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中石化煉化工程（集團）股份有限公司
SINOPEC Engineering (Group) Co., Ltd.*

(a joint stock limited liability company incorporated in the People's Republic of China)

(Stock Code: 2386)

Annual Results for the Year Ended 31 December 2013

1 Important Notice

- 1.1 This announcement is a summary of the annual report of SINOPEC Engineering (Group) Co., Ltd. ("SINOPEC SEG") for the year 2013 (the "Annual Report"). The entire report is also contained in the websites of the The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (www.hkex.com.hk) and SINOPEC SEG (www.segroup.cn). The investors should read the Annual Report for more details.
- 1.2 SINOPEC SEG's directors (the "Directors"), Mr. ZHANG Kehua, Mr. LING Yiqun and Mr. JIN Yong, were engaged with official duties and could not attend the tenth meeting of the First Session of the Board of the Directors (the "Board") on 14 March 2014 (the "Meeting"). Mr. ZHANG Kehua, Mr. LING Yiqun and Mr. JIN Yong authorized Mr. CHANG Zhenyong, Mr. LEI Dianwu and Mr. HUI Chiu Chung, Stephen to attend the Meeting and vote on their behalf, respectively.
- 1.3 The financial statements for the year ended 31 December 2013 (the "Reporting Period") of SINOPEC SEG and its subsidiaries (the "Company"), prepared in accordance with the International Financial Reporting Standards ("IFRS"), have been audited by Grant Thornton Hong Kong Limited, which has issued standard unqualified opinions on the annual financial statements.

* For identification purposes only

2 Basic Information of SINOPEC SEG

2.1 SINOPEC SEG Profile

Stock Name:	SINOPEC SEG
Stock Code:	2386
Place of Listing of H Shares:	the Hong Kong Stock Exchange
Legal Representative:	Mr. CAI Xiyu
Authorized Representatives:	Mr. YAN Shaochun, Mr. SANG Jinghua
Secretary to the Board of Directors:	Mr. SANG Jinghua
Place of Business and Correspondence Address:	Tower B, No.19, Anyuan, Anhui Beili, Chaoyang District, Beijing, PRC (Postcode: 100101)
Telephone:	+86-10-6499-8114
Website:	www.segroup.cn
E-mail:	seg.ir@sinopec.com

2.2 Principal Financial Data and Indicators

Financial Data and Indicators Prepared in accordance with IFRS

Unit: RMB '000

Items	As at 31 December 2013	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010	Changes from the end of last year (%)
Non-current assets	8,166,479	8,078,778	6,992,691	4,325,583	1.1
Current assets	39,198,790	29,051,247	37,411,516	31,863,077	34.9
Current liabilities	23,620,920	26,762,416	37,890,135	23,174,891	(11.7)
Non-current liabilities	2,764,008	3,286,359	3,780,664	3,972,641	(15.9)
Total equity attributable to shareholders of SINOPEC SEG	20,976,714	7,077,985	2,730,107	9,037,900	196.4
Net assets per share attributable to shareholders of SINOPEC SEG (RMB)	4.74	2.28	0.88	2.92	107.9

Unit: RMB '000

Items	Year ended 31 December				Changes over the same period of the last year (%)
	2013	2012	2011	2010	
Revenue	43,571,851	38,526,489	30,600,677	29,897,489	13.1
Gross profit	6,406,191	5,528,106	5,074,336	4,538,699	15.9
Operating profit	4,413,485	3,832,023	3,724,592	3,338,083	15.2
Profit before taxation	4,751,041	4,252,067	4,243,958	3,678,014	11.7
Net profit attributable to shareholders of SINOPEC SEG	3,656,802	3,316,970	3,375,039	2,889,932	10.2
Basic earnings per share (RMB)	0.93	1.07	1.09	0.93	(13.1)
Net cash flow (used in)/generated from operating activities	(85,995)	1,556,489	1,688,845	4,253,262	(105.5)
Net cash flow (used in)/generated from operating activities per share (RMB)	(0.02)	0.50	0.54	1.37	(104.0)

Items	Year ended 31 December			
	2013 (%)	2012 (%)	2011 (%)	2010 (%)
Gross profit margin	14.7	14.3	16.6	15.2
Net profit margin	8.4	8.6	11.0	9.7
Return on assets	8.7	8.1	8.4	8.9

Items	As at 31 December 2013 (%)	As at 31 December 2012 (%)	As at 31 December 2011 (%)	As at 31 December 2010 (%)
	2013 (%)	2012 (%)	2011 (%)	2010 (%)
Asset-liability ratio	55.7	80.9	93.8	75.0

3 Changes in Share Capital and Shareholdings of Substantial Shareholders

3.1 Changes in the Share Capital of SINOPEC SEG

Unit: Share

	As at 31 December 2012			Increase/Decrease (+, -)		As at 31 December 2013	
	Number	Percentage	New shares	Others	Subtotal	Number	Percentage
		(%)	issued				(%)
Promoter shares (Domestic Shares)	3,100,000,000	100.00	—	-132,800,000	-132,800,000	2,967,200,000	67.01
Foreign shares listed overseas (H Shares) ⁽¹⁾	—	—	+1,328,000,000	+132,800,000	+1,460,800,000	1,460,800,000	32.99
Total number of shares	3,100,000,000	100.00	+1,328,000,000	—	+1,328,000,000	4,428,000,000	100.00

Note:

- (1) During the Reporting Period, 1,328,000,000 H Shares were newly issued. In addition, 132,800,000 Domestic Shares were transferred to the National Council for Social Security Fund of the PRC (“NSSF”) and converted into H Shares.

3.2 Shareholdings of Substantial Shareholders

As at 31 December 2013, there were a total of 1,365 shareholders of SINOPEC SEG. The public float of SINOPEC SEG satisfied the minimum requirements under the relevant rules of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Listing Rules”).

3.2.1 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	Approximate percentage at the end of the Reporting Period	
				In total share capital (%)	In relevant class of shares (%)
China Petrochemical Corporation	-132,800,000	2,967,200,000	—	67.01	100.00
HKSCC (Nominees) Limited	+1,458,536,500	—	1,458,536,500	32.94	99.85
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
CHENG KOON WING	+30,000	—	30,000	0.00	0.00
LEUNG HING WA	+20,000	—	20,000	0.00	0.00
LEE YUEN WAI IRENE	+17,500	—	17,500	0.00	0.00
WONG KWOK WAI PHILIP	+16,500	—	16,500	0.00	0.00
WONG KWOK YUNG ANSON	+16,500	—	16,500	0.00	0.00

Statement on the connected relationship or action in concert among or between the aforementioned shareholders SINOPEC SEG is not aware of any connection or action in concert among or between the aforementioned top ten shareholders.

3.2.2 Information Disclosed According to the Securities and Futures Ordinance

Except for the information disclosed below, as at 31 December 2013, so far as is known to the Board, no person(s) (not being a Director, chief executive or supervisor of SINOPEC SEG) had an interest or short position in the shares or underlying shares or debentures of SINOPEC SEG which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 the general meetings of any other member of the Company:

Name of Shareholders	Class of shares of SINOPEC SEG (hereinafter referred to as the “Shares”)	Capacity	Number of Shares with interests held or regarded as being held (Share)	Approximate percentage in Shares of the same class ⁽⁶⁾ (%)	Approximate percentage in the total share capital of SINOPEC SEG ⁽⁷⁾ (%)
China Petrochemical Corporation ⁽¹⁾	Domestic Share	Beneficial owner/ Interests of controlled corporation	2,967,200,000(L)	100(L)	67.01(L)
Hang Seng Bank Trustee International Limited ⁽²⁾	H Share	Trustee/Interests of controlled corporation	101,037,000(L)	6.91(L)	2.28(L)
National Council for Social Security Fund of the PRC ⁽³⁾	H Share	Beneficial owner	131,468,000(L)	9.00(L)	2.97(L)
State Administration of Foreign Exchange of the PRC ⁽⁴⁾	H Share	Interests of controlled corporation	131,756,000(L)	9.02(L)	2.98(L)
JPMorganChase & Co. ⁽⁵⁾	H Share	Trustee/Interests of controlled corporation	66,948,164(L) 18,068,000(S) 31,853,800(P)	4.58(L) 1.24(S) 2.18(P)	1.51(L) 0.41(S) 0.72(P)

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

Note:

- (1) China Petrochemical Corporation (“Sinopec Group”) directly and/or indirectly holds 2,967,200,000 Domestic Shares, representing 100% of the Domestic Shares and approximately 67.01% of the total share capital of SINOPEC SEG, respectively. Sinopec Assets Management Co., Ltd., is a wholly-owned subsidiary of Sinopec Group, directly holds 59,344,000 Domestic Shares, representing 2.00% of the Domestic Shares and approximately 1.34% of the total share capital of SINOPEC SEG, 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) According to the Corporate Substantial Shareholders Notices dated 13 December 2013 and filed by each of (i) Hang Seng Bank Trustee International Limited, (ii) Cheah Company Limited, (iii) Cheah Capital Management Limited, (iv) Value Partners Limited, (v) Cheah Cheng Hye and (vi) To Hau Yin with the Hong Kong Stock Exchange, Value Partners Limited (a wholly-owned subsidiary of Value Partners Group Limited) directly holds 101,037,000 H Shares. Hang Seng Bank Trustee International Limited is the trustee of the C H Cheah Family Trust, of which Cheah Cheng Hye is the founder. To Hau Yin is the spouse of Cheah Cheng Hye. Each of Cheah Company Limited, Cheah Capital Management Limited and Value Partners Group Limited is directly or indirectly controlled by Hang Seng Bank Trustee International Limited. Accordingly, for the purposes of the SFO, each of Hang Seng Bank Trustee International Limited, Cheah Company Limited, Cheah Capital Management Limited, Value Partners Group Limited, Cheah Cheng Hye and To Hau Yin is deemed interested in the long positions held by Value Partners Group Limited.
- (3) The information is based on the Corporate Substantial Shareholders Notices dated 19 November 2013 and filed by the NSFF with the Hong Kong Stock Exchange.
- (4) According to the Corporate Substantial Shareholders Notices dated 4 June 2013 and filed by each of (i) the State Administration of Foreign Exchange of the PRC (“SAFE”), (ii) Pagoda Tree Investment Company Limited (中國華馨投資有限公司), (iii) Compass Investment Company Limited (博遠投資有限公司), (iv) GUOXIN International Investment Corporation Limited (國新國際投資有限公司) and (v) Metroson Holdings Corporation Limited (都盛控股有限公司) with the Hong Kong Stock Exchange, Metroson Holdings Corporation Limited directly holds 131,756,000 H Shares. As each of Pagoda Tree Investment Company Limited, Compass Investment Company Limited, GUOXIN International Corporation Limited 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 interested in the long positions held by Metroson Holdings Corporation Limited for the purposes of the Securities and Futures Ordinance.
- (5) The information is based on the Corporate Substantial Shareholders Notice dated 3 January 2014 and filed by the JPMorganChase & Co. with Hong Kong Stock Exchange.
- (6) The calculation is based on the 2,967,200,000 Domestic Shares or 1,460,800,000 H Shares.
- (7) The calculation is based on the 4,428,000,000 Shares issued in total.

4 Directors, Supervisors, Senior Management and Employees

4.1 Appointment and Resignation of Directors, Supervisors and Other Senior Managers

In April 2013, the first extraordinary general meeting of SINOPEC SEG elected Mr. YAN Shaochun as a member of the First Session of the Board. Approved by the Fifth Meeting of the First Session of the Board dated 26 February 2013, Mr. YAN Shaochun was appointed as the President.

As a result of position adjustment, Mr. Li Guoqing no longer served as the Vice President of SINOPEC SEG from December 2013. On 12 December 2013, it was approved at the Ninth Meeting of the First Session of the Board that Ms. Sun Lili was appointed as the Vice President.

4.2 Equity Interests of Directors, Supervisors and Other Senior Management

During the Reporting Period, so far as was known to the Directors, none of the Directors, Supervisors and Senior Management or their respective associates had any interest or short positions in any Shares, underlying Shares or debentures of SINOPEC SEG or any associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to SINOPEC SEG 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 SINOPEC SEG 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 SINOPEC SEG and the Hong Kong Stock Exchange that are regarded, or treated as being held, in accordance with the SFO in the shares of SINOPEC SEG or any associated corporation.

4.3 Compliance with the Model Code

Based on specific enquiries to all Directors, all Directors have confirmed that they have complied with all the standards stipulated in the Model Code during the Reporting Period.

5 Business Review and Prospectus

5.1 Business Review

During the Reporting Period, the Company's total revenue and net profits attributable to SINOPEC SEG's shareholders were RMB43.572 billion and RMB3.657 billion, respectively. As at the end of the Reporting Period, the Company's backlog was RMB103.968 billion. The value of new contracts the Company entered into during the Reporting Period was RMB81.989 billion.

The business of the Company 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 business segments and their respective percentage of the Company's total revenue (before inter-segment elimination) during the years indicated:

	Year ended 31 December				
	2013		2012		
	Revenue	Percentage of	Revenue	Percentage of	Change
	(RMB'000)	total revenue	(RMB'000)	total revenue	(%)
		(%)		(%)	
Engineering, consulting					
and licensing	4,354,199	9.4	4,121,829	10.0	5.6
EPC Contracting	23,505,528	50.5	20,082,442	48.8	17.0
Construction	18,024,037	38.7	16,296,826	39.6	10.6
Equipment manufacturing	684,188	1.5	624,960	1.5	9.5
Subtotal	46,567,952	100.0	41,126,057	100.0	13.2
Total revenue after					
inter-segment elimination ⁽¹⁾	43,571,851		38,526,489		13.1

Note:

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

During the Reporting Period, the total revenue of the Company was RMB43.572 billion, representing an increase of 13.1% compared with the same period of the previous year. The total revenue increased because the large engineering, procurement, construction, general contracting (“EPC Contracting”) projects, including the Jingbian energy and chemical project of Shaanxi Yanchang Petroleum (“Jingbian coal chemical project”), the Shaanxi Yulin methanol acetic acid deep processing and comprehensive utilization project (“Yulin coal chemical project”), the Quanzhou 12 million-ton oil refining project of Sinochem (“Sinochem Quanzhou project”), Sinopec’s Wuhan 800 kilo tons per annum (“Ktpa”) ethylene and its utility project (“Wuhan ethylene project”), the Shijiazhuang refined oil quality upgrading and poor-quality crude oil improvement project of Sinopec (“Shijiazhuang refining project”), the Shandong liquefied natural gas project receiving terminal storage tank zone engineering of Sinopec (“Shandong LNG project”), the Hainan 600 Ktpa paraxylene project of Sinopec (“Hainan paraxylene project”) and the aromatics project of Kazakhstan Atyrau refinery (“Kazakhstan aromatics project”), have entered into the settlement period or peak implementation stage during the Reporting Period.

The following table sets forth the revenue generated from different industries in which the Company’s clients operate for the years indicated:

	Year ended 31 December				
	2013		2012		Change
	Revenue (RMB’000)	Percentage of total revenue (%)	Revenue (RMB’000)	Percentage of total revenue (%)	
Oil refining	12,299,237	28.2	12,556,490	32.6	(2.0)
Petrochemicals	16,701,785	38.3	15,036,189	39.0	11.1
New coal chemicals	8,855,434	20.3	4,928,056	12.8	79.7
Other industries	5,715,395	13.1	6,005,754	15.6	(4.8)
Total	<u>43,571,851</u>	<u>100.0</u>	<u>38,526,489</u>	<u>100.0</u>	13.1

The Company derived its revenue mainly from services provided to clients in the oil refining, petrochemical and new coal chemical industries. During the Reporting Period, the Company's revenue from the oil refining industry was RMB12.299 billion, representing an decrease of 2.0% as compared to that for the same period in 2012. This was mainly because a number of large domestic projects of the Company were in their final stage and new projects including the Kazakhstan Atyrau Refinery Oil Deep Processing Project were awarded smaller completion percentage during the Reporting Period. The revenue derived from the petrochemical industry was RMB16.702 billion, representing an increase of 11.1% as compared to that for the same period in 2012. This increase was mainly due to a large proportion of contracts signed after 2011 by the Company in this industry substantially realized revenue during the Reporting Period. Revenue derived from the new coal chemical industry rose sharply to RMB8.855 billion, representing an increase of 79.7% as compared to that for the same period in 2012. This increase was mainly due to the significant increase of revenue generated from projects such as the Jingbian Coal Chemical Project and Yulin Coal Chemical Project. Revenue derived from other industries was RMB5.715 billion, representing a decrease of 4.8% as compared to that for the same period in 2012.

The Company continues to expand its overseas business steadily. The following table sets forth the Company's revenue in the PRC and overseas for the years indicated:

	Year ended 31 December				
	2013		2012		Change
	Revenue (RMB'000)	Percentage of total revenue (%)	Revenue (RMB'000)	Percentage of total revenue (%)	
PRC	36,540,730	83.9	32,011,159	83.1	14.1
Overseas	7,031,121	16.1	6,515,330	16.9	7.9
Subtotal	<u>43,571,851</u>	<u>100.0</u>	<u>38,526,489</u>	<u>100.0</u>	13.1

During the Reporting Period, the overseas revenue of the Company amounted to RMB7.031 billion, representing an increase of 7.9% as compared with the same period of the previous year. This increase was mainly due to the smooth development of existing projects and steady increase of overseas contract value.

Regarding to SINOPEC SEG's announcement about the purported termination of a project in the United States dated 28 February 2014, as compared to those for the same in 2012, as at the end of the Reporting Period, the backlog of the Company, excluding any amounts from the project mentioned in that announcement, was RMB103.968 billion, representing an increase of 58.6% as compared to the amount as at 31 December 2012, or 2.39 times of the total revenue of RMB43.572 billion in 2013. During the Reporting Period, the value of new contracts amounted to RMB81.989 billion, representing an increase of 176.6% as compared to the amount in the same period in 2012.

During the Reporting Period, the Company signed the following domestic representative projects: (1) 3.6 million tons per annum (“Mtpa”) coal-to-olefin project of Zhongtian Hechuang Energy Co., Ltd. (“Zhongtian Hechuang coal chemical project”) with the EPC contract amount of RMB18.666 billion; (2) 1 Mtpa methanol-to-olefin, 500 Ktpa styrene project of Full Tech (Changzhou) Energy & Chemistry Development Co., Ltd. (“FULL TECH coal chemical project”) with the EPC contract value of RMB3.000 billion; (3) 700 Ktpa coal-to-olefin project DMTO-II unit of Pucheng Clean Energy Chemical Co., Ltd. (“Pucheng coal chemical project”) with the EPC contract value of RMB2.398 billion; (4) 300 Ktpa polyethylene and 390 Ktpa polypropylene project DMTO unit of Zhejiang Xingxing Energy Technology Co Ltd. (“Zhejiang Xingxing Energy coal chemical project”) with the EPC contract value of RMB1.819 billion; (5) Shandong LNG project with the EPC contract amount of RMB1.665 billion; (6) 500 Ktpa engineering plastics project MTO unit, olefin separation unit and polypropylene unit of Inner Mongolia ChinaCoal Mengda New Energy Chemical Company (“ChinaCoal Mengda coal chemical project”) with the EPC contract value of RMB2.038 billion (7) 260 Ktpa acrylonitrile unit project of Shanghai SECCO Petrochemical Company Limited with the EPC contract value of RMB1.273 billion.

During the Reporting Period, the overseas representative projects signed included: (1) U.S. PTA and PET project with the EPC contract amount of USD 1.150 billion; (2) Kazakhstan KPI project engineering, procurement, construction, commissioning/start-up contract with the EPCC contract amount of USD 1.850 billion.

The capital expenditure of the Company is mainly used for expanding facilities, upgrading technology and procuring equipment. During the Reporting Period, our capital expenditure was RMB763 million, which was mainly used to improve production conditions, update construction equipment, procure scientific research equipment, prevent potential safety hazards and establish information system.

5.2 Business Highlights

5.2.1 Successful Implementation of Major Projects

Sinochem Quanzhou Project: The scope of work under the project contract includes major processing units of 12 Mtpa CDU/VDU unit, 2 Mtpa continuous catalytic reforming unit, 1.6 Mtpa delayed coking unit, 3.3 Mtpa residue hydrotreating unit, 3.4 Mtpa fluid catalytic cracking unit, 2.6 Mtpa wax oil hydrocracking unit, and hydrogen production unit with a capacity of 140,000 normal cubic meter per hour. Currently, the design of the project is almost complete and all the major equipment and materials have been purchased. The safety, quality and progress of the project are all within the Company's control.

Shijiazhuang Oil Refining and Chemical Project: The crude oil processing capacity of this project expanded from 4 Mtpa to 8 Mtpa. Adaptability improvement was implemented for the processing of heavy crude oil and the upgrade of the gasoline and diesel products, in order to meet the requirements for motor gasoline and diesel under the National Phase IV Emission Standard. Currently, over ninety percent of the project has been successfully completed.

Wuhan Ethylene Project: The scope of work under the project contract includes 800 Ktpa ethylene, 550 Ktpa cracked gasoline hydrogenation, 350 Ktpa aromatics extraction, 300 Ktpa high density polyethylene, 300 Ktpa linear low density polyethylene unit, and so on. During the Reporting Period, the project was in full operation. Currently, it is in the performance review period, and all indicators meet the contract requirements.

Shandong LNG Project: The scope of work under the project contract mainly includes EPC Contracting of 36 units and 4 LNG storage tanks in the LNG receiving terminal. Currently, the project is over half complete, and the project safety, quality, progress are within the Company's control.

Kazakhstan Aromatics Project: The scope of work under the contract of this project mainly covers 1.0 Mtpa continuous reforming units, 500 Ktpa aromatics extraction units, 500 Ktpa PX units and utilities. Currently, about 90% of the overall progress of this project has been completed.

Jingbian Coal Chemical Project: The scope of work under the project contract mainly includes 1.5 Mtpa residual oil catalytic pyrolysis, 600 Ktpa polyethylene and 600 Ktpa polypropylene unit, etc. During the Reporting Period, the engineering, procurement and construction of the project were partially completed.

Yulin Coal Chemical Project: The scope of work under the first phase of the project contract includes the units for 1.8 Mtpa of MTO, 300 Ktpa of polyethylene, 300 Ktpa of polypropylene, and the unit for the comprehensive utilization of C4. Currently, the overall completion progress of all the units exceeded fifty percent and the safety, quality and progress of the project are all within the Company's control.

Zhongtian Hechuang Coal Chemical Project: For project details, please see SINOPEC SEG's announcement dated 26 December 2013. During the Reporting Period, the project has been started already.

5.2.2 Excellent Results in Market Development

In 2013, under the impact of macro-environment, large oil companies in China tended to be cautious in capital expenditures, and the growth of traditional oil refining and petrochemical project engineering market were slowed. The new coal chemical industry has seen remarkable growth in the PRC with the development of new coal chemical technology and its cost advantages. While maintaining our market edge in conventional industries, e.g. the oil refining and petrochemical industry, the Company strove to explore the domestic coal chemical markets and strengthen overseas marketplace exploration, and achieved good results. During the Reporting Period, the value of new contracts was RMB81.989 billion, including RMB59.294 billion for domestic projects and RMB22.695 billion for overseas projects.

Domestically, within the Reporting Period, the Company signed a number of oil refining, petrochemical, clean energy projects in China, such as the refining and gasoline separation EPC Contracting project of Dalian Western Pacific, Guangdong Dapeng LNG project, butadiene unit EPC Contracting of SECCO, phenol-acetone EPC Contracting of Sinopec Mitsui Chemicals. As for new coal chemical engineering, the Company signed the Zhongtian Hechuang coal chemical project, FULL TECH coal chemical project, ChinaCoal Mengda coal chemical project, Shaanxi olefin separation unit EPC Contracting of Shenhua, Zhejiang Xingxing Energy coal chemical project and Pucheng coal chemical project. New contract amounts in conventional industries, such as oil refining, petrochemical, clean energy continued to increase. At the same time, new contracts for new coal chemical projects increased significantly, and reached RMB34.828 billion during the Reporting Period.

For overseas, on 11 January 2013, the Company signed an EPC contract with Italian M&G for the PTA project of 1.2 Mtpa and the PET project of 1 Mtpa that are located in Texas, the United States. The contract value is USD 1.15 billion and the construction period is 36 months. After being completed, the plant will become the largest manufacturer of PET for packing in the United States. The Company is responsible for assisting the owner in obtaining Chinese financing and providing the procurement service for the relevant Chinese part of it. Meanwhile, the Company also manages and supervises the project as a general contractor. On 10 June 2013, the Company officially signed an EPCC contract with KPI Company for a project located in Karabatan, Atyrau State, Kazakhstan. Under the contract, the Company's scope of work covers the general contracting for the engineering, procurement, construction, startup and performance examination of a propane dehydrogenation (PDH) plant of 500 Ktpa, a polypropylene plant (PP), the public utility facilities necessary for the two technological plants and the auxiliary infrastructure in the plant area. The project will be implemented after terms for the project to go into effect are satisfied. The planned construction period under the contract is 36 months and the total contract value is about USD 1.85 billion.

In addition, during the Reporting Period, the Company also tracked a number of major projects, which are expected to be signed in the future.

5.2.3 Leading Technologies, Breakthroughs Were Made in Technological Innovation

Steady progress of the R&D of major technologies developed along with key projects. Technology research and development projects in the coal chemical, petrochemical, natural gas and other key fields have made good progress.

Oil Refining and Petrochemical

800 Ktpa ethylene package technologies: The Wuhan ethylene project using ethylene package technology achieved a successful start-up in August 2013. The package technology, through its independently developed low-power consumption ethylene separation technology, achieved the domestic design and development application of large quenching oil cyclone hydraulic separator for the first time, developed a low-energy cold box and demethanization procedures, and realized the localization of all catalyst and "three machinery". At the same time, it fully adopted the CBL cracking furnace technology with independent intellectual property rights for overall design for the first time. The success of the Wuhan ethylene project is an important milestone in complete ethylene technology development of the Company.

Development and industrialization of diesel liquid phase cyclic hydrogenation technology:

During the Reporting Period, the industrial units in Jiujiang, Shijiazhuang, Zhanjiang and Anqing are placed into operation, the results of this technology showed the features of low investment, low operation cost, safe and reliable operation, and proved that this technology can produce clean diesel products that satisfy the National Phases IV and V Quality Standards.

Development and industrial application of S Zorb gasoline absorption desulfurization technology: This technology has the advantages of low octane number loss, hydrogen consumption and operating costs, and is currently one of the main ways to upgrade domestic gasoline quality to National Phases IV and V Quality Standards. By the end of the Reporting Period, the Company has completed more than 20 licenses for this technology.

Coal Chemical

DMTO II technology and SMTO technology: Based on many sets of mature industrialized production, the Company finished development and upgrading of DMTO II technology and SMTO technology, and further improved the methanol conversion rate and product selectivity, reduced material and energy consumption within the Reporting Period. During the Reporting Period, the Company licensed several sets of methanol-to-olefin (MTO) units adopting DMTO II technology and SMTO technology, which show the Company's strong technical strength in methanol-to-olefin (MTO) technology.

SE single-nozzle cold-wall pulverized coal pressurized gasification package technology: This technology adopts advanced design, research and development concept with high reliability and advanced technical indicators. This technology combined SE oriental gasifier using cold-wall chilling process, sulfur tolerant transformation and low temperature Rectisol and other technologies for optimization. The Company finished the construction of Yangtze petrochemical single-nozzle cold-wall pulverized coal pressurized gasification demonstration unit during the Reporting Period with coal feeding of 1,000 tons for each gasifier each day. Currently, the unit operates in stable condition and can produce qualified hydrogen.

Synthetic gas-to-ethylene glycol technology: It is one of the technologies for efficient and clean coal utilization. The Company finished the construction of a 200 Ktpa synthetic gas-to-ethylene glycol demonstration unit by this technology during the Reporting Period. Currently, this unit has entered into trial operation.

Natural Gas

Development and industrial application of natural gas purification technology: After the success of “safe and high-efficiency development technology for the industrialized application of mega-sized and ultra-deep gas field of high sulfur compounds” in Puguang natural gas purification project, which fulfilled a number of domestic needs, the Company conducted research on the “development and industrial application of Yuanba natural gas purification technology”. The Yuanba natural gas purification project is currently under construction.

Clean and Environmental Protection

Industrial test for renewable wet flue gas desulfurization technology: This technology with high efficiency in desulfurization does not affect combustion and heat transfer in furnace, and is the first choice for large boiler desulphurization domestically and overseas. The Company finished the construction drawing design to apply this technology and waste heat boiler improvement during the Reporting Period, which laid the foundation for full implementation of this project in 2014.

Comprehensive sewage treatment technology: The sewage treatment project for sewage treatment technology problems of Sinopec Nanjing Chemical Industrial Co., Ltd. was completed in the middle of June 2013, and went into trial operation in August. According to trial operation results, under reasonable investment and running costs, various sewage discharge indicators of the Company surpassed relevant discharge standards after technical transformation and integrated optimization. This project provided technology sources and engineering cases for the comprehensive treatment of various complex wastewater, as well as technical support for green, low-carbon and environment-friendly sustainable development strategies in the petrochemical field.

The successful implementation of the above new projects of technological development produced a positive effect on the business efforts of the Company.

Technology licensing: During the Reporting Period, there were 61 technology-licensing projects completed with the licensing contract amount of RMB421.56 million. In addition to the traditionally advantageous projects, e.g. polypropylene, cracking furnace, MTO and styrene, licensing was completed for the oil refining projects of CNOOC Taizhou and YPC, which are remarkable achievements.

Patent applications: During the Reporting Period, the Company completed 381 new patent applications and was granted 247 patents. 5 affiliated engineering companies completed 358 patent applications of higher quality, including 204 invention patents, accounting for about 57% of the total number of patent applications meaning the Company maintained good momentum in applications.

During the Reporting Period, scientific research and engineering projects developed by the Company won 109 provincial scientific progress awards. The “safe and high-efficiency development technology for the industrialized application of mega-sized and ultra-deep gas field of high sulfur compounds” project won the 2012 National Special Award for Scientific and Technological Progress; the “development and application of packaged technology for 650 Ktpa ethylbenzene”, “development of application technology for capacity expansion and quality upgrading of the hydrocracking unit”; “development of packaged technology for 300 Ktpa vinyl acetate made from natural gas by acetylene method” and “development and industrial application of packaged technology for catalytic oxidation of PO/SM flue gas” won first prize for Scientific and Technological Progress awarded by Sinopec Group; the “creation and industrial application of catalyst for binderless composite molecular sieve” won the first prize for Scientific and Technological Progress awarded by the People’s Government of Shanghai; the “demo plant for producing 500 Ktpa of olefin using residue catalytic pyrolysis process (“CPP”)” won the first prize for Scientific and Technological Progress awarded by China Petroleum and Chemical Industry Federation (“CPCIF”); and the “1 Mtpa ethylene project of Sinopec Zhenhai” won a gold medal of National Premium Project Award.

5.2.4 Intensifying Enterprise Reform

The Company is actively pursuing corporate reform focusing on the developmental goal of “building the world-class refinery and chemical engineering company” and the developmental mode of “centralized management, differential competition, standardized governance and high-end development”. The Company continued to reorganize its businesses and push forward specialization reform, and further optimize its organizational structure and functionality. The organizational structure and operating mechanism suitable for the Company’s sustainable development is taking shape, and the business structure, which is suitable for the Company’s international operation, is becoming more mature.

The Company integrated the superior resource of construction enterprise, the large lifting and transportation equipments to build the Sinopec Heavy Lift and Transportation Engineering Co., Ltd. (“Lift and Transportation Company”). It concentrated its strengths and improved market competitiveness, rapidly forming a new point of benefit growth. The Company mainly focused on heavy lift and transportation markets within the PRC, and committed to become the world-class professional lift and transportation contractor; integrated the technical research and development strengths of engineering company, built higher-level, broader technical cooperation, and gave full play to the leading effect of advanced technologies in developing markets and undertaking EPC Contracting businesses. A reform programmer was developed in response to these projects.

The Company optimized and adjusted some organizations and their functions; set up the purchase department to perfect its global purchasing management system, establish and enhance its global supply chain, and improve global core competing competence. The Company established the QHSE Management Department, and enhanced the integrated management of quality, health, safety and environment, so as to improve its ability to fulfill social responsibilities and achieve sustainable development; as well as established the Information Management Department to improve its operating efficiency, and strengthen its international operation risk management capacity.

5.2.5 Sustained Safe Operation

During the Reporting Period, in order to ensure safe production, the Company conscientiously implemented safety and environmental protection requirements of the PRC government and annual HSE working conference spirit of Sinopec, and focused on halting the occurrence of accidents. It continued to promote the construction of QHSE management system via “management improvement” activities, implemented the QHSE responsibility system at various levels, paid more attention to the occupational health of its staff, provided more excellent products and services, insisted on safety production and green production, comprehensively improved the intrinsic safety level, and effectively protected the ecological environment.

During the Reporting Period, the Company realized accumulative safety man-hours of 303.0 million, zero large liability accidents and above all, zero accident mortality of employees (including sub-contractors) and zero serious injury rates. There were no large or above environmental accidents, no health occupational acute poisoning accidents, nor any ordinary or serious public safety accidents. The hidden hazards control program was completed 100%. The personal accident insurance of expatriates and employer’s liability insurance were purchased 100%.

5.2.6 Other Aspects

On 25 June 2013, the Company signed a strategic cooperation agreement with China CAMC Engineering Co., Ltd. and also signed an agreement for exclusive cooperation in an overseas coal-to-gas project. China CAMC Engineering Co., Ltd. has an extensive business network and maintains a good relationship with local government as well as significant experience in EPC Contracting management of international projects. The cooperation with China CAMC Engineering Co., Ltd will benefit both parties through enhanced information sharing and mutual cooperation.

5.3 Business Prospect

5.3.1 Actively explore the market, striving for further success

Looking forward to 2014, the world economic situation is still complex: the gradual exit of FRB quantitative easing policy has increased variables and risks of recovery. Developed economies are expected to continue their moderate recovery, while some emerging economies are expected to face slower growth. China is expected to continue high economic growth, deepen reform, and continue to change the development model.

In 2014, the Company will respond to the situation conscientiously, to seize opportunities, meet challenges, and make every effort to implement existing projects by strengthening internal management and promoting resource optimization; give full play to its competitive advantages, strengthen market development efforts, and ensure the undertaking of key projects. In 2014, the target domestic new contract amount of the Company is RMB45 billion, and the target overseas new contract amount is USD 3 billion.

5.3.2 Promote the deepening reform, realizing the synergies of reorganization

The joint general contracting and on-site integrated base: The Company actively promotes its engineering company and construction enterprise to conduct joint general contracting, and pilots it in the Zhongtian Hechuang coal chemical project. In addition, the Company carries out unified planning, construction, and management in terms of project site layout and construction, and fully implements its “integrated” planning scheme. The project management organization can be further simplified, management costs can be reduced and the management can be improved by implementing the joint general contracting and on-site integrated base mode. The Company will also continue to promote the joint general contracting and on-site integrated base mode in follow-up projects.

Market development: In China, the Company will further strengthen coordination of market development in line with its principle of maximizing group benefits, which will lower the costs by giving full play; improve market development efficiency, require full consideration of various risk factors associated with market development projects, and cautiously participate in advance funded projects and projects with questionable credit standing, to ensure that the risks in project implementation are under control; guide subsidiaries to grow their core competitiveness, and build distinctive markets, taking the road of differentiated development. In overseas markets, the Company will continue to optimize and deploy overseas market deployment and resources, constantly improve existing organizations, set up overseas branches around the world, and extend its market development and operation function, improving its market development efficiency. During the Reporting Period, the Company, along with integrated subsidiaries from Saudi Arabia to the advantages of each subsidiary and Kazakhstan resources sharing, completed registration of a U.S. subsidiary, and is currently registering an Indonesia subsidiary, a Malaysia subsidiary and a Brunei subsidiary on the basis of market development requirements.

The Company's lifting and transportation business: The Company currently has 36 pieces of large and ultra-large heavy lifting equipment with a lifting capacity of over 200 tons, among which the 4,000-ton crawler crane is the largest lifting equipment in the world. The Company takes a leading position among domestic peers in terms of equipment strength. After establishing the shipping company, its professional management standard was much higher, efficiency improved, and equipment utilization increased, which will help to expand and consolidate the domestic market, vigorously explore the international market, and take the lead in achieving better economic results in the Middle East.

Technology research and development business: The Company is building a professional engineering technology research and development entity, a technology research and development (Luoyang) base. It is positioned as “a bridge between lab and industrialization, a high-end test platform for engineering technology research, the technical support, service and evaluation center” through reform and adjustment. The Luoyang base complies with technology research and development law, perfects the operation mechanism, and provides support and service to its subsidiaries; participates in exchanges and cooperation, undertakes the engineering technology research and development overseas, which helps further improve the resource research and development efficiency, shape research and development characteristics, explore emerging fields, expand the scope of services, and enhance the competitiveness and development potential of the Company's main businesses.

Manufacturing Business: In order to improve the profitability of its manufacturing business, the Company will undertake reform to optimize the manufacturing sector. Specifically, the Company will lower costs by optimizing resources allocation, increasing the proportion of high-end business, enhancing detailed management, and investing more in market development.

5.3.3 Create an integrated new coal chemical industrial chain, market the one-stop engineering service

The new coal chemical business is one of the highlights of the Company in its future development. Currently, the Company boasts technical equipment and engineering achievements in aspects such as coal gasification, syngas to natural gas, syngas to methanol, syngas to glycol, methanol to olefin, polyolefin, indirect/direct coal liquefaction. Through coordination and optimization, these factors contribute to the formation of a technical industrial chain with complete upstream and downstream support. Combined with the Company's advantages in the conventional engineering service segment, the Company can provide a complete industrial service chain including the licensing of process technology, engineering, procurement, construction and start-up services, becoming extremely competitive in the new coal chemical market and providing owners with a set of complete EPC services. The Company organizes work distribution, optimizes resource allocation, and coordinates superior resources of various subsidiaries on the Zhongtian Hechuang coal chemical project. The Company pilots the Zhongtian Hechuang coal chemical project, and will promote subsequent projects in the future.

5.3.4 Continue to increase investment in R&D, keep its technology leadership

Following the development objective of “consolidating the traditional technical advantages in oil refining and chemical engineering, advancing the technology of alternative petroleum resources”, the R&D investment will focus on the following aspects:

Firstly, take the oil refining and chemical industry development strategy as targets, and consolidate the competitive advantages in the Company's core businesses around improving its core competitiveness, promoting and perfecting the heavy oil and inferior crude oil processing technology by which to produce transportation fuels, clean raw material production technology, complete large ethylene and aromatics technologies, synthesis material high performance technology and gas, coal and biomass transported raw material, petrochemical raw material technology and other core technologies.

Secondly, focus on improving the oil refining technology, clean oil refining, energy-efficient technology, oil refining-chemical engineering integrated mode development and optimization technology, basic organic raw materials technology, environmental protection and water-saving technology, comprehensive energy-saving technology, oil-gas storage and transportation technology, equipment localization and long-period operation technology based on technology demands of Sinopec Group's main businesses, and comprehensively improve its science and technology support capability.

Thirdly, focus on promoting the catalytic cracking technology (MIP) by which to produce isoparaffin, new catalytic gasoline selective desulfurization technology, deep diesel hydrogenation technology, gasoline selective hydro desulfurization technology, complete large cracking furnace and ethylene recovery technology, refinery dry gas recycling technology, large aromatics production technology, large loop polypropylene technology, large gas-phase polyethylene technology, oil depot and gas station oil gas recovery technology, refinery enterprise tail gas treatment technology, large lamella heat exchanger, new efficient heat-exchange equipment and so on by focusing on optimizing resources, procedures, operation, saving energy, reducing emission, reducing consumption, eliminating bottlenecks, and improving efficiency.

Fourthly, increase input and participation in the research and development of large new coal chemical, natural gas chemical technology, deepen and consolidate technological achievements, such as MTO, coal gasification, strengthen engineering technological achievements of the Company in coal-to-liquid project and other projects, actively seek technical cooperation, gradually improve the new coal chemical technology chain at the same time, transforming its technical advantages into business advantages.

Fifthly, focus on future challenges, such as alternative energy, low-carbon raw material, actively track basic research on leading-edge technologies and application closely relating to the petrochemical industry, such as the green chemistry for high efficiency utilization of oil resources, oil-gas refining technology, biomass liquefaction/gasification technology, coal-based chemicals, shale gas chemical engineering, and so on, increase input in the technological reserve, and enhance sustainable innovation ability.

Sixthly, seize opportunities arising from the implementation of new GMP standard, maintain core competitiveness – focusing on important, high-tech engineering and Sino-foreign joint venture or foreign-funded pharmaceutical projects.

Seventhly, strengthen the research and development of construction technologies, application and share of new technologies, conduct a variety of technical activities regarding “improvement of quality, efficiency and level”, including improving equipment level, technology research and development, information technology, standardization, etc., consolidate technological base, improve engineering management, and increase the Company’s efficiency and overall effectiveness.

Eighthly, “conduct unified planning, implement in steps, show results in three years, form a system in five years”, establish and perfect the unified standard specification system and construction method system for domestic and overseas engineering construction markets, form a consistent project operation standard system, thereby achieving a share of superior technical resources and enhancing the overall technological level.

5.3.5 Actively promote “standardized design, standardized procurement, modular construction”

Since “standardized design, standardized procurement, modular construction” can shorten construction time, save costs, ensure safety construction, improve efficiency, and provide better service for owners during engineering construction, the Company considers “standardized design, standardized procurement, modular construction” as a necessary strategy to ensure future development. During the Reporting Period, the Company began building the management system and set up its “standardized design, standardized procurement, modular construction” committee clarified its responsibility, and comprehensively pushed its “standardized design, standardized procurement, modular construction” process, which enabled the Company to be confident in showing its overall strength in the engineering construction field in the future.

5.3.6 Follow a “people-oriented, win-win cooperation” approach; improve the management level of suppliers and subcontractors

In terms of supplier management, the Company will collect and integrate supplier resources from a unified global supplier network, strengthen sourcing in domestic and overseas target markets according to specific requirements of project owners in target markets, and include different projects into the procurement system based on supply chain management, gradually building and achieving collaboration with suppliers. It will also standardize and strengthen the interactive collaboration of bid, quotation, auction, contract and other business of suppliers through a unified procurement collaboration work platform, and realize online registration, file management, qualification examinations, dynamic performance evaluation of suppliers and collaborative work. At the same time, it will provide the new product display platform to suppliers, and establish multi-faceted and multi-dimensional information communication channels. It will improve suppliers’ business development and productivity through sound interaction, so as to fully mobilize the enthusiasm of suppliers, and provide excellent service for our engineering projects.

For subcontractor management, the Company will strengthen and standardize the management for sub-contractor selection, bid and tender, subcontractor site management, annual subcontractor appraisal in subcontract works in line with its working method of “strengthening management, improving standardization” and in strict accordance with relevant policies. The Company will continue to follow the subcontract management philosophy of “people-oriented, win-win cooperation”, establish long-term cooperative relationships and share management experience with engineering construction partners who are committed to oil refining and chemical engineering, jointly promote their management and technological level in the field of oil refining and chemical engineering, making subcontractors a strong complement to its engineering project resources.

5.3.7 Establishing modern HR management system and management incentive mechanism

Firstly, during the Reporting Period, the Company developed and implemented a position value based its salary structure adjustment scheme and initially established a market-oriented salary system that meets the requirements of modern enterprises and shareholders. On this basis, it will create a linked appraisal mechanism, which is benefit-oriented and supports a floating salary to encourage the rapid development of enterprises; the Company will launch overseas personnel salary structure adjustment.

Secondly, it will establish a labor and employment mechanism consistent with the characteristics of refining and chemical enterprises using labor reasonably and flexibly according to project demand under the premise of maintaining a steady and gradual decrease in the total amount of labor, which not only strictly controls the total amount of labor, but also takes advantage of high-quality talents.

Thirdly, the Company will implement a medium and long-term incentive mechanism for senior managers and key staff to fully mobilize and utilize business intelligence and decision-making abilities of company management, stimulate the enthusiasm and creativity of key staff, thus promoting sustainable development of the Company.

Fourthly, it will establish a performance-oriented employee performance management system, which is implemented with the salary reform scheme, and test the bottom out elimination system for middle management.

Fifthly, the Company is experiencing a period of fast development after transformation, and the rate of overseas projects is constantly increasing. Our human resource demands senior management personnel familiar with operation of international companies, senior project management personnel familiar with operation of international projects, senior technical experts and technical backbone. The Company will form an interdisciplinary talent team through two channels, i.e., classification of and selection from existing talent teams, strengthening training and open recruitment, to support the Company's medium and long-term development.

5.3.8 Steadily promote all-around application and standardized management of information technology in the Company

To facilitate the efficient and safe operation of its core business, the Company drives its development through information construction, enhancing the comprehensive corporate management and core competitiveness through IT construction that focuses on integrated and intelligent systems. Learning advanced experience, optimizing resource allocation, strengthening information construction top-level design, accelerating the construction of ERP centralization projects, and increasing the intensity of shared services, speeds up the establishment of a sound information construction management system, organizational structure and incentive mechanism, with focus on building “One main line, Two macro integrations, Three platforms and Four systems”.

One main line: the main line of providing SINOPEC SEG with IT support and effective enterprise control for the complete business chain that comprises engineering consulting, engineering, procurement, construction, project management and equipment manufacturing.

Two macro integrations: the integration of collaboration designs for the construction of digitalized factories and the integration of business with project management as the core.

Three platforms: the operation management platform centered on ERP construction; the project execution platform comprises standardized engineering, standardized procurement and modularized construction; and the infrastructure cloud platform supported by a global network system.

Four systems: an effective information organization and control system; a unified information standardization system; a stable information operation and maintenance system; and a powerful and effective risk control information security system.

5.3.9 Implement merger and acquisition strategy; achieve great-leap-forward development

With a view to accelerating the Company’s development, the Company has established a special merger and acquisition department and its functioning mechanism during the Reporting Period. The Company determined the directions and ideas of merger and acquisition and established targets for merger and acquisition.

In terms of the selection of acquisition target, the Company will (1) select a target company with a relatively favorable synergy effect by way of considering both the development of international market and the needs of project implementation; (2) select a target company consistent with the needs of future development by looking into the prospect of the industry that the Company serves and other similar industries; (3) select target technology with a favorable application prospect through the argumentation and research on proprietary patented technologies that orient investment. The Company may selectively hold or control the shares of the target company or acquire the target company, and may also acquire target technology by way of buyout, investment and cooperative development, etc., in order to eventually improve the Company’s ability of sustainable development with a new growth point.

5.4 The analysis of the reasons of the significant changes in the revenue structure compared to last financial year

Parts of the financial data below, unless otherwise stated, should be read together with the Company's audited financial statements prepared according to IFRS in the Annual Report.

5.4.1 Revenue

The revenue of the Company increased by 13.1% from RMB38.526 billion for the year ended 31 December 2012 to RMB43.572 billion for the year ended 31 December 2013. The increase was mainly due to a number of large EPC Contracting projects, such as Jingbian Coal Chemical Project, Yulin Coal Chemical Project, Wuhan Ethylene Project, Sinochem Quanzhou Project, Kazakhstan aromatics project and Shijiazhuang Oil Refining and Chemical Project, and engineering projects implemented according to plan, as well as the settlement of many engineering projects.

5.4.2 Cost of sales

The cost of sales of the Company increased by 12.6% from RMB32.998 billion for the year ended 31 December 2012 to RMB37.166 billion for the year ended 31 December 2013, primarily due to the increased direct costs including labor cost and expenditure on procurement of materials, machinery and equipment caused by the increase of business volume and revenue.

5.4.3 Gross profit

The gross profit of the Company increased by 15.9% from RMB5.528 billion for the year ended 31 December 2012 to RMB6.406 billion for the year ended 31 December 2013, due to a larger increase in the Company's revenue than in the Company's cost of sales.

5.4.4 Other income

The other income of the Company decreased by 8.3% or RMB7 million from RMB85 million for the year ended 31 December 2012 to RMB78 million for the year ended 31 December 2013.

5.4.5 Sales and marketing expenses

The sales and marketing expenses of the Company increased by 11.1% from RMB91 million for the year ended 31 December 2012 to RMB101 million for the year ended 31 December 2013, mainly due to the Company's increased investment in marketing.

5.4.6 Administrative expenses

The administrative expenses of the Company increased by 14.9% from RMB947 million for the year ended 31 December 2012 to RMB1.089 billion for the year ended 31 December 2013, mainly due to the Company's remuneration structure adjustment and increment of employee benefits.

5.4.7 Research and development costs

The research and development costs of the Company increased by 15.0% from RMB548 million for the year ended 31 December 2012 to RMB630 million for the year ended 31 December 2013, mainly due to the efforts made by the Company to strengthen the integration of technologic resources and intensify R&D efforts.

5.4.8 Other operating expenses

The other operating expenses of the Company increased by 65.8% from RMB155 million for the year ended 31 December 2012 to RMB256 million for the year ended 31 December 2013, mainly due to the rising exchange losses caused by the sharp appreciation of RMB.

5.4.9 Other gains/(losses), net

The net other gains/(losses) of the Company changed from a loss of RMB42 million for the year ended 31 December 2012 to a gain of RMB4 million for the year ended 31 December 2013, mainly due to the loss from the sale of land use right that was disposed by the Company in 2012 and the formation of gains on disposal of fixed assets in 2013.

5.4.10 Operating profit

As a result of the reasons above, the operating profit of the Company increased by 15.2% from RMB3.832 billion for the year ended 31 December 2012 to RMB4.413 billion for the year ended 31 December 2013.

5.4.11 Financial income, net

The net financial income of the Company declined by 19.9% from RMB405 million for the year ended 31 December 2012 to RMB324 million for the year ended 31 December 2013, mainly due to a decline in the interest income receivable from the ultimate holding company as compared to the same period of the previous year.

5.4.12 Income tax expense

The Company's income tax expenses increased by 17.0% from RMB935 million for the year ended 31 December 2012 to RMB1.094 billion for the year ended 31 December 2013. The main reason for the increase was that the Company's profit before taxation increased from RMB4.252 billion for the year ended 31 December 2012 to RMB4.751 billion for the year ended 31 December 2013, while the effective income tax rate rose from 22.0% in the same period of the previous year to 23.0%. The change in the effective income tax rate was due to fluctuations in the profit of some affiliated companies.

5.4.13 Profit for the year

Due to the above reasons, the profit in the Reporting Period increased by 10.2% from RMB3.317 billion for the year ended 31 December 2012 to RMB3.657 billion for the year ended 31 December 2013.

5.4.14 Total comprehensive income for the year

As a combined result of the reasons above and the contributions of other comprehensive income from the Company, the total amount of the comprehensive income of the Company increased by 8.8% from RMB3.611 billion for the year ended 31 December 2012 to RMB3.928 billion for the year ended 31 December 2013.

5.5 Assets, Liabilities, Equity and Cash Flow

The Company's funds mainly come from operating activities and are primarily used for working capital and capital expenditure.

5.5.1 Assets, Liabilities and Equity

Units: RMB'000

	As at 31 December 2013	As at 31 December 2012	Changes
Total assets	47,365,269	37,130,025	10,235,244
Current assets	39,198,790	29,051,247	10,147,543
Non-current assets	8,166,479	8,078,778	87,701
Total liabilities	26,384,928	30,048,775	(3,663,847)
Current liabilities	23,620,920	26,762,416	(3,141,496)
Non-current liabilities	2,764,008	3,286,359	(522,351)
Non-controlling interests	3,627	3,265	362
Net assets	20,980,341	7,081,250	13,899,091
Total equity attributable to shareholders of SINOPEC SEG	20,976,714	7,077,985	13,898,729
Share capital	4,428,000	3,100,000	1,328,000
Reserves	16,548,714	3,977,985	12,570,729

As at 31 December 2013, the total assets of the Company were RMB47.365 billion, the total liabilities were RMB26.385 billion, and the total equity attributable to the shareholders of SINOPEC SEG was RMB20.977 billion. The changes in the assets and liabilities as compared with that at 31 December 2012 and the main reasons are as follows:

As at the end of the Reporting Period, the total assets were RMB47.365 billion, up by RMB10.235 billion as compared with the end of 2012. In particular, the current assets were RMB39.199 billion, up by RMB10.148 billion as compared to the end of 2012, mainly due to the profits for the Reporting Period and proceeds from SINOPEC SEG's Global Offering (the "Global Offering"). Non-current assets were RMB8.166 billion, showing a growth of RMB88 million as compared to the end of 2012.

The total liabilities were RMB26.385 billion as at 31 December 2013, down by RMB3.664 billion as compared with the end of 2012. In particular, the current liabilities were RMB23.621 billion, down by RMB3.141 billion as compared with the end of 2012, mainly due to the decrease in other payables by RMB3.440 billion. Non-current liabilities were RMB2.764 billion, down by RMB522 million as compared with the end of 2012, mainly due to the decline in retirement and other supplementary benefit obligations by RMB481 million.

Total equity attributable to shareholders of SINOPEC SEG was RMB20.977 billion, up by RMB13.899 billion as compared with that at the end of 2012, primarily as the result of the proceeds from the Global Offering and the net profit in the Reporting Period.

5.5.2 Cash Flows

During the Reporting Period, the net increase in cash and cash equivalents was RMB761 million and net cash used in operating activities was RMB86 million. The following table sets forth the main items and their changes in the Company's consolidated statements of cash flows for the years ended 31 December 2013 and 2012, respectively.

Units: RMB'000

Major items of cash flow	Year ended 31 December	
	2013	2012
Net cash (used in)/generated from operating activities	(85,995)	1,556,489
Net cash used in investing activities	(6,963,183)	(1,668,252)
Net cash generated from/(used in) financing activities	7,810,661	(643,969)
Net increase/(decrease) in cash and cash equivalents	761,483	(755,732)

During the Reporting Period, the profit before taxation was RMB4.751 billion, and the profit was RMB5.145 billion after adjusting for items that did not affect the cash flow in operating activities (the “non-cash items”). The main non-cash items were: RMB587 million for depreciation and amortization; RMB61 million for impairment of trade and other receivables; and RMB86 million for net exchange losses, and cash outflow increased by RMB4.238 billion in change in working capital. The main reason was: as construction projects were carried out, the cash outflow increased by RMB498 million in inventories. The cash outflow was RMB2.708 billion in contract work-in-progress, and the cash outflow was RMB897 million in trade and other receivables and cash outflow was RMB141 million in trade and other payables. This was due to the growth in business volume and purchasing costs and a drop in payables etc..

After adjusting for non-cash items, receivables and payables for the normal operating profit before taxation, and after deducting the paid income tax amounting to RMB1.110 billion, the net cash used in operating activities was RMB86 million.

Net cash used in investing activities was RMB6.963 billion, mainly including a cash outflow of RMB5.467 billion as time deposits in financial institutions by the Company.

Net cash generated from financing activities was RMB7.811 billion, mainly due to proceeds from the Global Offering during the Reporting Period.

Based on the Company’s cash flows during the Reporting Period, the Company has adequate working capital. The Company will continue to strengthen the settlement of financial debts and reduce the use of operating activities fund. The Company will also continue to effectively manage the investment risk, expand the scale of investment and increase the return on investment.

5.5.3 Summary of Financial Ratios

The following table sets forth the Company's key financial ratios for the years indicated.

Main financial ratios	Year ended 31 December	
	2013	2012
Net profit margin (%)	8.4%	8.6%
Return on assets (%) ⁽¹⁾	8.7%	8.1%
Return on equity (%) ⁽²⁾	17.4%	46.8%
Return on invested capital ⁽³⁾	17.4%	46.3%
Main financial ratios	As at 31 December 2013	As at 31 December 2012
	2013	2012
Gearing ratio (%) ⁽⁴⁾	0.0%	2.2%
Net debt to equity ratio (%) ⁽⁵⁾	net cash	net cash
Current ratio (%) ⁽⁶⁾	1.7	1.1
Quick ratio ⁽⁷⁾	1.6	1.1

$$(1) \text{ Return on assets} = \frac{\text{profit for the year}}{(\text{opening balance of total assets} + \text{closing balance of total assets}) / 2}$$

$$(2) \text{ Return on equity} = \frac{\text{profit for the year}}{\text{total equity at the end of the year}}$$

$$(3) \text{ Return on invested capital} = \frac{\text{earnings before interest and tax (EBIT)} \times (1 - \text{tax rate})}{\text{total interest bearing debt} - \text{credit loans} + \text{total equity at the end of the year}}$$

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

$$(5) \text{ Net debt to equity ratio} = \frac{\text{net debt at the end of the year}}{\text{total equity at the end of the year}}$$

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

$$(7) \text{ Quick ratio} = \frac{\text{current assets} - \text{inventories}}{\text{current liabilities}}$$

Return on assets

The Company's return on assets increased to 8.7% for the year ended 31 December 2013 from 8.1% for the year ended 31 December 2012, mainly due to the increase in profit during the Reporting Period.

Return on equity

The Company's return on equity decreased from 46.8% for the year ended 31 December 2012 to 17.4% for the year ended 31 December 2013, mainly due to the increase in equity with the proceeds from the Global Offering.

Return on invested capital

The Company's return on invested capital decreased from 46.3% for the year ended 31 December 2012 to 17.4% for the year ended 31 December 2013, mainly due to the settlement of interest bearing debt during the Reporting Period. As at the end of the Reporting Period, the Company's interest bearing debt was nil.

Gearing ratio

The Company's gearing ratio decreased from 2.2% as at 31 December 2012 to 0.0% as at 31 December 2013, for the same reason as for the decrease in return on equity.

Net debt to equity ratio

The Company maintained positive net cash as at 31 December 2013.

Current ratio

The Company's current ratio increased from 1.1 as at 31 December 2012 to 1.7 as at 31 December 2013, primarily due to the increase in current assets during the Reporting Period.

Quick ratio

The Company's quick ratio increased from 1.1 as at 31 December 2012 to 1.6 as at 31 December 2013. The Company's inventories accounted for a minor percentage of current assets. The change in the quick ratio was due to the same reason as that for the increase in the current ratio.

5.6 Discussion on the backlog and new contracts

With regards to the Company's announcement entitled Purported Termination of A Project in the United States dated 28 February 2014, the backlog as at 31 December 2013 and new contract values during the Reporting Period exclude any amount from the project mentioned in the announcement.

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

	As at 31 December 2013 (RMB'000)	As at 31 December 2012 (RMB'000)	Change (%)
Engineering, consulting and licensing	6,050,017	4,992,705	21.2
EPC Contracting	85,439,061	46,309,988	84.5
Construction	12,216,820	13,992,728	(12.7)
Equipment manufacturing	262,454	255,318	2.8
Total	<u>103,968,352</u>	<u>65,550,739</u>	58.6

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

	As at 31 December 2013 (RMB'000)	As at 31 December 2012 (RMB'000)	Change (%)
Oil refining	18,752,220	24,081,504	(22.1)
Petrochemicals	38,675,478	20,329,113	90.2
New coal chemicals	39,159,298	13,186,369	197.0
Other industries	7,381,356	7,953,753	(7.2)
Total	<u>103,968,352</u>	<u>65,550,739</u>	58.6

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

	As at 31 December 2013 (RMB'000)	As at 31 December 2012 (RMB'000)	Change (%)
PRC	70,546,482	47,792,690	47.6
Overseas	33,421,870	17,758,049	88.2
Total	103,968,352	65,550,739	58.6

The following table sets forth the total value of backlog categorized by the clients of each of (1) Sinopec Group and its associates and (2) non-Sinopec Group and its associates as at the dates indicated:

	As at 31 December 2013 (RMB'000)	As at 31 December 2012 (RMB'000)	Change (%)
Sinopec Group and its associates	36,450,335	25,000,123	45.8
Non-Sinopec Group and its associates	67,518,017	40,550,616	66.5
Total	103,968,352	65,550,739	58.6

As at 31 December 2013, the value of the Company's backlog totaled RMB103.968 billion, up by 58.6% as compared with that as at 31 December 2012, representing 2.39 times of the annual revenue of RMB43.572 billion in 2013.

The following table details the total value of new contracts entered into categorized by the Company's each business segment in the years indicated:

	Year ended 31 December 2013 (RMB'000)	2012 (RMB'000)	Change (%)
Engineering, consulting and licensing	5,411,511	4,093,899	32.2
EPC Contracting	62,634,601	13,008,165	381.5
Construction	13,439,019	12,158,493	10.5
Equipment manufacturing	504,333	382,121	32.0
Total	81,989,464	29,642,678	176.6

The following table sets forth the total value of new contracts entered into by the Company categorized by the industries in which the Company's clients operate in the years indicated:

	Year ended 31 December		
	2013	2012	Change
	(RMB'000)	(RMB'000)	(%)
Oil refining	6,969,953	4,641,968	50.2
Petrochemicals	35,048,150	11,652,313	200.8
New coal chemicals	34,828,363	6,183,509	463.2
Other industries	5,142,998	7,164,888	(28.2)
Total	<u>81,989,464</u>	<u>29,642,678</u>	176.6

The following table sets forth the total value of new contracts entered into by the Company categorized by regions in the years indicated:

	Year ended 31 December		
	2013	2012	Change
	(RMB'000)	(RMB'000)	(%)
PRC	59,294,522	27,412,139	116.3
Overseas	22,694,942	2,230,539	917.5
Total	<u>81,989,464</u>	<u>29,642,678</u>	176.6

The following table sets forth the total value of new contracts entered into by the Company with the clients of each of (1) Sinopec Group and its associates and (2) non-Sinopec Group and its associates in the years indicated:

	Year ended 31 December		
	2013	2012	Change
	(RMB'000)	(RMB'000)	(%)
Sinopec Group and its associates	28,089,140	17,869,079	57.2
Non-Sinopec Group and its associates	53,900,324	11,773,599	357.8
Total	<u>81,989,464</u>	<u>29,642,678</u>	176.6

During the Reporting Period, the value of the Company's new contracts was RMB81.989 billion, representing an increase of 176.6% as compared with RMB29.643 billion for the same period in the previous year.

6. Significant Events

6.1 The issuance of H Shares and listing

SINOPEC SEG officially launched its initial public offering of 1.328 billion H Shares in May 2013, and the offering price was HK\$10.5 per share, and was listed on the Hong Kong Stock Exchange on 23 May 2013. The gross proceeds from this public offering amounted to HKD13.944 billion, and amounted to HKD13.667 billion after the deduction of various listing fees and expenses.

6.2 Credit rating

Moody's Investors Service has assigned a first-time issuer rating of A2 (the highest level of rating that can be awarded to engineering enterprises globally) to SINOPEC SEG in December 2013 and the ratings outlook is stable.

6.3 Adjustments of Use of Proceeds from the Global Offering of H Shares and Use of Proceeds

6.3.1 Adjustments to Use of Proceeds from the Global Offering of H Shares

As approved by the Ninth Meeting of the First Session of the Board, adjustments have been made to the use of proceeds from the Global Offering. The purposes and fund proportions after adjustments are:

- (1) (a) Establishing an engineering and technological R&D center, as well as reconstructing and expanding the R&D base in Luoyang to replace the following R&D centers proposed in the original plan: (i) a refining and reaction engineering technology R&D center in Luoyang; (ii) a new coal chemical and natural gas chemical technology R&D center in Ningbo; (iii) a petrochemical-alternative energy engineering technology R&D center in Beijing; and (iv) a pharmaceutical chemical engineering technology R&D center in Shanghai. The functions of the engineering and technology R&D centers were originally constructed in a staggered plan which utilized: (b) a modularized construction base to take the place of the originally scheduled projects such as the modern construction technology R&D center. The base will concurrently have the modularized manufacturing function required by modularized construction based on the function of construction technology research and development; and (c) construction machinery manufacturing investment project. The total amount is approximately RMB1.7 billion, a proportion of 15.86%.
- (2) Paying for long-term equity investments in subsidiaries and settling the non-trade amounts of RMB2 billion due to Sinopec Group. The total amount is approximately RMB2.25 billion, a proportion of 20.99%.

- (3) Improving the Company's overseas marketing networks and maintaining the original plan of establishing an operation and maintenance center in Saudi Arabia, an integrated operating center in North America, and several overseas subsidiaries or branches in South Asia, Africa and South America. In addition, assessment and demonstration of the project planning and feasibility study report of the operation and maintenance center in Saudi Arabia was completed. The center is planned to be completed and operational in 2015. Other planned overseas marketing outlets will be developed appropriately according to the progress of the project. The total amount is RMB800 million, a proportion of 7.46%.
- (4) Maintaining the original plan of improving the information system of the Company which will be amounted to approximately RMB700 million, a proportion of 6.53%.
- (5) Maintaining the original plan of purchasing crawler cranes with high lifting capacities, large lifting and transport equipment, and specialized construction equipment to enhance the Company's specialized construction capacity and technical level. The total amount is approximately RMB800 million, a proportion of 7.46%.
- (6) Applying for a new long-term equity investment, through investing and providing capital contribution to certain professional companies under the Company (for example, a lifting and transportation company, equipment manufacturing company, or a construction company). The total amount is approximately RMB1.142 billion, a proportion of 10.66%.
- (7) New mergers and acquisitions of engineering companies, purchasing patents and proprietary technologies and other project purposes. The total amount is approximately RMB3.325 billion, a proportion of 31.03%.

6.3.2 Use of Proceeds from the Global Offering of H Shares

During the Reporting Period, the Company finished payment of long-term equity investment amounts of subsidiaries and settlement of the non-trade amounts payable to Sinopec Group. The total amount of proceeds used is approximately RMB2.25 billion. The amount of payment for long-term equity investment from the proceeds is RMB142 million. To sum up, the total amount of proceeds used during the Reporting Period is RMB2.392 billion.

6.4 Connected transactions

6.4.1 Connected Transaction Agreements between SINOPEC SEG and Sinopec Group

On 19 December 2012, SINOPEC SEG signed a series of continuing connected transactions or agreements with Sinopec Group, such connected transactions specifically include the following:

- The Engineering and Construction Services Framework Agreement;
- The Financial Services Framework Agreement;
- The Technology R&D Framework Agreement;
- The General Services Framework Agreement;
- The Land Use Right and Property Lease Framework Agreement;
- The Trademark Licensing Agreement;
- Counter-guarantees provided by Sinopec Group; and
- Safe Production Insurance.

Please refer to the section headed “Connected Transactions” in the prospectus of SINOPEC SEG dated 10 May 2013 and the relevant contents regarding “the Financial Services Framework Agreement” contained in SINOPEC SEG’s circular to shareholders dated 10 September 2013 for further details.

6.4.2 Connected Transactions Incurred

The aggregate amount of connected transactions of the Company incurred during the Reporting Period was RMB18.027 billion. In particular, expenses amounted to RMB1.052 billion, and the revenue amounted to RMB16.975 billion (including RMB16.643 billion from sales of products and services and RMB332 million from interest income), and it is in compliance with the relevant rules of the Hong Kong Stock Exchange.

During the Reporting Period, the engineering and construction services (supply of equipment and materials, procurement services and equipment leasing, technology licensing and other engineering-related services) provided by Sinopec Group to the Company amounted to RMB1.025 billion, less than the exempted cap of RMB1.800 billion. The engineering and construction services (preliminary consulting, technology licensing, engineering design, EPC contracting, construction and equipment manufacturing, etc.) provided by the Company to Sinopec Group amounted to RMB16.487 billion, less than the exempted cap of RMB21 billion.

During the Reporting Period, the expenses relating to the settlement of entrustment loans and other financial services between the Company and Sinopec Finance Co., Ltd. and Sinopec Century Bright Capital Investment Limited were RMB3 million, less than the exempted cap of RMB25.6 million. The daily maximum balance of deposits and interest income was RMB3.99 billion, less than the exempted cap of RMB5.5 billion. The daily maximum balance of entrusted loans was RMB9.5 billion, less than the exempted cap of RMB11.0 billion.

After approval at the Tenth Meeting of the First Session of the Board, the exempted cap of the technology R&D services provided by the Company to Sinopec Group during the Reporting Period was adjusted from RMB100 million to RMB152 million. Please refer to the announcement headed “Adjustments to Annual Caps for Continuing Connected Transactions Under the Technology R&D Framework Agreement” dated 17 March 2014 for further details. During the Reporting Period, the actual amounts received from the technology R&D services provided by the Company to Sinopec Group was RMB152 million.

During the Reporting Period, the comprehensive services provided by Sinopec Group to the Company amounted to RMB9 million, less than the exempted cap of RMB15 million.

During the Reporting Period, the land use and housing lease contract provided by the Company to Sinopec Group amounted to RMB5 million, less than the exempted cap of RMB6.5 million.

During the Reporting Period, the land use and housing lease contract provided by Sinopec Group to the Company amounted to RMB2 million, less than the exempted cap of RMB7.5 million.

During the Reporting Period, the counter guarantee provided by Sinopec Group to the Company amounted to USD 209 million, less than the exempted cap of USD 309 million.

In terms of the premium payable under the documents on safe production funds, the amount payable by the Company shall be no less than the amount specified in these documents.

The major connected transactions actually incurred during the Reporting Period were detailed in Note 42 to the Financial Report in the annual report that was prepared in accordance with IFRS. The connected transactions actually incurred during the Reporting Period are in compliance with the Hong Kong Listing Rules.

The external auditor of SINOPEC SEG was engaged to report on the Company’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 “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 his unqualified letter containing his conclusions in respect of the above-mentioned

continuing connected transactions in accordance with Rule 14A.38 of the Hong Kong Listing Rules (except for the actual aggregate amount of the technology research and development services provided by the Company to Sinopec Group in exceeded the annual cap disclosed in the prospectus of SINOPEC SEG dated 10 May 2013) and submitted a copy of the auditor's letter to the Hong Kong Stock Exchange.

6.4.3 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 have reviewed and confirmed the above-mentioned continuing connected transactions (including deposits and entrustment loans under the Financial Services Framework Agreement), based on the following:

- (a) these transactions were entered into in the ordinary and usual course of business of the Company;
- (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 they are on normal commercial terms, the transactions under the relevant agreements were entered into on terms no less favorable 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, they were entered into on terms that were fair and reasonable and in the interest of the shareholders of the Company as a whole; and
- (c) except that the actual amounts received from the technology R&D services provided by the Company to Sinopec Group exceeded the proposed annual cap for the year 2013 as disclosed in SINOPEC SEG's prospectus (please refer to the announcement headed "Adjustments to Annual Caps for Continuing Connected Transactions Under the Technology R&D Framework Agreement" dated 17 March 2014 for further details), the amounts under the transactions pursuant to other agreements as mentioned above did not exceed the respective proposed annual caps.

6.4.4 Approval of Continuing Connected Transactions Under Financial Service Framework Agreement and Annual Caps for 2014 and 2015

On 28 October 2013, SINOPEC SEG convened the second extraordinary general meeting for 2013 to consider and approve the Financial Service Framework Agreement and the continuing connected transactions and annual caps thereunder. Please refer to the contents regarding “The Financial Services Framework Agreement” contained in SINOPEC SEG’s circular to shareholders dated 10 September 2013 for the details of the approved annual caps for 2014 and 2015.

6.4.5 Approval of Annual Caps for 2013, 2014 and 2015 for Continuing Connected Transactions Under Technology R&D Framework Agreement

On 14 March 2014, SINOPEC SEG convened the Tenth Meeting of the First Session of the Board to approve the annual caps for continuing connected transactions under the Technology R&D Framework Agreement. Please refer to SINOPEC SEG’s announcement headed “Adjustments to Annual Caps for Continuing Connected Transactions under the Technology R&D Framework Agreement” dated 17 March 2014 for the details of the approved annual caps for 2013, 2014 and 2015 for continuing connected transactions under the Technology R&D Framework Agreement.

6.4.6 Other Significant Connected Transactions occurred during the Reporting Period

None

6.5 Litigation or arbitration events

The Company is currently involved in litigation 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 currently in the evidence exchange and cross-examination phase.

On 25 February 2014, SINOPEC SEG received a written notice from Medicine Bow Fuel & Power LLC (“Medicine Bow”) purporting to terminate three agreements from 2012 relating to the engineering, procurement and construction of a coal gasification and liquefaction facility near Medicine Bow, Wyoming in the United States. SINOPEC SEG has also received a demand for arbitration that appears to have been filed by Medicine Bow with the American Arbitration Association on 24 February 2014, in which Medicine Bow seeks an award for damages claimed to arise from the alleged breach by SINOPEC SEG of the above alleged agreements to construct a coal gasification and liquefaction facility near Medicine Bow, Wyoming. SINOPEC SEG denies that it has any liability to Medicine Bow and has engaged legal counsel to represent it and intends to defend against the claims vigorously. As at 14 March 2014, no payment has been made to SINOPEC SEG by Medicine Bow, and no revenue with respect to Medicine Bow has been recognized by the Company. Having reviewed and considered available information, the Board does not currently anticipate that Medicine Bow’s claim will create any material adverse impact on its existing operations, business plans or business development strategies.

Save as disclosed in the Annual Report, there were no other material litigation or arbitration events during the Reporting Period.

6.6 Other material contracts

Save as disclosed in the Annual Report, the Company had no other contracts of significance which should be disclosed during the Reporting Period.

6.7 Repurchase, sale and redemption of shares

During the Reporting Period, SINOPEC SEG or any of its subsidiaries did not repurchase, sell or redeem any listed securities of SINOPEC SEG.

6.8 Review of annual results

The audit committee of SINOPEC SEG (the “Audit Committee”) has reviewed the Annual Report and does not have different views on the annual financial statements.

7. Corporate governance

7.1 Corporate Governance in the Reporting Period

In accordance with the related domestic and overseas laws and regulations and the actual situation of the Company, SINOPEC SEG strictly standardizes corporate governance based on the working rules, systems and norms such as Rules of Procedure of Shareholders Meeting, the Rules of Procedure of Board and the Rules of Procedure of the Supervisory Committee. In 2013, SINOPEC SEG made modifications on its articles of association (the “Articles of Association”), consummated the dividend distribution policies of SINOPEC SEG, improved the internal control systems and enhanced the construction of execution of internal control of the Company. To standardize the procedures of disclosure of sensitive information, the Company formulated “Reporting and Distribution Procedures on Price-Sensitive Information of the Company” and “Registration System of Persons with Access to Inside Information”; and put into place confidentiality policies and insider registration regarding inside information such as periodical reports.

SINOPEC SEG further enhanced post-oriented trainings to promote the sense of responsibility of all Directors, Supervisors and its senior management (the “Senior Management”), and provided Directors with information on the business performance and financial situation of the Company in a timely manner, this empowers the Directors to make reasonable decisions. We continue to prioritize information disclosure and our relationship with our investors, by strengthening communication, increasing transparency of the Company and conveying investors’ opinions to the management in a timely manner. The Company actively performed its social responsibilities and promoted the sustainable development of the Company (see the “2013 Sustainable Development Report” of SINOPEC SEG for details).

During the Reporting Period, the supervisory committee of SINOPEC SEG (the “Supervisory Committee”) had no objection regarding all supervised matters. Furthermore, no administrative punishments or circulated criticisms by the Securities and Futures Commission of Hong Kong were issued nor SINOPEC SEG, the Board, Directors, Supervisors, Senior Management, controlling shareholders as well as the beneficial owners of SINOPEC SEG were censured publicly by the Hong Kong Stock Exchange.

7.2 Compliance with the Corporate Governance Code

SINOPEC SEG is committed to the establishment of a modern corporate governance structure where the shareholders’ meeting, the Board, the Supervisory Committee and the Senior Management adopt an effective check and balance system and operate independently in accordance with the relevant regulatory requirements.

During the period from the date of listing of SINOPEC SEG to 31 December 2013, SINOPEC SEG complied with all provisions in the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules.

8. Report of the Board

8.1 Dividends

During the Reporting Period, in order to maintain the profit distribution policy, and maintain continuity and stability, the Company revised the Articles of Association upon approval of the Eighth Meeting of the First Session of the Board and the second extraordinary general shareholders' meeting in 2013, and further clarified the profit distribution policy of the Company. Article 168 of the revised Articles of Association specifies that:

- (1) SINOPEC SEG shall comply with the requirements of relevant laws and regulations of the Company Law of the PRC, which highly values the reasonable investment return to investors and guarantees the continuity and stability of the profits distribution policy of SINOPEC SEG.
- (2) SINOPEC SEG may distribute dividends in the following manner: cash, shares, or other means permitted by laws, administrative rules, regulations of competent authorities and regulatory provisions in the place where SINOPEC SEG's shares are listed.
- (3) SINOPEC SEG's distributable profits in the form of cash each year shall be no less than 30% of the net profits attributable to SINOPEC SEG's shareholders in the year, under the circumstances that there are net profits attributable to SINOPEC SEG's shareholders and accumulated undistributable profits, and that SINOPEC SEG's investment plan and cash expenses can be satisfied. In case of force majeure such as war and natural disasters, or changes to SINOPEC SEG's external operating environment which results in a material impact on its production and business, or relatively significant changes to SINOPEC SEG's asset, business or financial position, SINOPEC SEG may adjust the aforementioned profits distribution ratio.
- (4) The profits of SINOPEC SEG can be distributed twice a year. The final profits shall be determined by ordinary resolution at the general meeting, while the interim profits can be determined by the Board as authorized by the ordinary resolution obtained at the general meeting. Except otherwise specified in laws and administrative rules, the half-year distributable dividends shall not exceed 50% of the current net profits of SINOPEC SEG for the relevant half-year.

After approval at the Sixth Meeting of the First Session of the Board, the net profit of RMB363 million attributable to shareholders of SINOPEC SEG for the period from the date immediately after the Company's assets were valued for the establishment of SINOPEC SEG (30 June 2012) to the date of the Company's establishment (28 August 2012), as special dividend, was distributed to the initial state-owned shareholders on 10 April 2013.

The Eighth Meeting of the First Session of the Board approved the dividend distribution plan for the six-month period ended 30 June 2013. An interim cash dividend of RMB0.134 (inclusive of applicable taxes) per Share was implemented after review and approval at SINOPEC SEG's second extraordinary general meeting on 28 October 2013.

The Tenth Meeting of the First Session of the Board approved that the final dividend distribution scheme as at 31 December 2013 will be calculated based on the total Shares on 20 May 2014 (registration date) and the final cash dividend distribution will be based on RMB0.190 per Share (tax included). That distribution scheme will be implemented after review and approval of the shareholders meeting of SINOPEC SEG on 8 May 2014. The dividend will be paid on Monday, 30 June 2014 to those shareholders whose names appear on the register of members of SINOPEC SEG at the close of business on Tuesday, 20 May 2014 (the "Record Date"). 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: Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong) before 4:30 p.m. on Wednesday, 14 May 2014. The H Share register of members will be closed from Thursday, 15 May 2014 to Tuesday, 20 May 2014 (both days inclusive).

The dividends will be denominated and declared in RMB, the holders of Domestic Shares will be paid in RMB and the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to RMB as announced by the Public Bank of China during the week prior to the date of declaration of dividend.

In accordance with the Enterprise Income Tax Law of the People's Republic of China and its implementation regulations which came into effect on 1 January 2008, SINOPEC SEG is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the on-resident enterprise shareholders whose names appear on the register of members for H Shares when distributing the Cash Dividends and Bonus Shares issued by way of capitalization of the undistributed profits to them. Any H Shares registered not 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 its shareholder status, please enquire about the relevant procedures with their agents or trustees. SINOPEC SEG 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 who 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 PRC under the relevant tax agreement, SINOPEC SEG 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 are residents of the countries which had an agreed tax rate of less than 10% with PRC under the relevant tax agreement, SINOPEC SEG shall withhold and pay individual income tax on behalf of the relevant shareholders at a rate of 10%. In that case, if the relevant individual holders of H Shares wish to reclaim the extra amount withheld (the "Extra Amount") due to the application of 10% tax rate, SINOPEC SEG 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 share register of SINOPEC SEG within the relevant timeline. SINOPEC SEG will assist with the tax refund after the approval of the competent tax authority. Should the individual holders of H Shares are residents of the countries which had an agreed tax rate of over 10% but less than 20% with PRC under the tax agreement, SINOPEC SEG 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 had an agreed tax rate of 20% with PRC, or which has not entered into any tax agreement with PRC, or otherwise, SINOPEC SEG shall withhold and pay the individual income tax at a rate of 20%.

8.2 Risk Factors

8.2.1 Risks with regard to the uncertain global macroeconomic future

The business results of the Company is closely related to economic situation of the PRC as well as the global economic situation. The current global economy is undergoing complicated and profound changes. The financial crisis which has lasted for five years is not yet over, and the global economy as a whole finds itself in an unstable adjustment period. A low growth rate and high unemployment rate have not changed fundamentally. Although the economy of the United States during the last two years is showing signs of recovery due to the stimulus of the “quantitative easing” policy, however, potential conflicts (especially financial constraints) are, to some degree, restricting the stable development of the economy in the long run. The economy of Europe is still weak and in a state of negative growth despite news from several countries that seem to show that the most serious period has already passed. This economic state will probably continue next year. It is preliminarily estimated that the global economy of 2014 will continue to recover at a slow pace. The growth rate will be slow, and new growth drivers remain uncertain. The blur in the global economy enormously influences global petrochemical engineering companies, especially the Company who expects to enlarge its overseas market share and pursue stable overseas development. The uncertain economic future may make it more difficult to fulfill our market expansion targets.

8.2.2 Risks from the macroeconomic policies and government regulation

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

Turbulent and unstable political situation in the countries where the Company has overseas projects, policy discontinuity due to partisan policy, and government intervention in the overseas investments, are all possible ways in which political risks can be elevated. In some regions in Africa, sudden government nationalization, cancellation, seizure, confiscation, and suspension of refinery projects have previously occurred. There is seldom and occasionally no compensation for investors should governments exercise these options. Usually, there is little or even worse, no compensation for investors. Thus, relevant project participants may suffer significant losses. Under this situation, the exploration opportunities in affected countries with high risks, which hinder market expansion of the Company.

- (2) Risks with regard to the host country’s inadequate policy and regulation

If the host country’s public policy, particularly security policies, are flawed, for instance, if the regulations on rallies, demonstrations and strikes are flawed, if certain events, such as having persons detained or casualties, occur, the project implementation will be directly affected, and even legal proceedings could be pursued. These conditions will indirectly affect any new market exploration in the country hereof.

(3) Risks with regard to changes in the financial and legal system

Changes in VAT, customs, insurance and other aspects of the host country's financial and tax system will directly affect the economic results of the project, reducing the profitability of the project. Meanwhile, if changes are made in the legal system, such as changes in environmental protection laws, investment laws, labor laws and other relevant laws in the host regions of projects in the Middle East or Middle Asia, 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 environment protection, safety and health are revised, or updates or standards are raised, the costs of business operations will be affected.

8.2.3 Risks with regard to project delays and overspending

(1) Risks in inaccurate project quotation and preliminary budget

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

(2) Risks in sub-contractor management

The Company frequently needs to appoint sub-contractors to assist in projects. However, if we cannot find qualified sub-contractors in a timely manner, it will delay current project completion and impede undertaking other projects. Concurrently, the lack of sub-contractor progress will increase the risk of project delay. Additionally, the Company assumes joint liability for contracted projects, which means that the Company may be subject to compensation liability due to contracted project quality problems and may be subject to lawsuits and compensation claims. It is possible that our business and financial status as well as our business operations will be affected by these major unfavorable matters.

(3) Risks of regular fluctuation of raw material prices for building

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

(4) Risks of currency inflation, including the cost increase of human resources

The Middle East and Middle Asia are the primary target markets of our business. Currently, we are vigorously developing the regional markets in Southeast Asia. However, it is important to note that the economy in Southeast Asia has unstable high inflation considering that the economy as a whole in those areas are unstable with high inflation rates, this may directly lead to price increases of contract and labor markets. Concurrently, due to China's rapid economic development and the continuing appreciation of the Chinese Yuan (RMB), the cost of exported labor services are running high, which further increases project costs.

(5) Risk in project management

Risks in project management are mainly found in financing management, engineering design and capability for claiming indemnity. Some of our on-going overseas projects are financing their projects. Insufficient financing management may lead to delays of construction because we may not solve problems in a timely manner. For projects where design standards are substantially different than China's standards, the design group's abilities may be hampered. Delay in implementation of the design will result in difficulties in the execution with procurement and construction. Due to the complexity of the construction projects, the capability for claiming indemnity will affect the profitability of the project in a direct way. If the project team's claims and counter claims are inadequate to meet the requirements of the undertaken project, and if we fail to successfully solve claims and counter claims in some EPC Contracting projects we will lose profit in these projects, and in particular, overseas projects.

8.2.4 Risks with regard to QHSE

In recent years, both the domestic and overseas markets require better company 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 the state and future development and life of the Company. The Company is a member of the petrochemical engineering industry, which is characterized by both "petrochemical" as well as "engineering" in terms of production. The high-risk properties of the petrochemical and engineering industries in fact increase the pressure and difficulty in our QHSE management.

If there exist any non-standard, non-regulated, imperfect or insufficient execution in the QHSE management basis, mode and system of the Company situations may result in QHSE events. On the other hand, if our overseas public safety management cannot fulfil the overseas expansion demand, it can also lead to overseas public safety events.

8.2.5 Risks with regard to exchange rate

During the reporting period, our overseas projects have accounts receivable and payable which are settled in foreign currencies. We also raise funds which are settled in foreign currencies by selling shares in Hong Kong. During the reporting period, our foreign currencies mainly consist of U.S. dollars, EU euros and Saudi Arabian riyals. Exchange rates will affect the pricing of our services as well as our material procurement costs settled in foreign currencies. Thus, fluctuation of exchange rates may affect our business performance and financial status. Moreover, the exchange and remittance of foreign currencies are subject to the influence of China's laws and regulations on foreign currency and therefore cannot guarantee foreign trade policies of current accounts and capital accounts will remain unchanged. Foreign currency policies will probably limit our ability to obtain adequate foreign currency. We cannot ensure that we have enough foreign currency to meet the demand of the Company under certain exchange rates. This will affect the execution of our projects settled in foreign currency.

8.2.6 Risks with regard to the uncertainty of obtaining new projects

The main resources of the Company come 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 supplies and price variations will affect our ability to obtain new projects. At the same time, the competitiveness of traditional resources in the resource market is the prerequisite to ensuring service demand. If government subsidies or other economic stimulating measures are implemented to lower the prices of the substitute resources, technological breakthroughs for substitute resource suppliers and users may occur and the costs advantage of traditional resources will fade away. This will diminish our business turnover on a large scale.

8.2.7 Risks with regard to decreased orders from major clients

The industries in which our clients are involved are capital and technology-intensive with high thresholds for access. Our major clients are relatively concentrated, resulting in the Company 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 customers choose to switch to a competitor or reduce orders because of financial difficulties, we will face severe business or income fluctuations or decreases. Therefore, we have endeavored to win more new clients. However, it is likely that the majority of our clients and income will continue to come from our current clients. The majority of our income comes through our current clients and we continue to expand our clients base and win new contracts. We cannot guarantee our income and growth stability due to potential risks which may significantly affect our business performance.

8.2.8 Risks with regard to strategic tactical changes in terms of investment

In recent years, both domestic and overseas engineering companies have emphasized 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. The Company continually questions how to recognize all significant risks during our due diligence investigation, achieve synergy and resource integration and successfully operate an expanded company because of acquisition are all relevant the Company must answer. We will strive to assist potential buyers to assume the liabilities of the business and execute the contracts and other rights should we sell any part of the Company or acquisitions in the future. The Company plans to explore the overseas markets and potential new businesses. It may also increase research investment in substitute resource and substitute chemical raw materials. The future of these investments and trades will be mainly under the influence of government policies out of our control. We cannot guarantee maintaining our powerful growth momentum. In case that the investments are not successful, the business and financial status of the Company will be significantly affected.

9. Report of the Board of Supervisors

The Supervisory Committee and each supervisor of SINOPEC SEG diligently perform the supervision responsibilities, actively attend the meetings held by the Board and shareholders' meetings to participate in the process supervision, carefully review each significant decision made with regard to issues including production operations, financial management, connected transactions, capital operation, major guarantees and dividend distribution, and safeguard the interests of shareholders and SINOPEC SEG in accordance with the Company Law of the PRC and the Articles of Association of SINOPEC SEG.

During the Reporting Period, the Third Meeting of the First Session of the Supervisory Committee was held on 16 August, 2013. The meeting reviewed and approved the 2013 Interim Report, the 2013 Interim Report and relevant matters, production and operation plan, investment plan and financial budgets for 2013 and annual caps for 2014 and 2015 for continuing connected transactions under the Financial Services Framework Agreement.

The Supervisory Committee, in accordance with the supervision upon SINOPEC SEG's major decision-making process and upon the operation conditions, holds that: in light of the complicated and ever-changing market environment both domestically and overseas, SINOPEC SEG planned early and responded actively with emphasis on management, deepening the restructuring and integration of the business, optimizing resource allocation, strengthening overseas market exploration and optimizing management of overseas projects. Consequently, SINOPEC SEG realized stable growth in production and operation and achieved good business performance. The Supervisory Committee has no dissent as for the supervised issues within the Reporting Period.

Firstly, the Board diligently fulfilled its obligations and exercised its rights under the PRC Law and SINOPEC SEG's Articles of Association, and made scientific decisions on major issues concerning production and operation, reforms and development, etc; the management of the Company carefully implemented the decisions made by the Board, strengthened research and development of technologies, placed emphasis on sustainable innovation and green and low carbon development, highlighted the overall upgrading of the core competency. As a result, remarkable achievements have been made in every aspect. We have not found that any of the Directors or senior management has violated the law, regulations, or SINOPEC SEG's Articles of Association, nor has any of their actions damaged the interests of SINOPEC SEG or its shareholders.

Secondly, the reports prepared by SINOPEC SEG in 2013 were in compliance with the relevant regulations of domestic and overseas securities regulators, and truly and fairly represented the Company's financial status and operational performance.

Thirdly, all connected transactions between the Company and Sinopec Group were in compliance with the Hong Kong Listing Rules. All the connected transactions were conducted on the basis of fair and reasonable basis and in line with the principle of "fairness, justice and openness". Nothing in these transactions was found to be detrimental to the interests of SINOPEC SEG or its non-connected shareholders.

Fourthly, SINOPEC SEG strictly implemented relevant fund-raising regulations. The actual utilization of funds raised were consistent with the disclosures.

Fifthly, SINOPEC SEG timely disclosed the material information according to the regulations of securities supervisory authorities, and the information disclosed was authentic, accurate and complete.

This session of the Supervisory Committee will follow the principle of integrity, perform the duties of supervision, actively participate in the process supervision of significant decision makings, increase the strength of inspection and supervision and protect Company's interest and shareholders' equity.

10. Financial statements

10.1 Auditors' opinion

The financial statements for the year ended 31 December 2013 prepared by the Company in accordance with IFRS was audited by Grant Thornton Hong Kong Limited, which has issued a standard unqualified audit report.

10.2 Accounting policies, estimates and methodology

There are no significant changes in accounting policies, estimates and methodology as compared to the financial statements for the previous year.

10.3 Financial Statements

The annual financial statements prepared in accordance with IFRS for the year ended 31 December 2013.

Consolidated Statement of Comprehensive Income

	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Revenue	43,571,851	38,526,489
Cost of sales	(37,165,660)	(32,998,383)
Gross profit	6,406,191	5,528,106
Other income	78,291	85,392
Selling and marketing expenses	(100,610)	(90,546)
Administrative expenses	(1,088,531)	(947,076)
Research and development costs	(629,698)	(547,561)
Other operating expenses	(256,315)	(154,559)
Other gains/(losses), net	4,157	(41,733)
Operating profit	4,413,485	3,832,023
Finance income	428,394	525,965
Finance expenses	(104,123)	(121,300)
Finance income, net	324,271	404,665
Share of profits of joint arrangements	1,324	1,753
Share of profits of associates	11,961	13,626
Profit before taxation	4,751,041	4,252,067
Income tax expense	(1,093,877)	(934,798)
Profit for the year	3,657,164	3,317,269

	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Other comprehensive income for the year, net of tax		
Items that may be reclassified subsequently to profit or loss:		
Fair value gains on available-for-sale financial assets	3,223	851
Share of other comprehensive income of joint arrangements	—	93
Exchange differences arising on translation of foreign operations	1,549	—
	<u>4,772</u>	<u>944</u>
Item that will not be reclassified subsequently to profit or loss:		
Gains on revaluation of retirement benefit plans obligations	<u>266,318</u>	<u>292,645</u>
Other comprehensive income for the year, net of tax	<u>271,090</u>	<u>293,589</u>
Total comprehensive income for the year	<u>3,928,254</u>	<u>3,610,858</u>
Profit attributable to:		
Equity holders of SINOPEC SEG	3,656,802	3,316,970
Non-controlling interests	<u>362</u>	<u>299</u>
Profit for the year	<u><u>3,657,164</u></u>	<u><u>3,317,269</u></u>
Total comprehensive income attributable to:		
Equity holders of SINOPEC SEG	3,927,892	3,610,559
Non-controlling interests	<u>362</u>	<u>299</u>
Total comprehensive income for the year	<u>3,928,254</u>	<u>3,610,858</u>
	RMB	RMB
Earnings per share for profit attributable to equity holders of SINOPEC SEG during the year (expressed in RMB per share)		
– Basic and diluted	<u><u>0.93</u></u>	<u><u>1.07</u></u>

Consolidated Statement of Financial Position

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	4,049,488	3,834,150
Land use rights	2,857,234	2,866,761
Intangible assets	443,779	476,763
Investment in joint arrangements	8,184	7,666
Investment in associates	95,059	84,618
Available-for-sale financial assets	19,362	15,065
Deferred income tax assets	693,373	793,755
Total non-current assets	8,166,479	8,078,778
Current assets		
Inventories	1,245,147	747,117
Notes and trade receivables	6,946,818	6,074,402
Prepayments and other receivables	4,608,499	4,658,720
Amounts due from customers for contract work	5,952,132	4,584,264
Loans due from the ultimate holding company	9,500,000	8,140,000
Restricted cash	19,152	24,254
Time deposits	5,412,552	—
Cash and cash equivalents	5,514,490	4,822,490
Total current assets	39,198,790	29,051,247
Total assets	47,365,269	37,130,025

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
EQUITY		
Share capital	4,428,000	3,100,000
Reserves	16,548,714	3,977,985
Consolidated equity attributable to equity holders of SINOPEC SEG	20,976,714	7,077,985
Non-controlling interests	3,627	3,265
Total equity	20,980,341	7,081,250
LIABILITIES		
Non-current liabilities		
Retirement and other supplemental benefit obligations	2,396,554	2,877,632
Provision for litigation claims	329,890	369,244
Deferred income tax liabilities	37,564	39,483
Total non-current liabilities	2,764,008	3,286,359
Current liabilities		
Notes and trade payables	10,194,259	8,366,282
Other payables	8,361,040	11,801,526
Amounts due to customers for contract work	4,903,978	6,242,041
Loans due to fellow subsidiaries	—	157,138
Current income tax liabilities	161,643	195,429
Total current liabilities	23,620,920	26,762,416
Total liabilities	26,384,928	30,048,775
Total equity and liabilities	47,365,269	37,130,025
Net current assets	15,577,870	2,288,831
Total assets less current liabilities	23,744,349	10,367,609

Statement of Financial Position

	As at December 31	
	2013	2012
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	10,164	9,243
Land use rights	30,020	30,640
Intangible assets	291	53
Investment in subsidiaries	6,644,135	6,448,450
Deferred income tax assets	13,704	157
Total non-current assets	6,698,314	6,488,543
Current assets		
Inventories	302	—
Trade receivables	137,411	10,356
Prepayments and other receivables	585,072	1,757,160
Loans due from the ultimate holding company	9,500,000	4,900,000
Restricted cash	808	282
Time deposits	5,412,552	—
Cash and cash equivalents	4,344,785	3,075,115
Total current assets	19,980,930	9,742,913
Total assets	26,679,244	16,231,456

	As at December 31	
	2013	2012
	RMB'000	RMB'000
EQUITY		
Share capital	4,428,000	3,100,000
Reserves	11,795,090	3,198,471
Total equity	16,223,090	6,298,471
LIABILITIES		
Non-current liabilities		
Retirement and other supplemental benefit obligations	573	626
Total non-current liabilities	573	626
Current liabilities		
Trade payables	48,450	—
Other payables	10,350,097	9,902,991
Amounts due to customers for contract work	57,034	26,391
Current income tax liabilities	—	2,977
Total current liabilities	10,455,581	9,932,359
Total liabilities	10,456,154	9,932,985
Total equity and liabilities	26,679,244	16,231,456
Net current assets/(liabilities)	9,525,349	(189,446)
Total assets less current liabilities	16,223,663	6,299,097

Consolidated Statement of Changes In Equity

	Attributable to equity holders of SINOPEC SEG									
	Share capital	Capital reserve	Statutory surplus reserve	Investment revaluation reserve	Specific reserve	Exchange translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	400,000	2,147,721	—	7,317	46,574	—	128,495	2,730,107	3,301	2,733,408
Profit for the year	—	—	—	—	—	—	3,316,970	3,316,970	299	3,317,269
Other comprehensive income:										
Fair value change of available-for-sale financial assets - gross	—	—	—	1,133	—	—	—	1,133	—	1,133
Fair value change of available-for-sale financial assets - tax	—	—	—	(282)	—	—	—	(282)	—	(282)
Defined benefits obligation revaluation of actuarial gain and loss - gross	—	—	—	—	—	—	378,611	378,611	—	378,611
Defined benefits obligation revaluation of actuarial gain and loss - tax	—	—	—	—	—	—	(85,966)	(85,966)	—	(85,966)
Share of other comprehensive income of joint arrangements	—	—	—	93	—	—	—	93	—	93
Total comprehensive income	—	—	—	944	—	—	3,609,615	3,610,559	299	3,610,858
Transactions with owners:										
Assets transferred from the Company to Sinopec Group	—	(19,448)	—	—	—	—	—	(19,448)	—	(19,448)
Capital contributions by Sinopec Group to subsidiaries of SINOPEC SEG	—	243,628	—	—	—	—	—	243,628	—	243,628
Assets transferred from Sinopec Group to subsidiaries of SINOPEC SEG	—	513,199	—	—	—	—	—	513,199	—	513,199
Acquisition of non-controlling interests of subsidiaries	—	—	—	—	—	—	(60)	(60)	(335)	(395)
Transformation into joint stock company with limited liability	2,700,000	(2,365,628)	—	—	—	—	(334,372)	—	—	—
Transfer to statutory surplus reserve	—	—	191,517	—	—	—	(191,517)	—	—	—
Appropriation of specific reserve	—	—	—	—	165,558	—	(165,558)	—	—	—
Utilisation of specific reserve	—	—	—	—	(113,379)	—	113,379	—	—	—
Total transactions with owners	2,700,000	(1,628,249)	191,517	—	52,179	—	(578,128)	737,319	(335)	736,984
At 31 December 2012	3,100,000	519,472	191,517	8,261	98,753	—	3,159,982	7,077,985	3,265	7,081,250

	Attributable to equity holders of SINOPEC SEG								Non-controlling interests	Total equity
	Share capital	Capital reserve	Statutory surplus reserve	Investment revaluation reserve	Specific reserve	Exchange translation reserve	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	<u>3,100,000</u>	<u>519,472</u>	<u>191,517</u>	<u>8,261</u>	<u>98,753</u>	<u>—</u>	<u>3,159,982</u>	<u>7,077,985</u>	<u>3,265</u>	<u>7,081,250</u>
Profit for the year	—	—	—	—	—	—	3,656,802	3,656,802	362	3,657,164
Other comprehensive income:										
Fair value change of available-for-sale financial assets - gross	—	—	—	4,297	—	—	—	4,297	—	4,297
Fair value change of available-for-sale financial assets - tax	—	—	—	(1,074)	—	—	—	(1,074)	—	(1,074)
Defined benefits obligation revaluation of actuarial gain and loss - gross	—	—	—	—	—	—	345,054	345,054	—	345,054
Defined benefits obligation revaluation of actuarial gain and loss - tax	—	—	—	—	—	—	(78,736)	(78,736)	—	(78,736)
Exchange differences arising on translation of foreign operations	—	—	—	—	—	1,549	—	1,549	—	1,549
Total comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,223</u>	<u>—</u>	<u>1,549</u>	<u>3,923,120</u>	<u>3,927,892</u>	<u>362</u>	<u>3,928,254</u>
Transactions with owners:										
Special dividends	—	—	—	—	—	—	(363,299)	(363,299)	—	(363,299)
Interim dividends for 2013	—	—	—	—	—	—	(593,352)	(593,352)	—	(593,352)
Issuance of ordinary shares for Listing, net	1,328,000	9,599,488	—	—	—	—	—	10,927,488	—	10,927,488
Appropriation of specific reserve	—	—	—	—	145,164	—	(145,164)	—	—	—
Utilisation of specific reserve	—	—	—	—	(120,129)	—	120,129	—	—	—
Total transactions with owners	<u>1,328,000</u>	<u>9,599,488</u>	<u>—</u>	<u>—</u>	<u>25,035</u>	<u>—</u>	<u>(981,686)</u>	<u>9,970,837</u>	<u>—</u>	<u>9,970,837</u>
At 31 December 2013	<u><u>4,428,000</u></u>	<u><u>10,118,960</u></u>	<u><u>191,517</u></u>	<u><u>11,484</u></u>	<u><u>123,788</u></u>	<u><u>1,549</u></u>	<u><u>6,101,416</u></u>	<u><u>20,976,714</u></u>	<u><u>3,627</u></u>	<u><u>20,980,341</u></u>

Consolidated Statement of Cash Flows

	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	906,831	3,295,154
Income tax paid	(1,110,233)	(1,772,196)
Interest received	117,407	33,531
	<u> </u>	<u> </u>
Net cash (used in)/generated from operating activities	<u>(85,995)</u>	<u>1,556,489</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(361,084)	(368,659)
Purchase of intangible assets	(46,362)	(23,076)
Purchase of land use rights	(52,310)	(976,218)
Acquisition of non-controlling interests	—	(395)
Interest income on the loans to the ultimate holding company	310,987	492,434
Proceeds from disposal of property, plant and equipment	7,952	54,783
Proceeds from disposal of land use rights	—	25,174
Dividends received from associates	1,520	7,000
Dividends received from joint arrangements	3,129	705
Net increase in time deposits	(5,467,015)	—
Loans to the ultimate holding company	(11,600,000)	(13,850,000)
Repayments of loans from the ultimate holding company	10,240,000	12,970,000
	<u> </u>	<u> </u>
Net cash used in investing activities	<u>(6,963,183)</u>	<u>(1,668,252)</u>

	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Cash flows from financing activities		
Proceeds from global offering	11,128,846	—
Payment of fees relating to Listing	(201,358)	—
Borrowings from the fellow subsidiaries	499,774	447,546
Repayments of borrowings from the fellow subsidiaries	(656,912)	(339,771)
Interest paid	(3,038)	(2,739)
Dividends paid	(956,651)	(374,248)
Capital transferred to Sinopec Group relating to Reorganization	(2,000,000)	—
Capital contributions received from Sinopec Group	—	200,510
Repayments to fellow subsidiaries	—	(562,847)
Financing costs paid	—	(12,420)
Net cash generated from/(used in) financing activities	7,810,661	(643,969)
Net increase/(decrease) in cash and cash equivalents	761,483	(755,732)
Cash and cash equivalents at beginning of year	4,822,490	5,575,335
Exchange (losses)/gains on cash and cash equivalents	(69,483)	2,887
Cash and cash equivalents at end of year	5,514,490	4,822,490

10.4 Notes to the annual financial statements prepared in accordance with IFRS.

10.4.1 Revenue

The Company's revenue is set out below (consistent with turnover):

	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Engineering, consulting and licensing	4,354,199	4,121,829
EPC Contracting	23,505,528	20,082,442
Construction	15,214,927	13,825,409
Equipment manufacturing	497,197	496,809
	<u>43,571,851</u>	<u>38,526,489</u>

10.4.2 Income Tax Expense

	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Current tax		
PRC enterprise income tax	1,001,879	873,024
Overseas enterprise income tax	29,639	5,640
Under-provision for PRC enterprise income tax in prior years	43,706	49,904
	<u>1,075,224</u>	<u>928,568</u>
Deferred tax		
Origination and reversal of temporary differences	<u>18,653</u>	<u>6,230</u>
Income tax expense	<u>1,093,877</u>	<u>934,798</u>

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 2013 and 2012 is 25%.

According to the normal statutory PRC corporate income tax and relevant rules, apart from a certain subsidiary of SINOPEC SEG subjected to the relevant development zone policy or participated in technology development and China's western development project can enjoy 15-24% preferential tax rate during different period in the related period. For the years ended 31 December 2013 and 2012, the majority of the members of the Group is subject to 25% income tax rate.

The tax of other countries (mainly Saudi Arabia, Federal Republic of Nigeria, Singapore, the United States and the United Kingdom) is based on the nation's tax laws, where the relevant subsidiary of the Company operates in.

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

	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Profit before taxation	4,751,041	4,252,067
Taxation calculated at the statutory tax rate	1,187,760	1,063,017
Income tax effects of:		
Preferential income tax treatments of certain companies	(185,143)	(191,155)
Difference in overseas profits tax rates	(1,744)	(418)
Non-deductible expenses	42,798	11,472
Income not subject to tax	(4,896)	(12,554)
Unrecognised tax losses	13,045	18,516
Utilization of previously unrecognized tax losses	(1,649)	(3,984)
Under provision for PRC enterprise income tax in prior years	43,706	49,904
Income tax expense	1,093,877	934,798
Effective income tax rate (i)	23.0%	22.0%

Note:

- (i) The changes of effective income tax rate were primarily attributable to the fluctuation in profitability and different expirations of preferential income tax treatments of certain companies now comprising the Company.

10.4.3 Earnings Per Share

(a) Basic

The basic earnings per share for each of the years ended 31 December 2013 and 2012 is calculated based on the profit attributable to the equity holders of SINOPEC SEG and the weighted average number of ordinary shares in issue, and on the assumption that 3,100,000,000 Shares issued upon the transformation of SINOPEC SEG from a limited liability company to a joint stock company with limited liability had been in issue since 1 January 2012.

On 23 May 2013, SINOPEC SEG newly issued 1,328,000,000 ordinary shares at HK\$10.50 per share as the result of the Listing.

	For the year ended 31 December	
	2013	2012
Profit attributable to equity holders of SINOPEC SEG (RMB'000)	3,656,802	3,316,970
Weighted average number of ordinary shares in issue	3,911,353,425	3,100,000,000
Basic earnings per share (RMB)	0.93	1.07

(b) Diluted

As SINOPEC SEG had no diluted shares for the each of the years ended December 31, 2013 and 2012, diluted earnings per share for the year ended 31 December 2013 and 2012 are the same as basic earnings per share.

10.4.4 Dividends

Dividends represented dividends declared by SINOPEC SEG during each of years ended 31 December 2013 and 2012.

	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Special dividends (i)	363,299	—
Interim dividends of RMB0.134 per ordinary share (2012: Nil) (ii)	593,352	—
Proposed final dividends of RMB0.190 per ordinary share (2012: Nil) (iii)	841,320	—

- (i) According to the interim regulation about the management of state-owned capital and the accounting treatment during the enterprise corporate restructuring published by Ministry of Finance of PRC on 27 February 2002 (〈企業公司制改建有關國有資本管理與財務管理的暫行規定〉(財企[2002]313號)) and the notice forwarded by the General Office of the State Council about the suggestion of further regulating the reorganization of the state-owned enterprise published by State-owned Assets Supervision and Administration Commission of the State Council (〈國務院辦公廳轉發國資委關於進一步規範國有企業改制工作實施意見的通知〉(國辦發[2005]60號)), an increase of net assets coming from profit should be distributed to its state-owned shareholder or transferred to state-owned equity after the approval of its state-owned shareholder. A special distribution is the increase of net assets of the Company between 30 June 2012 to 28 August 2012 which is to be distributed to the original state-owned shareholder. As at 31 December 2012, the amount of the special distribution is RMB363,299,000 which has not been declared and distributed and is included in the retained earnings. On 10 April 2013, the special distribution was declared and approved to distribute to the original state-owned shareholders.
- (ii) Pursuant to a resolution passed at the Directors' meeting on 16 August 2013 and the second extraordinary general meeting of SINGOPEC SEG on 28 October 2013, the Directors and the shareholders authorized to declare the interim dividends for the year ended 31 December 2013 of RMB0.134 (2012: Nil) per Share totalling RMB595,352,000 (2012: Nil). Interim dividends have been paid on 18 November 2013.
- (iii) Pursuant to the Directors' meeting on 14 March 2014, the Directors recommended to declare the final dividends for the year ended 31 December 2013 of RMB0.190 (2012:Nil) per Share totalling RMB841,320,000 (2012:Nil). 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 recognized as a liability at the end of the Reporting Period.

11 This announcement is published in both English and Chinese languages. Should there be any discrepancy between the English language and the Chinese language, the Chinese language version shall prevail.

Yours faithfully,

By order of the Board

SINOPEC ENGINEERING (GROUP) CO., LTD.

CAI Xiyou

Chairman

Beijing, PRC

17 March 2014

As at the date of this announcement, the executive Director is Yan Shaochun, the non-executive Directors are Cai Xiyou, Zhang Kehua, Lei Dianwu, Ling Yiqun and Chang Zhenyong and the independent non-executive Directors are Hui Chiu Chung, Stephen, Jin Yong and Ye Zheng.