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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)

Announcement of 2014 Interim Results

1 Important Notice

- 1.1 This announcement is extracted from the entire report of the 2014 interim report (the “**Interim Report**”) of SINOPEC Engineering (Group) Co., Ltd. (“**SINOPEC SEG**” or the “**Company**”), which is also published on the websites of the The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) (www.hkex.com.hk) and the Company (www.segroup.cn). The investors should read the Interim Report for more details.
- 1.2 Our directors, Mr. LEI Dianwu and Mr. LING Yiqun, were engaged with official duties and could not attend the twelfth meeting of the First Session of the Board of the Directors held on 15 August 2014 (the “**Meeting**”). Mr. LEI Dianwu authorised Mr. YAN Shaochun and Mr. LING Yiqun authorised Mr. CHANG Zhenyong to attend the Meeting and vote on their behalf.
- 1.3 The interim financial statements for the six-month period ended 30 June 2014 (the “**Reporting Period**”) of SINOPEC SEG and its subsidiaries (the “**Group**”), prepared in accordance with the International Financial Reporting Standards (the “**IFRS**”), have been audited by Grant Thornton Hong Kong Limited, which has issued standard unqualified opinions on the interim financial statements.

* For identification purposes only.

2 Basic Information of the Company

2.1 Company Profile

Stock Name:	SINOPEC SEG
Stock Code:	2386
Place of Listing of H Shares:	Hong Kong Stock Exchange
Legal Representative:	Mr. CAI Xiyou
Authorised 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, Anhuibeili, Chaoyang District, Beijing, PRC (Postcode: 100101)
Telephone:	+8610-6499-8114
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 the IFRS

Unit: RMB'000			
Items	As at 30 June 2014	As at 31 December 2013	Change from the end of last year (%)
Total assets	47,990,695	47,365,269	1.3
Total equity attributable to shareholders of the Company	21,893,630	20,976,714	4.4
Net assets per share attributable to shareholders of the Company (RMB)	4.94	4.74	4.2

Unit: RMB'000

Items	Six-month periods ended 30 June		Change over the same period of the preceding year (%)
	2014	2013	
Revenue	22,649,791	19,645,416	15.3
Gross profit	3,028,896	3,645,816	(16.9)
Operating profit	2,232,326	2,821,410	(20.9)
Profit before taxation	2,484,611	2,930,287	(15.2)
Net profit attributable to shareholders of the Company	1,877,478	2,214,134	(15.2)
Basic earnings per share (RMB)	0.42	0.66	(36.4)
Net cash flow used in operating activities	(346,241)	(905,213)	(61.8)
Net cash flow used in operating activities per share (RMB)	(0.08)	(0.27)	(70.4)

Items	Six-month periods ended 30 June	
	2014	2013
Gross profit margin (%)	13.37	18.56
Net profit margin (%)	8.29	11.27
Return on assets (%)	3.94	5.24
Return on equity (%)	8.57	11.12
Return on invested capital (%)	8.70	11.24

Item	As at 30 June 2014	As at 31 December 2013
Asset-liability ratio (%)	54.4	55.7

3 Changes in Share Capital and Shareholdings of Substantial Shareholders

3.1 Changes in the Share Capital of the Company

Unit: Share

	As at 31 December 2013		Increase/Decrease during the Reporting Period (+, -)			As at 30 June 2014	
	Number	Percentage (%)	New share issued	Others	Subtotal	Number	Percentage (%)
Promoter shares (Domestic Shares)	2,967,200,000	67.01	—	—	—	2,967,200,000	67.01
Foreign shares listed overseas (H Shares)	1,460,800,000	32.99	—	—	—	1,460,800,000	32.99
Total number of shares	4,428,000,000	100.00	—	—	—	4,428,000,000	100.00

3.2 Shareholdings of Substantial Shareholders

As at the end of the Reporting Period, there were a total of 1,305 shareholders of the Company. The public float of the Company satisfied the minimum requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”).

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	Percentage at the end of the Reporting Period	
				In total share capital (%)	In relevant class of shares (%)
China Petrochemical Corporation	—	2,967,200,000	—	67.01	100.00
HKSCC (Nominees) Limited	-1,958,500	—	1,456,578,000	32.89	99.71
HIGH SUMMIT GROUP LIMITED	+2,000,000	—	2,000,000	0.05	0.14
CHAN LAI KUEN SELINA	—	—	195,500	0.00	0.01
WONG CHUI CHUNG	—	—	195,500	0.00	0.01
WONG MAY JANE	—	—	131,000	0.00	0.01
CHENG KOON WING	—	—	30,000	0.00	0.00
LEUNG HING WA	—	—	20,000	0.00	0.00
LEE YUEN WAI IRENE	—	—	17,500	0.00	0.00
WONG KWOK WAI PHILIP	—	—	16,500	0.00	0.00
Statement on the connected relationship or action in concert among or between the aforementioned shareholders	The Company is not aware of any connection or acting 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 the end of the Reporting Period, so far as is known to the Board of Directors of the Company (the “**Board**”), no person(s) (not being a director, chief executive or supervisor of the Company) had an interest or short position in the shares or underlying shares or debentures of the Company which would fail to be disclosed under the provisions of Division 2 and 3 of Part XV of the Securities and Futures Ordinance (the “**SFO**”) or, who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of any other member of the Company:

Name of Shareholders	Class of shares of the Company (the “Shares”)	Capacity	Number of shares with interests held or regarded as being held (Share)	Percentage in Shares of the Company of the same class ⁽⁷⁾ (%)	Percentage in the total share capital of the Company ⁽⁸⁾ (%)
China Petrochemical Corporation ⁽¹⁾	Domestic Share	Beneficial owner/Interests of controlled corporation	2,967,200,000(L)	100(L)	67.01(L)
National Council for Social Security Fund of the PRC ⁽²⁾	H Share	Beneficial owner	131,468,000(L)	9.00(L)	2.97(L)
State Administration of Foreign Exchange of the PRC ⁽³⁾	H Share	Interests of controlled corporation	131,756,000(L)	9.02(L)	2.98(L)
Franklin Mutual Advisers, LLC ⁽⁴⁾	H Share	Investment manager	79,717,000(L)	5.46(L)	1.80(L)
The Bank of New York Mellon Corporation ⁽⁵⁾	H Share	Interests of controlled corporation	77,273,017(L) 76,251,517(P)	5.29(L) 5.22(P)	1.75(L) 1.72(P)
JPMorgan Chase & Co. ⁽⁶⁾	H Share	Trustee/Interests of controlled corporation	74,357,000(L) 162,000(S) 45,152,000(P)	5.09(L) 0.01(S) 3.09(P)	1.68(L) 0.00(S) 1.02(P)

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

Notes:

- (1) China Petrochemical Corporation (“**Sinopec Group**”) directly and/or indirectly holds 2,967,200,000 Domestic Shares, representing 100% of the Domestic Shares and approximately 67.01% of the total share capital of the Company, respectively. Sinopec Assets Management Co., Ltd. is a wholly-owned subsidiary of Sinopec, directly holds 59,344,000 Domestic Shares, representing 2% of the domestic share and approximately 1.34% of the total share capital of the Company, respectively. For the purposes of the SFO, Sinopec is also deemed to be interested in the Domestic Shares held by Sinopec Assets Management Co., Ltd.
- (2) The information is based on the Corporate Substantial Shareholders Notices dated 19 November 2013 and filed by the National Council for Social Security Fund of the PRC with the Hong Kong Stock Exchange.
- (3) According to the Corporate Substantial Shareholders Notices dated 4 June 2013 and filed with 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 of the Company. 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.
- (4) The information is based on the Corporate Substantial Shareholders Notice dated 17 June 2014 and filed by the Franklin Mutual Advisers, LLC with Hong Kong Stock Exchange.
- (5) The information is based on the Corporate Substantial Shareholders Notice dated 29 May 2014 and filed by the The Bank of New York Mellon Corporation with Hong Kong Stock Exchange.
- (6) The information is based on the Corporate Substantial Shareholders Notice dated 9 June 2014 and filed by the JPMorgan Chase & Co. with Hong Kong Stock Exchange.
- (7) The calculation is based on the 2,967,200,000 Domestic Shares or 1,460,800,000 H Shares issued by the Company.
- (8) The calculation is based on the 4,428,000,000 Shares issued in total.

4 Directors, Supervisors and Members of Senior Management

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

During the Reporting Period, so far as was known to the directors of the Company (the “**Directors**”), none of the directors, supervisors and chief executive of the Company or their respective associates had any underlying shares, debentures or any interest or short positions in any shares (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Hong Kong Listing Rules (the “**Model Code**”), to be notified to the Company and the Hong Kong Stock Exchange.

4.2 Compliance with the Model Code

After specific inquiries by the Company, all the directors confirmed that they complied with all the standards of Model Code during the Reporting Period.

5 Business Review and Prospects

5.1 Business Review

During the Reporting Period, the Group's total revenue and profit attributable to shareholders of the Company were RMB 22.65 billion and RMB 1.877 billion, respectively. As at the end of the Reporting Period, the Group's backlog was RMB 95.366 billion. The value of new contracts the Group entered into during the Reporting Period was RMB 25.448 billion.

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

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

	Six-month periods ended 30 June				
	2014		2013		Change
	Revenue (RMB'000)	Percentage of total revenue (%)	Revenue (RMB'000)	Percentage of total revenue (%)	
Engineering, consulting and licensing	1,688,536	6.9	2,263,920	10.6	(25.4)
EPC Contracting	13,366,117	54.6	10,594,811	49.7	26.2
Construction	9,091,497	37.2	8,098,838	38.0	12.3
Equipment manufacturing	318,231	1.3	365,763	1.7	(13.0)
Subtotal	<u>24,464,381</u>	<u>100.0</u>	<u>21,323,332</u>	<u>100.0</u>	N/A
Total revenue after inter-segment elimination ⁽¹⁾	<u>22,649,791</u>	N/A	<u>19,645,416</u>	N/A	15.3

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 RMB 22.650 billion, representing an increase of 15.3% from the same period of the previous year, which is mainly attributable to several large Engineering, Procurement and Construction Contracting (the “**EPC Contracting**”) projects that completed great amount of work during the Reporting Period, including the Yuanba Gas Field natural gas purification complex of Sinopec (“**Yuanba Natural Gas Purification Project**”), Quanzhou 12 million-tons oil refining complex of Sinochem (“**Sinochem Quanzhou Project**”), Shaanxi Yulin methanol acetic acid deep processing and comprehensive utilisation Complex (“**Yulin Coal Chemical Project**”), Shandong liquefied natural gas project tankage in receiving terminal of Sinopec (“**Shandong LNG Tankage Project**”), the Shijiazhuang oil products quality upgrading and poor-quality crude oil improvement project of Sinopec (“**Shijiazhuang Refining Project**”), ZhongTianHeChuang Coal Chemical Project and U.S. JUMBO PTA and PET Project.

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

	Six-month periods ended 30 June				
	2014		2013		Change
	Revenue (RMB'000)	Percentage of total revenue (%)	Revenue (RMB'000)	Percentage of total revenue (%)	
Oil refining	4,958,237	22.0	5,129,647	26.1	(3.3)
Petrochemicals	9,070,325	40.0	8,625,631	43.9	5.2
New coal chemicals	4,875,378	21.5	3,686,688	18.8	32.2
Other industries	3,745,851	16.5	2,203,450	11.2	70.0
Subtotal	<u>22,649,791</u>	<u>100.0</u>	<u>19,645,416</u>	<u>100.0</u>	15.3

The Group derived its revenue mainly from services provided to clients in the oil refining, petrochemical and new coal chemical industries. During the Reporting Period, the Group’s revenue from the oil refining industry was RMB 4.958 billion, similar to that of the same period in 2013; the revenue derived from the petrochemical industry was RMB 9.070 billion, which was slightly higher as compared to that of the same period in 2013; the revenue derived from the new coal chemical industry was RMB 4.875 billion, representing an increase of 32.2% as compared to that of the same period in 2013. This increase was mainly due to the significant increase of revenue generated from large coal chemical industry projects such as the Yulin coal Chemical Project and the ZhongTianHeChuang Coal Chemical Project. Revenue derived from other industries was RMB 3.746 billion, representing an increase of 70.0% as compared to that of the same period in 2013; this increase was mainly due to the significant increase of revenue generated from clean energy projects such as the Yuanba Natural Gas Purification Project and Shandong LNG Tankage Project.

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

	Six-month periods ended 30 June				
	2014		2013		Change
	Revenue (RMB'000)	Percentage of total revenue (%)	Revenue (RMB'000)	Percentage of total revenue (%)	
PRC	19,361,471	85.5	16,189,958	82.4	19.6
Overseas	3,288,320	14.5	3,455,458	17.6	(4.8)
Subtotal	<u>22,649,791</u>	<u>100.0</u>	<u>19,645,416</u>	<u>100.0</u>	15.3

During the Reporting Period, the Group continues to steadily expand its overseas business. The overseas revenue of the Group amounted to RMB 3.288 billion.

On 13 August 2014, the Company and Kazakhstan Petrochemical Industries (“**KPI Company**”) decided to terminate an EPC contract (the “**KPI Contract**”). Please refer to the announcement entitled “Termination of an EPC Contract with KPI Company” published by the Company on 14 August 2014 for more details. As at the end of the Reporting Period, the backlog of the Group was RMB 95.366 billion (excluding the contract value of the KPI Contract), representing an increase of 3.0% as compared to RMB 92.568 billion as at 31 December 2013, or 2.2 times of the total revenue of RMB 43.572 billion in 2013. During the Reporting Period, the value of new contracts amounted to RMB 25.448 billion, representing a decrease of 24.4% as compared to RMB 33.680 billion in the same period in 2013 excluding the contract value of the KPI Contract.

During the Reporting Period, the Group's domestic representative projects with new contracts signed included: (1) an EPC contract for the receiving terminal station under the Shandong liquefied natural gas (LNG) project of Sinopec Qingdao LNG Co., Ltd. (“**Shandong LNG Terminal Station Project**”), with a contract value of RMB 2.640 billion; (2) an EPC contract for the 180/400 thousand tons per annum (“**Ktpa**”) ethylene oxide/ethylene glycol (EO/EG) project of Fujian Refining & Petrochemical Co., Ltd. (“**Fujian EO/EG Project**”) with a contract value of RMB 1.368 billion; and (3) an engineering, procurement (EP) contract for the detailed engineering design and procurement of the air separation and oil processing units for the 4 million tons per annum (“**Mtpa**”) demonstrative indirect coal liquefaction project of Shenhua Ningxia Coal Industry Group (“**Shenhua Ningxia Coal Indirect-Liquefaction Project**”), with a contract value of RMB 3.356 billion; and (4) an EPC contract of polypropylene unit of comprehensive utilisation of exhaust-to-olefin project in Qinghai Damei Ganhe Industrial Zone, with a contract value of RMB 714 million. Overseas representative projects signed included: (1) an EPC contract for a sulphuric acid and power plant in Saudi Arabia, with a contract value of USD 257 million; and (2) a construction contract for the hydrocracking and diesel hydrotreating project of Saudi Aramco Oil Company, with a contract value of USD 194 million.

During the Reporting Period, our capital expenditure was approximately RMB 204 million, which was mainly used for construction equipment updating, supporting production base enhancement, security management, IT system configuration, and IT software purchase.

5.2 Business Highlights

5.2.1 Successful Implementation of Major Projects

Yuanba Natural Gas Purification Project: The scope of work under the contract of this project mainly includes processing units, auxiliary production facilities, public utilities, and maintenance facilities. For processing units, four series of 3 million cubic meters/day natural gas purification units were constructed in total, including desulphurisation unit, dehydration unit, sulfur recovery unit, exhaust gas treatment unit, sulfur forming unit and acid water stripping unit and other ancillary facilities. Currently, the overall completion progress has exceeded more than 80%. Safety, quality and progress of the project are under full control.

Sinochem Quanzhou Project: The scope of work under the contract of this project includes the 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 a hydrogen production unit with a capacity of 140,000 normal cubic meter per hour, etc.. Currently, this project is half complete and has entered the commissioning phase.

Shijiazhuang Refining 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 V Emission Standard. Currently, the principal device of this project is half complete.

Shandong LNG Tankage Project: The scope of work under the contract of this project mainly includes EPC Contracting of the 4 LNG storage tanks and 36 units in the LNG receiving terminal. Currently, the project's principal part of 1-3# storage tank project is half complete, 70% of the progress of 4# storage tank has been completed and the receiving terminal is nearly 90% complete. Safety, quality and progress of the project are within control.

ZhongTianHeChuang Chemical Project: Please refer to the announcement dated 26 December 2013 published by the Company for details. During the Reporting Period, project has commenced and is progressing well. Engineering of the project during the Reporting Period has been fully conducted. Overall engineering progress reached 50%. On-site construction has commenced.

Yulin Coal Chemical Project: The scope of work under the contract of the first phase of the project mainly includes the units for 1.8 Mtpa of MTO, 300 Ktpa of polyethylene, 300 Ktpa of polypropylene, and the unit for the comprehensive utilisation of C4. Currently, the project is half complete and has reached start-up phase successfully.

DMTO and Polyolefin Project of Zhejiang Xingxing New Energy Co., Ltd.: The scope of work under the contract of this project mainly includes a 1.8 Mtpa methanol-to-olefin (DMTO) unit, 300 Ktpa polyethylene unit, 390 Ktpa polypropylene unit, etc. Currently, project engineering is nearly completed. The progress of procurement and construction is good.

500 Ktpa plastics project of MTO unit, olefin separation unit and polypropylene engineering of Inner Mongolia ChinaCoal Mengda New Energy and Chemical Industry Co., Ltd.: The scope of work under the contract of this project mainly includes a 1.8 Mtpa methanol-to-olefin (DMTO) unit, 300 Ktpa polyolefin unit, 600 Ktpa olefin separation unit, etc. Currently, 60% of the project has been completed successfully and the engineering work is completed.

Kazakhstan Aromatics Project: The scope of work under the contract of this project mainly includes a 1 Mtpa continuous catalyst reforming unit, 500 Ktpa aromatics extraction units, 500 Ktpa PX units, and utilities. Currently, 90% of the project has been completed successfully and the overall progress is within control.

U.S. JUMBO PTA and PET Project: The scope of work under the contract of this project mainly includes a 1.2 Mtpa PTA unit, 1 Mtpa PET unit, utilities and factory ancillary facilities. Currently, safety, quality and progress of the project are under control.

5.2.2 Success in market development under difficult market situation

2014 has witnessed a further declining trend in capital expenditures of large-scale domestic oil companies in traditional oil refining and petrochemical engineering projects. Part of the domestic project investment plans was postponed. There is a bright future for new coal chemical industry market and the preliminary work of partial track projects has been advancing steadily. To counter a difficult market situation, the Group has strengthened its market development efforts. During the Reporting Period, the total value of new contracts was RMB 25.448 billion, representing approximately 40% of the annual new contracts target, including RMB 22.671 billion for domestic projects and approximately USD 450 million for overseas projects.

Domestically, the Group signed a number of contracts of large projects during the Reporting Period, including Shandong LNG Terminal Station Project, Fujian EO/EG Project, etc. As for new coal chemical industry, the Company has recently signed a contract of Shenhua Ningxia Coal Indirect-Liquefaction Project and others. In addition to the above projects, the Company has also pursued a number of projects of new coal chemical industry, oil refining, LNG, environmental protection and other industries. It is expected that domestic market development is still relatively optimistic.

For overseas, the Group's newly signed projects during the Reporting Period include an EPC contract for the 3×1.8 Mtpa sulphuric acid and power plant of Saudi Arabian Mining Company between the Group and Canadian SNG LAVALIN Company, with a contract value of USD 764 million, among which the Group is responsible for USD 257 million, with a project term of 32 months, and a construction contract for the hydrocracking and diesel hydrotreating units of Saudi Aramco Jazan Refinery Plant with a Spain company, TR Company, with a contract value of USD 194 million, with a project term of 30 months.

On 25 July 2014, the Group received a letter of award from PRPC Refinery and Cracker Sdn. Bhd., a subsidiary of Petroliaam Nasional Bhd (PETRONAS), with respect to a package contract of engineering, procurement, construction and commissioning (EPCC) of an oil refining and petrochemical integrated engineering project. For more details, please refer to the Company's announcement entitled "Letter of Award from PETRONAS" dated 7 August 2014. The contract value is expected to be approximately USD 1.329 billion. Upon signing of the contract, it will be implemented and recorded as backlog of the Company.

5.2.3 Leading Technologies

Steady progress in the technical R&D based on key projects. Following the successful industrialisation of Wuhan's ethylene packaged technology, the Hainan's PX packaged technology, Jinan's countercurrent reforming technology and the SMTO packaged technology, the entire flow of the Hubei's chemical fertilizer 200Ktpa syngas-to-glycol industrial demonstration plant packaged technology was completed during the Reporting Period. All glycol products have passed the quality indicator. Key indicator of UV light transmittance has reached the standard of national superior products. Demonstration unit reached 95% of the production load, and for the next step, productions units will be assessed to provide condition for unit's technical evaluation.

SE oriental furnace industrial demonstration unit project of "cold-wall typed single nozzle pulverised coal pressurised gasification (SE) packaged technology development" gasified feedstock was successful during the Reporting Period. Transformation, purification and other procedures has produced qualified hydrogen to feed into the pipeline. The project was successful in first commissioning and the unit is in good operation.

For industrial tests of renewable wet flue gas desulfurisation technology, the flue gas desulfurisation project of Sinopec Jinan branch 1.4 Mtpa residual fluid catalytic cracking unit (RFCC) completed construction and successful commissioning. While the preliminary calibration was completed during the Reporting Period, the emission concentration of sulfur dioxide in purified flue gas was better than the assessment indicator, and the concentration of particulate matter in purified flue gas was overqualified, which further decreased the discharge of PM2.5.

50 Ktpa fluidised-bed hydrogenation unit is being launched in Sinopec JinLing Petrochemical branch, 3,000 Nm³/h coal-to-SNG test unit will be operated in Shaanxi Datang that the achievements in desulfurisation denitration technology has been put into a wide range of application. These innovative products have produced a tremendous impact on the Group's technology to drive and to lead the market.

Technical innovation has been effectively launched and the sharing of optimised technology resources has achieved significant periodical results. SEG Engineering Technology Research and Development Center has been officially established during the Reporting Period. The Center will make the most of internal integration and consolidate internal resources, creating an engineering technology R&D platform for resource sharing which serves the needs of the world's first-tier engineering companies; externally, this center will on one hand, fulfill the feature of engineering companies and on the other hand differentiate software and hardware resources therefore to strengthen cooperation and to create a new-technology innovative platform of collaborative innovation devotedly, which serves the Group's technology innovation platform of the technology development market.

Technology licensing is orderly launched. RMB 67.80 million technology licensing contracts were signed during the Reporting Period.

Good momentum in patent applications. 238 new patent applications were completed during the Reporting Period, among which were 120 invention patents and 209 grant patents. This represents a great improvement in the overall percentage of invention patent applications.

During the Reporting Period, the Group was awarded 32 provincial/ministerial, or higher level awards for scientific and technological progress. During the Reporting Period, the Group was awarded 32 provincial/ministerial or higher level awards for scientific and technological progress in total, including 1 national invention award and 21 provincial/ministerial awards for scientific and technological progress, 1 national quality project award and 9 provincial/ministerial quality project awards.

5.2.4 Intensified Enterprise Reform

The Group actively pursues corporate resource optimisation and reform and reorganisation by focusing on the developmental goal of “building the world-class refinery chemical engineering company” and the developmental mode of “centralised operation and group-oriented management and control”.

The Group has integrated crane transportation service resources and established Sinopec Heavy Lifting & Transportation Co., Ltd., aiming at developing into an international top-tier specialist contractor, which unifies market development, unifies project organisation and improves resource allocation efficiency.

The Group, based on the research and development foundation of former Luoyang Engineering Company, officially established SEG Engineering Technology Research and Development Center during the Reporting Period. The Center will optimise resource efficiency of technology research and development, build characterised advantage of technology research and development, develop into an engineering technology research and development platform and a technology support and service foundation to improve the supporting capacity of company technology to core competitiveness.

The Group has started business integration in the Saudi area by taking SEG Saudi subsidiary as a platform to integrate branches of all subsidiaries originated from Saudi Arabia, in order to optimise local resource allocations and promote the Group's competitiveness within the country.

5.2.5 Sustained Safe Operations

During the Reporting Period, the Company, focusing on strengthening management and assigning accountability, strengthened the implementation and accountability in QHSE management, carrying out strict management activities comprehensively, complied with the requirements of "all-member participation, assignment of responsibility, perfection of systems, continuous improvement, process control and serving clients". By signing the QHSE liability statement, the Company carried out training and supervising inspections, etc., carefully sought weak links, and focused on QHSE direct operation link regulations, which further strengthened basic management and overall control on quality, project construction safety and overseas public security situation.

Up to the end of the Reporting Period, no safety, quality, or overseas public security accidents occurred in ongoing projects. This is credited to the conscientiousness and strict management of all employees of the Company, which accumulated of 143.23 million safe man hours.

5.2.6 Other Aspects

During the Reporting Period, the Group has officially released Visual Image Recognition System Management Manual of SINOPEC ENGINEERING (GROUP) CO., LTD. (the "**VI Manual**"). The release of the VI Manual only one year after the Company was listed is an important milestone for the Company in promoting brand management construction, standardizing our brand image, bringing our brand to both the domestic and international level, as well as fulfilling the necessary requirements to deepen our reform and manage our workforce.

5.3 Business Prospects

It is expected that the sluggish recovery in the world economy will continue in the second half of the year. The PRC's economy, which is influenced by factors like comprehensive reform, improving external environment, advanced new-type urbanisation, restorative consumption increase, etc., will continue to indicate a positive trend due to the execution of "micro stimulus" and directed regulation policy. However, there have been great changes in factors and structure, which support economic growth, resulting in a decline on the demand for energy and chemical industry. It is expected that key support will be given to some national important construction projects of oil refining and chemical industry after the State unveils its clear industrial policy. In the second half of 2014, the Group will confront the situation, seize the opportunities, and embrace the challenges.

In terms of market development, the Group will earnestly strengthen market analysis and research, enhance sensitivity to the market and industry, increase marketing and development efforts, transform the Company's overall strength to provide one-stop solutions to customers, expand emerging markets through strategic cooperation, expand new business fields and models and develop markets through new commercial models. We will continue to improve overseas market development agencies and mechanism, integrate market development resources of all subsidiaries, extend market development and operation functions, and improve market development efficiency.

In terms of project management, the Group will match the standard of international top-tier engineering companies by unifying project management system and accelerating the steps of digital design and information management; attach great importance to risk management and QHSE management of projects, strengthen process control of projects, improve the level of project execution, and enhance project efficiency.

In terms of technology research and development, the Group will emphasise on creating a new coal chemical industry technology chain according to the development goal of "consolidating traditional technological advantage of oil refining and chemical engineering and improving the technical level of alternative oil resources". Currently, the rapid emerging new coal chemical market, including the use of natural gas and shale gas, brings many new opportunities to market development. With increasing requirements on environmental protection and worsening situation of water resource utilisation and air pollution control, the Company is fully aware of the importance of environmental protection technology and environmental engineering market to the Company. The Company needs to seize the current development opportunity and increase input, turning the development in technical field business of environmental protection into a new aspect of growth of the Company's business.

In terms of resource optimisation, we will improve the operations of our manufacturing business through reforms. Meanwhile, through optimisation and integration, such business will become the manufacturing base of the Group's proprietary equipment and technology and a more competitive equipment manufacturer and technical service provider. In terms of construction business, transformation development will be promoted in construction subsidiaries, and professional reorganisation and reform will be carried out.

At the same time, the Group will continue to deepen institutional mechanism reform and further enhance the Company's governance level and enterprise management level, so as to establish a series of new, effective systems and mechanism, and group control systems that suits the long-term development of the Group.

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

Parts of the financial data involved below, unless otherwise stated, were abstracted from the Group's audited financial statements prepared according to the IFRS.

5.4.1 Revenue

The revenue of the Group increased by 15.3% from RMB 19.645 billion for the six months ended 30 June 2013 to RMB 22.650 billion for the six months ended 30 June 2014. The increase was mainly due to a relatively large workload completion during the Reporting Period in a number of large EPC Contracting projects, such as Yuanba Natural Gas Purification Project, Sinochem Quanzhou Project, Yulin Coal Chemical Project, Shandong LNG Tankage Project, Shijiazhuang Oil Refining and Chemical Project, ZhongTianHeChuang Coal Chemical Project, and U.S. JUMBO PTA and PET Project.

5.4.2 Cost of sales

The cost of sales of the Group increased by 22.6% from RMB 16.000 billion for the six months ended 30 June 2013 to RMB 19.621 billion for the six months ended 30 June 2014, primarily due to increased direct costs, including labor costs and the procurement of equipment and machinery costs, which were caused by the increase of business volume.

5.4.3 Gross profit

The gross profit of the Group declined by 16.9% from RMB 3.646 billion for the six months ended 30 June 2013 to RMB 3.029 billion for the six months ended 30 June 2014; the gross profit margin dropped from 18.6% during the same period of last year to 13.4% during the Reporting Period, which were mainly due to a decrease in income of the high gross profit margin engineering business and reduced large-scale general contract projects in settlement stage, causing a greater increase of sales cost than that of revenue and a decrease in gross profit margin comparing to the same period of last year.

5.4.4 Other income

The other income of the Group increased by 397.4% from RMB 23 million for the six months ended 30 June 2013 to RMB 116 million for the six months ended 30 June 2014, mainly due to net exchange gain.

5.4.5 Selling and marketing expenses

The selling and marketing expenses of the Group increased by 27.7% from RMB 38 million for the six months ended 30 June 2013 to RMB 49 million for the six months ended 30 June 2014, mainly due to the Group's increased investment in marketing during the Reporting Period.

5.4.6 Administrative expenses

The administrative expenses of the Group increased by 7.6% from RMB 423 million for the six months ended 30 June 2013 to RMB 455 million for the six months ended 30 June 2014, mainly due to the remuneration structure adjustment and increased employee benefits of the Group.

5.4.7 Research and development costs

The research and development costs of the Group increased by 22.6% from RMB 255 million for the six months ended 30 June 2013 to RMB 312 million for the six months ended 30 June 2014, mainly due to the efforts made by the Group to the integration of technological resources and intensified R&D efforts.

5.4.8 Other operating expenses

The other operating expenses of the Group declined by 27.9% from RMB 134 million for the six months ended 30 June 2013 to RMB 96 million for the six months ended 30 June 2014. There was no net exchange loss during the Reporting Period.

5.4.9 Other gains – net

The net other gains of the Group declined from RMB 2 million for the six months ended 30 June 2013 to RMB 0.3 million for the six months ended 30 June 2014, mainly due to the reduction in gains on disposal of fixed assets.

5.4.10 Operating profit

As a result of the reasons above, the operating profit of the Group declined by 20.9% from RMB 2.821 billion for the six months ended 2013 to RMB 2.232 billion for the six months ended 30 June 2014.

5.4.11 Financial income – net

The net financial income of the Group increased by 134.3% from RMB 105 million for the six months ended 2013 to RMB 245 million for the six months ended 30 June 2014, mainly due to an increase in the interest income receivable from the ultimate holding company as compared with the same period of the previous year.

5.4.12 Income tax expense

The income tax expense of the Group declined by 15.2% from RMB 716 million for the six months ended 2013 to RMB 607 million for the six months ended 30 June 2014. The main reason was that the Group's profit before taxation declined from RMB 2.930 billion for the six months ended 2013 to RMB 2.485 billion for the six months ended 30 June 2014. The effective income tax rate of 24.4% remained stable as compared with the same period of the previous year.

5.4.13 Profit for the period

Due to the above reasons, the net profit for the Reporting Period of the Group declined by 15.2% from RMB 2.214 billion for the six months ended 30 June 2013 to RMB 1.878 billion.

5.4.14 Total comprehensive income for the period

As a combined result of the reasons above and the effect of the Group's other comprehensive income, the total amount of the comprehensive income in the Reporting Period of the Group declined by 22.4% from RMB 2.265 billion for the six months ended 30 June 2013 to RMB 1.758 billion.

5.5 Assets, Liabilities, Equity and Cash Flows

The Company's funds mainly came from operating activities, accounts payable and advances received for contracts, and the funds are primarily used for operating expenses and capital expenditure.

5.5.1 Assets, Liabilities and Equity

Units: RMB'000

	As at 30 June 2014	As at 31 December 2013	Change
Total assets	47,990,695	47,365,269	625,426
Current assets	39,880,474	39,198,790	681,684
Non-current assets	8,110,221	8,166,479	(56,258)
Total liabilities	26,093,373	26,384,928	(291,555)
Current liabilities	23,245,795	23,620,920	(375,125)
Non-current liabilities	2,847,578	2,764,008	83,570
Minority interests	3,692	3,627	65
Total equity	21,897,322	20,980,341	916,981
Total equity attributable to shareholders of the Company	21,893,630	20,976,714	916,916
Share capital	4,428,000	4,428,000	0
Reserves	17,465,630	16,548,714	916,916

As at the end of the Reporting Period, the total assets of the Group were RMB 47.991 billion, the total liabilities were RMB 26.093 billion, the minority interests were RMB 4 million, and the equity attributable to the shareholders of the Company was RMB 21.894 billion. The changes in the assets and liabilities as compared with that at the end of 2013 and the main reasons are as follows:

The total assets were RMB 47.991 billion, up by RMB 625 million as compared with that at the end of 2013. In particular, the current assets were RMB 39.88 billion, up by RMB 682 million as compared with that at the end of 2013, mainly due to the increase of cash equivalents and customer contract project funds receivable. Non-current assets were RMB 8.110 billion, down by RMB 56 million as compared with that at the end of 2013. Such decrease was mainly due to the depreciation of property, plant buildings and equipment.

The total liabilities were RMB 26.093 billion, down by RMB 292 million as compared with that at the end of 2013. In particular, the current liabilities were RMB 23.246 billion, down by RMB 375 million as compared with that at the end of 2013, mainly due to the decrease in notes and trade payables. Non-current liabilities were RMB 2.848 billion, up by RMB 84 million as compared with that at the end of 2013, which was mainly due to the increase in retirement and other supplementary benefit obligations.

Total equity attributable to shareholders of the Company was RMB 21.894 billion, up by RMB 917 million as compared with that at the end of 2013, primarily due to increase in the profit in the Reporting Period.

5.5.2 Cash Flow

During the Reporting Period, the net increase in cash and cash equivalents was RMB 1.829 billion and net cash flow used in operating activities was RMB 346 million. The following table sets forth the main items and their changes in the Group's consolidated cash flow statements for the six months ended 30 June 2014 and for the six months ended 30 June 2013.

Units: RMB'000

Major items of cash flow	Six-month periods ended 30 June	
	2014	2013
Net cash used in operating activities	(346,241)	(905,213)
Net cash generated from/(used in) investing activities	3,017,189	(7,418,495)
Net cash (used in)/generated from financing activities	(842,272)	10,602,411
Net increase in cash and cash equivalents	1,828,676	2,278,703

During the Reporting Period, the profit before taxation was RMB 2.485 billion, and the profit was RMB 2.605 billion after adjusting the items in expenses that did not affect the cash flow in operating activities, which was mainly reflected in: RMB 301 million of depreciation and amortisation, RMB 301 million of interest income, RMB 56 million of interest expenses, RMB 85 million of the provision for impairment of trade and other receivables and RMB 12 million of net exchange gains. The cash outflow in operating receivables and payables was RMB 2.568 billion. In particular, due to the rise in purchasing costs brought by growing business volume and a drop in trade payables, etc., the cash outflow was RMB 544 million; as construction projects proceeded, cash used for contract work-in-progress, which caused a cash outflow of RMB 1.814 billion; trade and other receivables resulted in a cash out flow of RMB 182 million.

After adjusting non-cash items and receivables and payables for the profit before taxation, and deducting the income tax paid amounting to RMB 509 million, the net cash used in operating activities was RMB 346 million.

Net cash generated from investing activities was RMB 3.017 billion, which was mainly due to the ultimate holding company loans and financial institutions maturing deposits recovered.

Net cash used in financing activities was RMB 842 million, which was mainly due to the 2013 final dividend distributions.

Based on the Group's cash flow during the Reporting Period, the Group has adequate working capital. The Group will continue to closely monitor the trade receivables for efficient use of working capital. The Group 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 main financial ratios for the periods indicated.

Main financial ratios	Six-month periods ended 30 June	
	2014	2013
Net profit margin (%)	8.29	11.27
Return on assets (%) ⁽¹⁾	3.94	5.24
Return on equity (%) ⁽²⁾	8.57	11.12
Return on invested capital (%) ⁽³⁾	8.70	11.24
	As at	As at
	30 June	31 December
Main financial ratios	2014	2013
Gearing ratio (%) ⁽⁴⁾	0.00	0.00
Net debt to equity ratio (%) ⁽⁵⁾	Net cash	Net cash
Current ratio (%) ⁽⁶⁾	1.72	1.66
Quick ratio (%) ⁽⁷⁾	1.66	1.61

(1)	Return on assets =	$\frac{\text{profit for the period}}{(\text{the opening balance of total assets} + \text{the closing balance of total assets})/2}$
(2)	Return on equity =	$\frac{\text{profit for the period}}{\text{total equity at the end of the period}}$
(3)	Return on invested capital =	$\frac{\text{earnings before interest and tax (EBIT) for the period} \times (1 - \text{tax rate})}{\text{interest-bearing liabilities at the end of the period} - \text{credit loans} + \text{total equity at the end of the period}}$
(4)	Gearing ratio =	$\frac{\text{total interest bearing debt at the end of the period}}{\text{total interest bearing debt at the end of the period} + \text{total equity at the end of the period}}$
(5)	Net debt to equity ratio =	$\frac{\text{net debt at the end of the period}}{\text{total equity at the end of the period}}$
(6)	Current ratio =	$\frac{\text{current assets}}{\text{current liabilities}}$
(7)	Quick ratio =	$\frac{\text{current assets} - \text{inventories}}{\text{current liabilities}}$

Return on assets

The Group's return on assets decreased from 5.24% for the same period of last year to 3.94% for the Reporting Period, which was mainly due to the decrease in net profit during the Reporting Period and assets increase at the end of the Reporting Period.

Return on equity

The Group's return on equity decreased from 11.12% for the same period of last year to 8.57% for the Reporting Period, which was mainly due to the decrease in net profit during the Reporting Period.

Return on invested capital

The Group's return on invested capital decreased from 11.24% for the same period of last year to 8.70% for the Reporting Period for the same reason as for the decrease in return on equity.

Gearing ratio

The Group's gearing ratio is nil, which remained the same as at the end of the same period of last year. It is because the Group did not have any borrowings as at the end of the Reporting Period.

Net debt to equity ratio

The Group maintained positive net cash both as at 30 June 2014 and 31 December 2013.

Current ratio

The Group's current ratio increased from 1.66 as at 31 December 2013 to 1.72 as at 30 June 2014, which was primarily due to the increase in current assets during the Reporting Period and the decrease in current liabilities during the Reporting Period.

Quick ratio

The Group's quick ratio increased from 1.61 as at 31 December 2013 to 1.66 as at 30 June 2014. 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

On 13 August 2014, the Company and KPI Company decided to terminate the KPI Contract. Please refer to the announcement entitled “Termination of an EPC Contract with KPI Company” published by the Company on 14 August 2014 for more details. Projects involved in this contract were excluded in the discussion of value of backlog and new contracts.

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

	As at 30 June 2014 (RMB'000)	As at 31 December 2013 (RMB'000)	Change (%)
Engineering, consulting and licensing	6,502,196	6,050,017	7.5
EPC Contracting	73,453,309	74,039,061	(0.8)
Construction	15,201,297	12,216,820	24.4
Equipment manufacturing	209,517	262,454	(20.2)
Total	<u>95,366,319</u>	<u>92,568,352</u>	3.0

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

	As at 30 June 2014 (RMB'000)	As at 31 December 2013 (RMB'000)	Change (%)
Oil refining	20,558,127	18,752,220	9.6
Petrochemicals	21,803,435	27,275,478	(20.1)
New coal chemicals	42,347,193	39,159,298	8.1
Other industries	10,657,564	7,381,356	44.4
Total	<u>95,366,319</u>	<u>92,568,352</u>	3.0

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

	As at 30 June 2014 (RMB'000)	As at 31 December 2013 (RMB'000)	Change (%)
PRC	73,856,411	70,546,482	4.7
Overseas	21,509,908	22,021,870	(2.3)
Total	<u>95,366,319</u>	<u>92,568,352</u>	3.0

The following table sets forth the total value of backlog categorised 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 30 June 2014 (RMB'000)	As at 31 December 2013 (RMB'000)	Change (%)
Sinopec Group and its associates	36,663,390	36,450,335	0.6
Non-Sinopec Group and its associates	58,702,929	56,118,017	4.6
Total	<u>95,366,319</u>	<u>92,568,352</u>	3.0

As at the end of the Reporting Period, total value of the Group's backlog was RMB 95.366 billion, which was increased by 3.0% as compared with that as at 31 December 2013, representing 2.2 times of the annual revenue of RMB 43.572 billion in 2013.

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

	Six-month periods ended 30 June		Change (%)
	2014 (RMB'000)	2013 (RMB'000)	
Engineering, consulting and licensing	2,140,715	3,412,328	(37.3)
EPC Contracting	12,780,365	21,952,244	(41.8)
Construction	10,444,423	8,066,671	29.5
Equipment manufacturing	82,254	248,537	(66.9)
Total	<u>25,447,757</u>	<u>33,679,780</u>	(24.4)

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

	Six-month periods ended 30 June		Change (%)
	2014 (RMB'000)	2013 (RMB'000)	
Oil refining	6,764,144	3,408,555	98.4
Petrochemicals	3,598,281	17,987,247	(80.0)
New coal chemicals	8,063,273	9,068,972	(11.1)
Other industries	7,022,059	3,215,006	118.4
Total	<u>25,447,757</u>	<u>33,679,780</u>	(24.4)

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

	Six-month periods ended 30 June		Change (%)
	2014 (RMB'000)	2013 (RMB'000)	
PRC	22,671,401	22,443,268	1.0
Overseas	2,776,356	11,236,512	(75.3)
Total	<u>25,447,757</u>	<u>33,679,780</u>	(24.4)

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

	Six-month periods ended 30 June		Change (%)
	2014 (RMB'000)	2013 (RMB'000)	
Sinopec Group and its associates	8,950,193	2,647,432	238.1
Non-Sinopec Group and its associates	16,497,564	31,032,348	(46.8)
Total	<u>25,447,757</u>	<u>33,679,780</u>	(24.4)

During the Reporting Period, the value of the Group's new contracts was RMB 25.448 billion, representing a decline of 24.4% as compared with RMB 33.680 billion for the same period of 2013, which was mainly due to a greater decline in the Group's newly signed overseas contracts during the Reporting Period.

6 Significant Events

6.1 Corporate governance

During the Reporting Period, the Company complied with all code provisions in the Code on Corporate Governance Practices set out in Appendix 14 to the Hong Kong Listing Rules.

6.2 The dividend distribution plan for the half-year ended 30 June 2014

The twelfth meeting of the First Session of the Board of Directors approved the dividend distribution plan for the six-month period ended 30 June 2014. An interim cash dividend of RMB 0.125 (inclusive of applicable taxes) per share would be distributed based on 4,428,000,000 Shares, being the total share capital of the Company as at 30 June 2014. At the Company's annual general meeting for the year 2013 held on 8 May 2014, the shareholders of the Company authorised the Board of Directors, to determine the interim profit distribution plan of the Company for the year 2014. Therefore, the above dividend distribution plan was not subject to Shareholders' further consideration and approval. The dividends will be denominated and declared in Renminbi, the holders of Domestic Shares will be paid in Renminbi and the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the dividends to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to Renminbi as announced by the People's Bank of China during the five business days prior to the date of declaration of the dividends.

For details, please refer to the announcement entitled "Distribution of 2014 Interim Dividend and Closure of Register of Members for H Shares" published by the Company on 18 August 2014.

6.3 Connected transaction

Connected transaction agreements between the Company and Sinopec Group

During the Reporting Period, the Group and Sinopec Group entered into certain continuing connected transactions or agreements, the transactions under which constitute continuing connected transactions:

- (1) the Engineering and Construction Services Framework Agreement;
- (2) the Financial Services Framework Agreement;
- (3) the Technology R&D Framework Agreement;
- (4) the General Services Framework Agreement;

- (5) the Land Use Right and Property Lease Framework Agreement;
- (6) the counter-guarantees provided by Sinopec Group;
- (7) the Safe Production Insurance; and
- (8) the Trademark Licensing Agreement.

Please refer to the section headed “Connected Transactions” in the Company’s prospectus dated 10 May 2013, the Company’s announcement entitled “Continuing Connected Transactions – Financial Services Framework Agreement” dated 19 August 2013, the contents related to the Financial Services Framework Agreement in the Company’s circular to its shareholders dated 10 September 2013 and the Company’s announcement entitled “Adjustments to Annual Caps for Continuing Connected Transactions under the Technology R&D Framework Agreement” dated 17 March 2014 for more details.

Connected transactions actually incurred

During the Reporting Period, the aggregate amount of connected transactions incurred by the Group during the Reporting Period was RMB 9.336 billion. In particular, the expenses amounted to RMB 381 million, and the revenue amounted to RMB 8.955 billion (including RMB 8.741 billion from sales of products and services and RMB 214 million from interest income), satisfied the exemption conditions specified by the Hong Kong Stock Exchange.

During the Reporting Period, the engineering and construction services (supply of equipment and materials, procurement services and equipment leasing, technology licensing and other engineering-related services) provided by Sinopec Group to the Group amounted to RMB 380 million, which was within the exempted cap. The engineering and construction services (preliminary consulting, technology licensing, engineering design, EPC Contracting, construction and equipment manufacturing, etc.) provided by the Group to Sinopec Group amounted to RMB 8.719 billion, which was within the exempted cap.

During the Reporting Period, the expenses relating to the settlement of entrustment loans and other financial services between the Group and Sinopec Finance Co., Ltd. and Sinopec Century Bright Capital Investment Limited were RMB 1 million, which was within the exempted cap. The daily maximum balance of deposits and interest income was RMB 4.911 billion, which was within the exempted cap. The daily maximum balance of entrusted loans was RMB 950 billion, which was within the exempted cap.

Under the approval of the tenth meeting of the First Session of the Board of Directors, in 2014, the exempted annual cap for technology R&D services provided for Sinopec Group increased from RMB 120 million to RMB 180 million. Please refer to the Company’s announcement entitled “Adjustments to Annual Caps for Continuing Connected Transactions under the Technology R&D Framework Agreement” dated 17 March 2014. During the Reporting Period, the technology R&D services provided by the Group to Sinopec Group amounted to RMB 22 million, which was within the exempted cap.

During the Reporting Period, the counter-guarantees provided by Sinopec Group to the Group amounted to USD 209 million, which was within the exempted cap.

During the Reporting Period, the general services provided by Sinopec Group to the Group amounted to RMB 5 million, which was within the exempted cap.

During the Reporting Period, the land use right and property lease contracts provided by the Group to Sinopec Group amounted to RMB 2 million, which was within the exempted cap.

During the Reporting Period, the land use right and property lease contracts provided by Sinopec Group to the Group amounted to RMB 0.1 million, which was within the exempted cap.

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

The major related party transactions actually incurred during the Reporting Period were detailed in Note 39 to the financial statements in the Interim Report, which was prepared in accordance with the IFRS.

Views of independent non-executive directors of the Company on the deposits and entrusted loan transactions under the Financial Services Framework Agreement

The independent non-executive directors of the Company have reviewed the transactions relating to the deposits and entrustment loans under the Financial Services Framework Agreement, and confirmed 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 transaction was entered into on normal commercial terms;
 - (ii) if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, the transactions under the agreement 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 no appropriate assessment can be made to determine whether the transactions meet the conditions under (i) and (ii) above, they are entered into on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole, it is also in the interest of SINOPEC SEG and its shareholders; and
- (c) the amounts under the transactions pursuant to the agreement shall not exceed the respective annual caps.

6.4 Significant litigation or arbitration events

The Company is currently litigating claims which arose in connection with the collapse of a partially completed oil storage tank of the oil and gas storage tank project in Alberta, Canada on 24 April 2007, which resulted in the death of two workers and injuries of four others. In 2012, the Company recorded a total provision of RMB 380 million. The litigation is now in the evidence exchange and cross-examination phase.

In February 2014, Medicine Bow Fuel & Power LLC purported to terminate a project in the United States with the Company. For details, please refer to the Company's announcement dated 28 February 2014 and 28 March 2014. As at the date of the Interim Report, there was no material development on the above matter.

In June 2014, Sinopec Ningbo Engineering Company Limited, a wholly-owned subsidiary of the Company, received a letter from Arbitration Institute of Stockholm Chamber of Commerce in relation to a request for arbitration from INEOS USA LLC. For details, please refer to the Company's announcement dated 18 June 2014. As at the date of the Interim Report, there was no material development of the above matter.

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

6.5 Other significant contracts

Save as disclosed in the Interim Report, the Group had no other significant contracts that should be disclosed during the Reporting Period.

6.6 Repurchase, sale and redemption of shares

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

6.7 Reserves

During the Reporting Period, movements in the reserves of the Group were set out in the Consolidated Statement of Changes in Equity in the financial statements in the Interim Report.

6.8 Use of IPO Proceeds

As at the end of the Reporting Period, the total amount of proceeds from the global offering used by the Group was RMB 2.394 billion, out of which, during the Reporting Period, RMB 2.000 million was used mainly for equipment procurement of SEG Technology R&D Center. The Company officially launched its initial public offering of 1.328 billion H Shares in May 2013 and the gross proceeds amounted to HKD 13.944 billion and, after the deduction of listing expenses, the net proceeds amounted to HKD 13.667 billion. As at the end of the Reporting Period, the remaining amount of proceeds was HKD 10.65 billion.

6.9 Assets transactions

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

6.10 Insolvency and restructuring

During the Reporting Period, the Group had no issues related to insolvency or restructuring.

6.11 Significant trusteeship, contracting and lease

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

6.12 Significant acquisitions and sale

During the Reporting Period, the Group had no matters on substantial acquisitions or sale.

6.13 Pledged assets

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

6.14 Debt

The Group had no interest-bearing debts as at the end of the Reporting Period.

6.15 Review of the Interim Report

The Audit Committee of the Company has reviewed the Interim Report and does not have different views on the financial statements contained in the Interim Report.

The Audit Committee is comprised of all independent non-executive Directors, namely, Mr. YE Zheng, Mr. HUI Chiu Chung, Stephen and Mr. JIN Yong. Among them, Mr. YE Zheng has the appropriate professional qualifications (member of Hong Kong Institute of Certified Public Accountants) and over 18 years of experience in auditing, internal control and consultancy.

6.16 Other important matters

During the Reporting Period, neither the Company, the Board nor the Directors was punished by administrative means or criticised through circulars by Hong Kong Securities and Futures Commission or publicly condemned by the Hong Kong Stock Exchange.

On 13 August 2014, the Company and KPI Company decided to terminate the KPI Contract. Please refer to the announcement entitled “Termination of an EPC Contract with KPI Company” published by the Company on 14 August 2014 for more details.

7 Financial statements

7.1 Auditors’ opinion

The interim financial statements for the six-month period ended 30 June 2014 of the Group, prepared in accordance with the IFRS and contained in the Interim Report, have been audited by Grant Thornton Hong Kong Limited, which has issued standard unqualified opinions on the interim financial statements.

7.2 Accounting policies, estimates and measurement

Compared to the 2013 financial statements, there are no significant changes to accounting policies, estimates and measurement.

7.3 Financial Statements

The interim financial statements prepared in accordance with IFRS for the six months ended 30 June 2014

7.3.1 Consolidated Statement of Comprehensive Income

	2014	2013
	RMB'000	RMB'000
Revenue	22,649,791	19,645,416
Cost of sales	(19,620,895)	(15,999,600)
Gross profit	3,028,896	3,645,816
Other income	115,760	23,271
Selling and marketing expenses	(48,823)	(38,243)
Administrative expenses	(455,115)	(422,935)
Research and development costs	(312,295)	(254,823)
Other operating expenses	(96,392)	(133,639)
Other gains - net	295	1,963
Operating profit	2,232,326	2,821,410
Finance income	301,042	159,441
Finance expenses	(55,589)	(54,703)
Finance income - net	245,453	104,738
Share of profits/(losses) of joint arrangements	1,314	(112)
Share of profits of associates	5,518	4,251
Profit before taxation	2,484,611	2,930,287
Income tax expense	(607,068)	(716,132)
Profit for the period	1,877,543	2,214,155

	2014 RMB'000	2013 RMB'000
Other comprehensive income for the period, net of tax		
Items that may be reclassified subsequently to profit or loss:		
Fair value losses on available-for-sale financial assets	(776)	(268)
Exchange differences arising on translation of foreign operations	(6,793)	—
	<u>(7,569)</u>	<u>(268)</u>
Item that will not be reclassified subsequently to profit or loss:		
(Losses)/Gains on revaluation of retirement benefit plans obligations	(111,673)	51,105
Other comprehensive income for the period, net of tax	<u>(119,242)</u>	<u>50,837</u>
Total comprehensive income for the period	<u>1,758,301</u>	<u>2,264,992</u>
Profit attributable to:		
Equity holders of the Company	1,877,478	2,214,134
Non-controlling interests	65	21
Profit for the period	<u><u>1,877,543</u></u>	<u><u>2,214,155</u></u>
Total comprehensive income attributable to:		
Equity holders of the Company	1,758,236	2,264,971
Non-controlling interests	65	21
Total comprehensive income for the period	<u><u>1,758,301</u></u>	<u><u>2,264,992</u></u>
	RMB	RMB
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share)		
– Basic and diluted	<u><u>0.42</u></u>	<u><u>0.66</u></u>

7.3.2 Consolidated Statement of Financial Position

	As at 30 June 2014 RMB'000	As at 31 Decemebr 2013 RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	4,006,325	4,049,488
Land use rights	2,838,005	2,857,234
Intangible assets	408,088	443,779
Investment in joint arrangements	8,282	8,184
Investment in associates	100,577	95,059
Available-for-sale financial assets	18,328	19,362
Deferred income tax assets	730,616	693,373
Total non-current assets	8,110,221	8,166,479
Current assets		
Inventories	1,255,083	1,245,147
Notes and trade receivables	6,248,750	6,946,818
Prepayments and other receivables	5,413,729	4,608,499
Amounts due from customers for contract work	7,690,238	5,952,132
Loans due from the ultimate holding company	9,000,000	9,500,000
Restricted cash	36,380	19,152
Time deposits	2,922,305	5,412,552
Cash and cash equivalents	7,313,989	5,514,490
Total current assets	39,880,474	39,198,790
Total assets	47,990,695	47,365,269

	As at 30 June 2014 RMB'000	As at 31 Decemeb 2013 RMB'000
EQUITY		
Share capital	4,428,000	4,428,000
Reserves	17,465,630	16,548,714
Consolidated equity attributable to equity holders of the Company	21,893,630	20,976,714
Non-controlling interests	3,692	3,627
Total equity	21,897,322	20,980,341
LIABILITIES		
Non-current liabilities		
Retirement and other supplemental benefit obligations	2,479,822	2,396,554
Provision for litigation claims	331,087	329,890
Deferred income tax liabilities	36,669	37,564
Total non-current liabilities	2,847,578	2,764,008
Current liabilities		
Notes and trade payables	9,258,738	10,194,259
Other payables	8,888,838	8,361,040
Amounts due to customers for contract work	4,828,382	4,903,978
Current income tax liabilities	269,837	161,643
Total current liabilities	23,245,795	23,620,920
Total liabilities	26,093,373	26,384,928
Total equity and liabilities	47,990,695	47,365,269
Net current assets	16,634,679	15,577,870
Total assets less current liabilities	24,744,900	23,744,349

7.3.3 Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company									
	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 2013	3,100,000	519,472	191,517	8,261	98,753	—	3,159,982	7,077,985	3,265	7,081,250
Profit for the period	—	—	—	—	—	—	2,214,134	2,214,134	21	2,214,155
Other comprehensive income:										
Fair value change of available-for-sale financial assets - gross	—	—	—	(358)	—	—	—	(358)	—	(358)
Fair value change of available-for-sale financial assets - tax	—	—	—	90	—	—	—	90	—	90
Defined benefits obligation revaluation of actuarial gain and loss - gross	—	—	—	—	—	—	65,895	65,895	—	65,895
Defined benefits obligation revaluation of actuarial gain and loss - tax	—	—	—	—	—	—	(14,790)	(14,790)	—	(14,790)
Total comprehensive income	—	—	—	(268)	—	—	2,265,239	2,264,971	21	2,264,992
Transactions with owners:										
Issuance of ordinary shares for Listing, net	1,328,000	9,599,488	—	—	—	—	—	10,927,488	—	10,927,488
Special dividends	—	—	—	—	—	—	(363,299)	(363,299)	—	(363,299)
Appropriation of specific reserve	—	—	—	—	55,582	—	(55,582)	—	—	—
Utilisation of specific reserve	—	—	—	—	(39,888)	—	39,888	—	—	—
Total transactions with owners	1,328,000	9,599,488	—	—	15,694	—	(378,993)	10,564,189	—	10,564,189
At 30 June 2013	4,428,000	10,118,960	191,517	7,993	114,447	—	5,046,228	19,907,145	3,286	19,910,431

	Attributable to equity holders of the Company									
	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 2014	4,428,000	10,118,960	191,517	11,484	123,788	1,549	6,101,416	20,976,714	3,627	20,980,341
Profit for the period	—	—	—	—	—	—	1,877,478	1,877,478	65	1,877,543
Other comprehensive income:										
Fair value change of available-for-sale financial assets - gross	—	—	—	(1,034)	—	—	—	(1,034)	—	(1,034)
Fair value change of available-for-sale financial assets – tax	—	—	—	258	—	—	—	258	—	258
Defined benefits obligation revaluation of actuarial gain and loss - gross	—	—	—	—	—	—	(144,616)	(144,616)	—	(144,616)
Defined benefits obligation revaluation of actuarial gain and loss - tax	—	—	—	—	—	—	32,943	32,943	—	32,943
Exchange differences arising on translation of foreign operations	—	—	—	—	—	(6,793)	—	(6,793)	—	(6,793)
Total comprehensive income	—	—	—	(776)	—	(6,793)	1,765,805	1,758,236	65	1,758,301
Transactions with owners:										
Final dividends for 2013	—	—	—	—	—	—	(841,320)	(841,320)	—	(841,320)
Appropriation of specific reserve	—	—	—	—	64,659	—	(64,659)	—	—	—
Utilisation of specific reserve	—	—	—	—	(42,292)	—	42,292	—	—	—
Total transactions with owners	—	—	—	—	22,367	—	(863,687)	(841,320)	—	(841,320)
At 30 June 2014	4,428,000	10,118,960	191,517	10,708	146,155	(5,244)	7,003,534	21,893,630	3,692	21,897,322

7.3.4 Consolidated Statement of Cash Flows

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from/(used in) operations	37,535	(283,586)
Income tax paid	(508,556)	(630,740)
Interest received	124,780	9,113
Net cash used in operating activities	(346,241)	(905,213)
Cash flows from investing activities		
Purchase of property, plant and equipment	(160,098)	(148,101)
Purchase of intangible assets	(10,304)	(8,499)
Purchase of land use rights	(11,683)	(52,151)
Interest income on the loans to the ultimate holding company	176,262	150,328
Proceeds from disposal of property, plant and equipment	1,531	2,806
Dividends received from associates	1,216	129
Net decrease/(increase) in time deposits	2,520,265	(7,403,007)
Loans to the ultimate holding company	(5,500,000)	(7,100,000)
Repayments of loans from the ultimate holding company	6,000,000	7,140,000
Net cash generated from/(used in) investing activities	3,017,189	(7,418,495)

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Cash flows from financing activities		
Proceeds from global offering	—	11,128,846
Payment of fees relating to Listing	—	(2,960)
Borrowings from fellow subsidiaries	653,725	499,774
Repayments of borrowings from fellow subsidiaries	(653,725)	(656,912)
Interest paid	(952)	(3,038)
Dividends paid	(841,320)	(363,299)
Net cash (used in)/generated from financing activities	<u>(842,272)</u>	<u>10,602,411</u>
Net increase in cash and cash equivalents	1,828,676	2,278,703
Cash and cash equivalents at beginning of period	5,514,490	4,822,490
Exchange (losses)/gains on cash and cash equivalents	<u>(29,177)</u>	<u>36,083</u>
Cash and cash equivalents at end of period	<u><u>7,313,989</u></u>	<u><u>7,137,276</u></u>

7.4 NOTES TO THE INTERIM FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IFRS

7.4.1 Revenue

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Engineering, consulting and licensing	1,688,536	2,231,482
EPC Contracting	13,366,117	10,549,811
Construction	7,459,947	6,572,236
Equipment manufacturing	<u>135,191</u>	<u>246,887</u>
	<u><u>22,649,791</u></u>	<u><u>19,645,416</u></u>

7.4.2 Income Tax Expense

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Current tax		
PRC enterprise income tax	525,047	634,713
Overseas enterprise income tax	35,773	31,900
Under-provision for PRC enterprise income tax in prior years	51,185	43,706
	<u>612,005</u>	<u>710,319</u>
Deferred tax		
Origination and reversal of temporary differences	(4,937)	5,813
	<u>(4,937)</u>	<u>5,813</u>
Income tax expense	<u><u>607,068</u></u>	<u><u>716,132</u></u>

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the six months ended 30 June 2014 and 2013 is 25%.

According to the normal statutory PRC corporate income tax and relevant rules, apart from a certain subsidiaries of the Company subjected to the relevant development zone policy or participation 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 six months ended 30 June 2014 and 2013, the majority of the member of the Group is subject to 25% income tax rate.

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

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

	Six months ended June 30	
	2014	2013
	RMB'000	RMB'000
Profit before taxation	<u>2,484,611</u>	<u>2,930,287</u>
Taxation calculated at the statutory tax rate	621,153	732,572
Income tax effects of:		
Preferential income tax treatments of certain companies	(85,320)	(87,842)
Difference in overseas profits tax rates	(1,726)	(6,129)
Non-deductible expenses	28,610	27,647
Income not subject to tax	(1,896)	(1,534)
Unrecognised tax losses	12,333	7,721
Utilisation of previously unrecognised tax losses	(17,271)	(9)
Under provision for PRC enterprise income tax in prior years	<u>51,185</u>	<u>43,706</u>
Income tax expense	<u>607,068</u>	<u>716,132</u>
Effective income tax rate ⁽ⁱ⁾	<u>24%</u>	<u>24%</u>

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 Group.

7.4.3 Earnings Per Share

(a) Basic

The basic earnings per share for each of the six months ended 30 June 2014 and 2013 is calculated based on the profit attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue.

	Six months ended 30 June	
	2014	2013
Profit attributable to equity holders of the Company (RMB'000)	1,877,478	2,214,134
Weighted average number of ordinary shares in issue	4,428,000,000	3,378,806,630
Basic earnings per share (RMB)	<u>0.42</u>	<u>0.66</u>

(b) Diluted

As the Company had no dilutive shares for the each of the six months ended 30 June 2014 and 2013, diluted earnings per share for the six months ended 30 June 2014 and 2013 are the same as basic earnings per share.

7.4.4 Dividends

Dividends represented dividends declared by the Company during each of periods ended 30 June 2014 and 2013.

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Special dividends ⁽ⁱ⁾	—	363,299
Interim dividends of RMB 0.125 per ordinary share (2013: RMB 0.134) ⁽ⁱⁱ⁾	<u>553,500</u>	<u>593,352</u>

- (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 reorganisation 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 transfer to state-owned equity after the approval of its state-owned shareholder. A special distribution is the increase of net assets of the Group between 30 June 2012 and 28 August 2012 which is distributed to the original state-owned shareholder. On 10 April 2013, the special distribution was declared and approved to distribute to the original state-owned shareholders.
- (ii) Pursuant to the Directors' meeting on 15 August 2014 the Directors recommended to declare the interim dividends for the year ended 31 December 2014 of RMB 0.125 (2013: RMB 0.134) per share totalling RMB 553,500 000 (2013: RMB 593,352,000). Dividends proposed to be declared by the Directors' meeting after the end of the Reporting Period are not recognised as a liability at the end of the Reporting Period.

8 Language

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

Yours faithfully,
By order of the Board
SINOPEC ENGINEERING (GROUP) CO., LTD.
CAI Xiyu
Chairman

Beijing, PRC
18 August 2014

As of the date of this announcement, the executive director is YAN Shaochun, the non-executive directors are CAI Xiyu, LEI Dianwu, LING Yiqun, CHANG Zhenyong and LI Guoqing, and the independent non-executive directors are HUI Chiu Chung, Stephen, JIN Yong and YE Zheng.