects of consolidated statement of financial position at 1 January 2016 (Continued):

	As previously reported	The acquired company	Adjustments	Restated
	RMB'000	RMB'000	RMB'000	RMB'000
EQUITY				
Share capital	4,428,000	50,000	(50,000)	4,428,000
Reserves	20,206,775	5,185	50,000	20,261,960
Equity attributable to equity holders of the Company	24,634,775	55,185	—	24,689,960
Non-controlling interests	3,737	—	—	3,737
Total equity	24,638,512	55,185	—	24,693,697
LIABILITIES				
Non-current liabilities				
Retirement and other supplemental benefit obligations	2,696,264	—	—	2,696,264
Provision for litigation claims	239,013	—	—	239,013
Deferred income tax liabilities	32,064	—	—	32,064
Total non-current liabilities	2,967,341	—	—	2,967,341
Current liabilities				
Notes and trade payables	16,679,058	10,747	—	16,689,805
Other payables	6,918,895	1,071	(3,526)	6,916,440
Amounts due to customers for contract work	6,939,052	—	—	6,939,052
Current income tax liabilities	261,512	(2,938)	3,526	262,100
Total current liabilities	30,798,517	8,880	—	30,807,397
Total liabilities	33,765,858	8,880	—	33,774,738
Total equity and liabilities	58,404,370	64,065	—	58,468,435
Net current assets	19,666,400	17,182	—	19,683,582
Total assets less current liabilities	27,605,853	55,185	—	27,661,038

44. Reconciliations of Liabilities Arising From Financing Activities

Reconciliations of liabilities arising from financing activities for the year ended 31 December 2017 are as follows:

	At 1 January 2017	Cash flows	Non-cash changes	At 31 December 2017
	RMB'000	RMB'000	RMB'000	RMB'000
Loans due to a fellow subsidiary	—	431,257	—	431,257
Total liabilities from financing activities	—	431,257	—	431,257

45. Particulars Of Principal Subsidiaries

As at 31 December 2017, 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 (中石化第五建設有限公司)	The PRC/Limited liability company	350,000	100%	—	Engineering contracting/The PRC
TCC (中石化第十建設有限公司)	The PRC/Limited liability company	350,000	100%	—	Engineering contracting/The PRC
Sinopec Guangzhou Engineering Co., Ltd. (中石化廣州工程有限公司)	The PRC/Limited liability company	50,000	100%	—	Engineering contracting/The PRC
Ningbo Institute (中石化寧波技術研究院有限公司)	The PRC/Limited liability company	10,000	100%	—	Technical services/The PRC
Sinopec Heavy Lifting and Transportation Co., Ltd. (中石化重型超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 Energy-Saving Technology Service Co., Ltd (中石化節能技術服務有限公司)	The PRC/Limited liability company	50,000	100%	—	Technical service, contractual energy management and engineering research/The PRC
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(MYR 360,700)	—	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 19 March 2018 (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 consolidated financial statements for the year ended 31 December 2017 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

16 March 2018

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.

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Printed on environmentally friendly paper