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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 Announcement for the Year ended 31 December 2014

1 Important Notice

- 1.1 This announcement is extracted from the content of the 2014 annual report (the “**Annual 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 Annual Report for more details.
- 1.2 The financial statements for the year ended 31 December 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 financial statements.

2 Basic Information of the Company

2.1 Company Profile

Stock Name of H Shares:	SINOPEC SEG
Stock Code of H Shares:	2386
Place of Listing of H Shares:	Hong Kong Stock Exchange
Legal Representative:	Mr. ZHANG Jianhua
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, Anhui Beili, Chaoyang District, Beijing, the PRC (Postcode: 100101)
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* For identification purposes only.

2.2 Principal Financial Data and Indicators

Summary of Financial Data and Indicators Prepared in accordance with the IFRS

Unit: RMB '000

Items	As at 31	As at 31	As at 31	As at 31	As at 31	Changes from
	December 2014	December 2013	December 2012	December 2011	December 2010	the end of 2013 (%)
Non-current assets	8,052,331	8,166,479	8,078,778	6,992,691	4,325,583	(1.4)
Current assets	44,032,264	39,198,790	29,051,247	37,411,516	31,863,077	12.3
Current liabilities	26,347,950	23,620,920	26,762,416	37,890,135	23,174,891	11.5
Non-current liabilities	2,864,071	2,764,008	3,286,359	3,780,664	3,972,641	3.6
Total equity attributable to shareholders of the Company	22,869,116	20,976,714	7,077,985	2,730,107	9,037,900	9.0
Net assets per share attributable to shareholders of the Company (RMB)	5.16	4.74	2.28	0.88	2.92	8.9

Unit: RMB '000

Items	Year ended 31 December					Changes over the same period of 2013 (%)
	2014	2013	2012	2011	2010	2013
Revenue	49,345,959	43,571,851	38,526,489	30,600,677	29,897,489	13.3
Gross profit	6,290,612	6,406,191	5,528,106	5,074,336	4,538,699	(1.8)
Operating profit	4,039,003	4,413,485	3,832,023	3,724,592	3,338,083	(8.5)
Profit before taxation	4,550,695	4,751,041	4,252,067	4,243,958	3,678,014	(4.2)
Net profit attributable to shareholders of the Company	3,489,799	3,656,802	3,316,970	3,375,039	2,889,932	(4.6)
Basic earnings per share (RMB)	0.79	0.93	1.07	1.09	0.93	(15.1)
Net cash flow generated from/ (used in) operating activities	333,312	(85,995)	1,556,489	1,688,845	4,253,262	—
Net cash flow generated from/ (used in) operating activities per share (RMB)	0.08	(0.02)	0.50	0.54	1.37	—

Items	Year ended 31 December				
	2014	2013	2012	2011	2010
Gross profit margin (%)	12.7	14.7	14.3	16.6	15.2
Net profit margin (%)	7.1	8.4	8.6	11.0	9.7
Return on assets (%)	7.0	8.7	8.1	8.4	8.9

Items	As at 31 December 2014	As at 31 December 2013	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010
Asset-liability ratio (%)	56.1	55.7	80.9	93.8	75.0

3 Business Review and Prospects

3.1 Business Review

During the Reporting Period, the Group's total revenue and net profits attributable to the Company's shareholders were RMB49.346 billion and RMB3.490 billion, respectively. As at the end of the Reporting Period, the Group's backlog was RMB103.922 billion. The value of new contracts entered into by the Group during the Reporting Period was RMB60.700 billion.

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

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

	Year ended 31 December				
	2014		2013		Change
	Revenue (RMB '000)	Percentage of total revenue (%)	Revenue (RMB '000)	Percentage of total revenue (%)	
Engineering, consulting and licensing	3,645,174	6.8	4,354,199	9.4	(16.3)
EPC Contracting	30,132,251	56.2	23,505,528	50.5	28.2
Construction	19,159,750	35.7	18,024,037	38.7	6.3
Equipment manufacturing	704,107	1.3	684,188	1.5	2.9
Subtotal	<u>53,641,282</u>	<u>100.0</u>	<u>46,567,952</u>	<u>100.0</u>	15.2
Total after inter-segment elimination ⁽¹⁾	<u>49,345,959</u>	N/A	<u>43,571,851</u>	N/A	13.3

Note:

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

During the Reporting Period, the total revenue of the Group was RMB49.346 billion, an increase of 13.3% from the same period of the previous year, which was mainly because a relatively large portion of several large engineering, procurement and construction (“**EPC**”) contracting (“**EPC Contracting**”) projects had completed a considerable amount of work during the Reporting Period, including the Yuanba Gas Field Natural Gas Purification Complex of Sinopec (“**Yuanba Natural Gas Purification Project**”), the Sinochem Quanzhou 12 million tons per annum (“**Mtpa**”) Oil Refining Complex (“**Sinochem Quanzhou Project**”), Shaanxi Pucheng DMTO Project, Shandong Liquefied Natural Gas Complex Receiving Terminal Storage Tank Zone Engineering of Sinopec (“**Shangdong LNG Storage Tank Zone Project**”), Zhongtian Hechuang Coal Chemical Complex, U.S. JUMBO PTA and PET Project, Aromatics Project of Kazakhstan Atyrau Refinery, etc.

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

	Year ended 31 December				Change
	2014		2013		
	Revenue (RMB '000)	Percentage of total revenue (%)	Revenue (RMB '000)	Percentage of total revenue (%)	
Oil refining	10,006,661	20.3	12,299,237	28.2	(18.6)
Petrochemicals	16,010,839	32.4	16,701,785	38.3	(4.1)
New coal chemicals	14,938,090	30.3	8,855,434	20.3	68.7
Other industries	8,390,369	17.0	5,715,395	13.1	46.8
Total	<u>49,345,959</u>	<u>100.0</u>	<u>43,571,851</u>	<u>100.0</u>	13.3

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 Company’s revenue from the oil refining industry was RMB10.007 billion, representing a decline of 18.6% as compared with that of the same period of the previous year. This was mainly because the domestic large-scale refining projects of the Group were in their final stage. The revenue derived from the petrochemical industry was RMB16.011 billion, slightly less than that of the same period of the previous year. The revenue derived from the new coal chemical industry increased sharply to RMB14.938 billion, representing an increase of 68.7% as compared with that of the same period of the previous year. This was mainly due to the revenue growth of large-scale coal chemical projects

such as Zhongtian Hechuang Coal Chemical Project and Shaanxi Pucheng DMTO Project. The revenue derived from other industries was RMB8.390 billion, representing an increase of 46.8% as compared with that of the same period of the previous year. This was mainly due to the revenue growth of clean energy projects such as Yuanba Natural Gas Purification Project and Shandong LNG Storage Tank Zone Project.

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

	Year ended 31 December				
	2014		2013		Change
	Revenue	Percentage of	Revenue	Percentage of	
	(RMB '000)	total revenue	(RMB '000)	total revenue	(%)
		(%)		(%)	
PRC	42,507,010	86.1	36,540,730	83.9	16.3
Overseas	6,838,949	13.9	7,031,121	16.1	(2.7)
Total	<u>49,345,959</u>	<u>100.0</u>	<u>43,571,851</u>	<u>100.0</u>	13.3

During the Reporting Period, the revenue of the Group from its overseas business amounted to RMB6.839 billion, representing a decline of 2.7% as compared with that of the same period of the previous year. This decrease was mainly because some of the projects in Saudi Arabia were in their final stage and the relevant revenue generated from the projects decreased as compared with that of the same period of the previous year.

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 amounted to RMB103.922 billion (excluding the contract value of the KPI Contract), representing an increase of 12.3% as compared with RMB92.568 billion (excluding the contract value of the KPI Contract) as at 31 December 2013, or 2.1 times of the total revenue of RMB49.346 billion in 2014. During the Reporting Period, the value of new contracts entered into by the Group amounted to RMB60.700 billion, representing a decline of 14.0% as compared with RMB70.589 billion (excluding the contract value of the KPI Contract) of the same period in 2013.

During the Reporting Period, the Group entered into the following representative domestic projects: the EPC contract for 1.7 Mtpa coal to methanol and olefin project with ZhongAn LianHe Coal Chemical Co., Ltd. (“**ZhongAn Coal Chemical Project**”), the EPC Contracting for the receiving terminal station under the Shandong liquefied natural gas (LNG) project with Sinopec Qingdao LNG Co., Ltd., (“**Shandong LNG Terminal Station Project**”), the EPC Contracting for 180/400 kilo tons per annum (“**Ktpa**”) ethylene oxide/ethylene glycol (EO/EG) project with

Fujian Union Refining and Petrochemical Co., Ltd., (“**Fujian EO/EG Project**”), the engineering and procurement (EP) contract for the detailed engineering design and procurement of the air separation and oil processing units for the 4 Mtpa demonstrative indirect coal liquefaction project with Shenhua Ningxia Coal Industry Group (“**Shenhua Ningxia Coal Coal-to-Liquids (CTL) Project**”), the EPC contract for DMT0 and olefin separation units of Phase I of a coal deep-processing demonstration project with Qinghai Damei Coal Industry Co., Ltd. (“**Qinghai Damei DMT0 Project**”), the EPC contract for polypropylene unit of comprehensive utilisation of exhaust-to-olefin project in Qinghai Damei Ganhe Industrial Zone (“**Qinghai Damei Polypropylene Project**”), the EPC Contracting for process units of a propylene oxide project with Nanjing Jinling Huntsman New Materials Co., Ltd. (“**Nanjing Jinling Huntsman Propylene Oxide Project**”), and the EPC Contracting for 3 Ktpa SMTO catalyst project with Nanjing Branch of Sinopec Catalyst Company (“**Nanjing SMTO Catalyst Project**”).

During the Reporting Period, representative overseas projects of the Group included the RAPID contract for engineering, procurement, construction and commissioning (“**EPCC**”) of an oil refining and petrochemical integrated development project entered into between the Company and Petroliaam Nasional Bhd. from Malaysia. (“**Malaysia Project**”); the contract for a 3×1.8 Mtpa sulfuric acid and power plant EPC project for Saudi Arabia Mining entered into with SNC-Lavalin Group Inc. from Canada (“**Saudi Sulfuric Acid and Power Plant EPC Project**”); the construction contract for the hydrocracking and diesel hydrotreating project of Jazan Refinery of Saudi Aramco Oil Company entered into with Tecnicas Reunidas from Spain (“**Saudi Jazan Refinery Construction Project**”); and the construction contract for MEI package in a polyoxymethylene project in Saudi Arabia with INTECSA INDUSTRIA (“**Saudi POM MEI Construction Project**”).

The capital expenditure of the Group was mainly used for expanding facilities, upgrading technology and procuring equipment. During the Reporting Period, our capital expenditure was RMB547 million, which was mainly used to improve the conditions of production base and ancillary units, update construction equipment, establish information systems procure scientific research equipment, and prevent potential hazards, etc.

3.2 Business Highlights

3.2.1 Successful Implementation of Major Projects

Zhongtian Hechuang Coal Chemical Project: Please refer to the announcement dated 26 December 2013 published by the Company for details. During the Reporting Period, detailed engineering and construction work under this project was in full swing. As at the end of the Reporting Period, half of the overall progress of this project had been completed, and now this project is in the stage of pre-casting and preparation for the upcoming construction peak in the spring of 2015.

ZhongAn Coal Chemical Project: Please refer to the announcement dated 24 November 2014 published by the Company for details. The design work under this project is in full swing. As

at the end of the Reporting Period, approximately 20% of detailed engineering work had been completed. Site construction is in the initial stage, which mainly includes pile foundation and civil construction.

Yuanba Natural Gas Purification Project: The scope of work under the contract for this project mainly includes EPC Contracting for four series of 3 million cubic meters per day natural gas purification units, desulphurisation unit, dehydration unit, sulfur recovery unit, tail gas treatment unit, sulfur forming unit and acidic water stripping unit and other ancillary facilities. During the Reporting Period, 31 units in total, including four integrated purification devices, sulfur forming devices and other devices, were put into operation.

Sinochem Quanzhou Project: The scope of work under the contract for this project includes EPC Contracting for a 12 Mtpa CDU/VDU unit, a 2 Mtpa continuous catalytic reforming unit, a 1.6 Mtpa delayed coking unit, a 3.3 Mtpa residue hydro-treating unit, a 3.4 Mtpa fluid catalytic cracking unit, a 2.6 Mtpa wax oil hydro-cracking unit, a 140,000 normal cubic meters per hour hydrogen production unit, etc. During the Reporting Period, this project was handed over.

Shijiazhuang Oil Refining and Chemical Project: The scope of work under the contract for this project includes the EPC Contracting for building 10 new refinery production devices, improving utilities for storing and delivering water, electricity and gas, facilities, etc. During the Reporting Period, this project was handed over.

Shandong LNG Storage Tank Zone Project: The scope of work under the contract for this project mainly includes the EPC Contracting for first-phase wharf engineering, receiving station engineering, 1-3# storage tank engineering and second-phase 4# storage tank engineering, and light hydrocarbon recovery. As at the end of the Reporting Period, first-phase engineering had been handed over, and approximately 90% of second-phase engineering had been completed. The safety, quality and progress of this project are under full control.

Yulin Coal Chemical Project: The scope of work under the contract for the first phase of this project mainly includes the EPC Contracting for a 1.8 Mtpa of methanol-to-olefin (DMTO) unit, a 300 Ktpa of polyethylene, a 300 Ktpa of polypropylene, and a unit for the comprehensive utilisation of C4, etc. During the Reporting Period, this project was handed over.

700 Ktpa coal-to-olefin project DMTO-II unit of Pucheng Clean Energy Chemical Co., Ltd.: The scope of work under the contract for this project mainly includes the EPC Contracting for 700 Ktpa DMTO-II devices. During the Reporting Period, this project was handed over.

DMTO and Polyolefin Projects of Zhejiang Xingxing New Energy Co., Ltd.: The scope of work under the contract for this project mainly includes the EPC Contracting for a 1.8 Mtpa methanol-to-olefin (DMTO) unit, a 300 Ktpa polyethylene unit, a 390 Ktpa polypropylene unit, etc. During the Reporting Period, this project was handed over.

500 Ktpa engineering plastics project MTO unit, olefin separation unit and polypropylene engineering of Inner Mongolia China Coal Mengda New Energy Chemical Industry Co., Ltd.: The scope of work under the contract for this project mainly includes the EPC Contracting for a 1.8 Mtpa methanol-to-olefin (DMTO) unit, a 300 Ktpa polyolefin unit, a 600 Ktpa olefin separation unit, etc. As at the end of the Reporting Period, approximately 90% of the project had been completed. The safety, quality and progress of this project are under full control.

Shenhua Ningxia Coal Coal-to-Liquids (CTL) Project: The scope of work under the contract for this project mainly includes EP Contracting for 4 Mtpa coal tar hydrogenation. As at the end of the Reporting Period, approximately 80% of the project had been completed. The safety, quality and progress of this project are under full control.

Qinghai Damei DMTO Project: The scope of work under the contract for this project mainly includes EPC Contracting for a 600 Ktpa methanol-to-olefin (DMTO) unit, a 600 Ktpa olefin separation unit, etc. As at the end of the Reporting Period, approximately 10% of this project had been completed. The safety, quality and progress of this project are under full control.

Malaysia Project: Please refer to the announcement dated 29 August 2014 published by the Company for details. As at the end of the Reporting Period, the project had been advancing smoothly in the design stage.

Aromatics Project of Kazakhstan Atyrau Refinery: The scope of work under the contract for this project mainly includes EPCC of a 1 Mtpa continuous catalytic reforming unit, a 500 Ktpa aromatics extraction, a 500 Ktpa PX unit and utilities, etc. As at the end of the Reporting Period, more than 90% of this project had been completed. This project is expected to be put into operation in the first half of 2015.

Kazakhstan Atyrau FCC Project: The scope of work under the contract for this project mainly includes 13 process units, including 2.43 Mtpa FCC unit, and EPCC of 47 utilities units. As at the end of the Reporting Period, nearly 50% of this project had been completed. The design work under this project has generally been completed and equipment and materials are being sent to the site successively.

U.S. JUMBO PTA and PET Project: The scope of work under the contract for this project includes EPC Contracting for 1.2 Mtpa PTA units, a 1 Mtpa PET unit, utilities and facilities. As at the end of the Reporting Period, the financing for this project was already in place. The safety, quality and progress of this project are generally under control and on-site work has commenced as planned.

3.2.2 Excellent Results in Market Development

In the second half of 2014, the global price of crude oil dropped significantly, and there was a decline in the capital expenditure of domestic large oil companies on traditional oil refining and petrochemical engineering projects. Yet the new coal chemical market was not seriously impacted in 2014. Faced with relatively difficult market condition, the Group exploited its overall advantage of its industry chain, business chain and technical chain, and reinforced market expansion. During the Reporting Period, the value of new contracts entered into by the Group was RMB60.700 billion, including RMB49.249 billion for domestic projects and USD1.850 billion for overseas projects.

Domestically, the Group newly entered into the contracts for a number of large projects during the Reporting Period, such as (1) ZhongAn Coal Chemical Project with a contract value of RMB7.038 billion; (2) Shandong LNG Terminal Station Project with a contract value of RMB2.640 billion; (3) Fujian EO/EG Project with a contract value of RMB1.368 billion; (4) Shenhua Ningxia Coal Coal-to-Liquids (CTL) Project with a contract value of RMB3.356 billion; (5) Qinghai Damei DMTO Project with a contract value of RMB2.072 billion; (6) Qinghai Damei Polypropylene Project with a contract amount of about RMB714 million; (7) Nanjing Jinling Huntsman Propylene Oxide Project with a contract value of RMB840 million; and (8) Nanjing SMTO Catalyst Project with a contract value of RMB540 million.

As for overseas projects, during the Reporting Period, the Group newly entered into the contracts for: (1) Malaysia Project with a contract value of USD1.329 billion and a planned construction period of 52 months; (2) Saudi Sulfuric Acid and Power Plant EPC Contracting Project with a contract value of USD764 million (of which the Group shall bear USD257 million) and a planned construction period of 32 months; (3) Saudi Jazan Refinery Construction Project with a contract value of USD194 million and a planned construction period of 30 months; and (4) Saudi POM MEI Construction Project with a contract value of USD55.5 million and a planned construction period of 15 months.

In addition, during the Reporting Period, the Group also followed up on a number of important projects, the contracts for which are expected to be entered into in the future.

3.2.3 Leading Technologies and Breakthroughs Made in Technology Innovation

Maintaining Current Advanced Level in Petrochemical Field

- Following successful industrialisation of the ethylene package technology under the Wuhan ethylene project, Hainan's PX packaged technology, Jinan's counter current reforming technology and SMTO packaged technology, Hubei's chemical fertiliser 200 Ktpa syngas-to-glycol industrial demonstration plant packaged technology completing flow scheme within the Reporting Period, all glycol products passing the quality indicators, the key indicator of UV light transmittance reaching the standard of national superior products, and the demonstration units reaching 95% production load. Our next step is to assess the production units for the purposes of the technical evaluation of such units.

- SE oriental furnace industrial demonstration unit project of “cold-wall typed single injector pulverised coal pressurised gasification (SE) packaged technology development” succeeded in gasified feed intake during the Reporting Period. Transformation, purification and other procedures were put into operation and qualified hydrogen was produced and fed into the pipeline network. The project was successful in first commissioning and the unit was 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 completed construction and successful commissioning. The technology would avoid sulphate discharge as a result of using the traditional technology.
- The 50 Ktpa fluidised-bed hydrogenation unit is being launched in Sinopec Nanjing branch. The achievements of desulfurisation and denitration technology have been put into extensive application. These innovative results have led to a tremendous impact on the Group’s technology to drive and lead the market.

Improving Technology of Coal Chemical Industry Chain

- DMTO integrated unit of Shandong Shenda/Haoda 1 Mtpa commissioned on 29 November 2014, marking it the world’s first set of DMTO integrated unit adopting olefin separation technology of proprietary intellectual property rights to succeed in the first commissioning.
- 700 Ktpa coal-to-olefin project DMTO-II unit of Pucheng Clean Energy Chemical Co., Ltd. was put into operation successfully.
- Our moving bed methanol-to-propylene catalyst and technical study passed review of the Department of Science and Technology of China Petrochemical Corporation (“**Sinopec Group**”) and also accomplished the development of 2,000-ton per day SE pulverised coal gasification technology package.
- We completed cold mold fluidisation test with fluid bed MTG technology jointly developed with ExxonMobil Research and Engineering Company, as well as construction of a thermal state pilot plant.
- 3,000 Nm³/h coal to natural gas (SNG) pilot unit was put into operation in Shaanxi Datang and completed calibration. The semi-industrial device is under engineering.

Expanding Technical Research and Development in New Realms

During the Reporting Period, the Group set up more than 150 new technical research and development (“R&D”) programmes, involving technical development of new energy utilisation, technology R&D of various technologies for environmental protection, and R&D of safety and environmental protection construction technology. Our R&D focused on LNG, shale gas utilisation, development and utilisation of new energy, as well as terrestrial heat, low-temperature heat utilisation and other environmental protection and energy saving technologies. Meanwhile, in concert with market development, we explored technical cooperation in pollution abatement technology, atmospheric control, sewage treatment, etc. with a view to gain share in new markets with new technology.

Orderly Carrying out Technology Licensing and Intellectual Property Protection

Due to the impact of the overall slowing economic development, the contract value of the technology licensing contract entered into by the Group during the Reporting Period was RMB138 million. We maintained good intellectual property protection and completed 411 patent applications (212 patents for invention) and 361 authorised patents in the entire year. The Group has 1,414 valid patents in total, and 690 patent applications being reviewed by the patent office.

Achieving Numerous Fruitful Results in Technology Innovation

During the Reporting Period, the Group won 46 prizes of provincial/ministerial level or higher for scientific and technological progress, including 1 special award, 5 first prizes, 6 second prizes and 5 third prizes.

At the National Science and Technology Awards Conference, the “DMTO” technology project engaged and developed by the Group was awarded the first prize of National Technical Invention; the “Design, Manufacturing and Maintenance of Important Pressure Vessel under Extreme Conditions” engaged by the Group was awarded the first prize of the State Scientific and Technological Progress; the “R&D and Application of New Technology on Emission-Reduction of Fine Particulate Pollutants in Major Chemical Engineering Equipment” engaged by the Group was awarded the second prize of National Technical Invention; the “Technology Innovation and Industrial Application of Full High Efficiency Processing of Peracid Heavy Crude Oil” engaged by the Group was awarded the second prize of the State Scientific and Technological Progress. 17 scientific R&D achievements in which the Group participated were awarded the 2013 Science and Technology Progress Award by Sinopec Group. Sinopec Ningbo Engineering Co., Ltd. and Sinopec Tenth Construction Co., Ltd. were awarded the Advanced Enterprise of Scientific and Technology Innovation by China Association of Construction Enterprise Management.

3.2.4 Intensified Enterprise Reform

We have extensively promoted resource optimisation and reform and restructuring according to the vision of “building a world-class engineering company” and the development concept of “intensifying professional restructuring, optimising resource allocation and achieving greatest effectiveness”.

During the Reporting Period, the Group effectively boosted the restructuring and reform of heavy crane transportation service, and all work of the newly established Sinopec Heavy Lifting and Transportation Co., Ltd. (the “**Lift and Transportation Company**”) has been carried out in an orderly manner. In 2014, the Lift and Transportation Company completed business registration, obtained safety production license, passed final review of QHSE system certification, obtained quality, environment and occupational health safety management system certifications, and acquired “Road Transportation Operation Permit” in the beginning of 2015, which enables us to commence physical and professional operation. By excelling at the lifting business, expanding the transportation business and strengthening the integration of lifting and transportation, the Lift and Transportation Company will make the Group a domestically leading and internationally first-class comprehensive service provider in the professional lifting and transportation business.

During the Reporting Period, the Group, based on the R&D foundation of the former Luoyang Engineering Company, established “SINOPEC Engineering (Group) Co., Ltd. Luoyang Engineering Technology Research and Development Center” (the “**R&D Center**”). The R&D Center will optimise the resource utilisation efficiency of the Group’s technology R&D, build a characterised advantage of the Group’s R&D, and develop into an engineering technology R&D platform as well as a foundation for technical support and service, serving the entire Group to improve its technology innovation and capability. The R&D Center will adopt as its goal to provide technical support for “building a world-class engineering company integrating engineering contractors and technology licensors” and carry out the R&D of engineering technology which is targeted at the Company’s subsidiaries, conduct technology collaboration and service as a R&D platform, and provide technical support for the market expansion and business development of the Group’s main business sectors.

During the Reporting Period, the Group established SINOPEC Engineering Group Saudi Arabia Co., Ltd. (the “**Saudi Company**”) for the purpose of integrating and optimising our resources and enhancing our competitiveness in the Saudi region. Overall, the Saudi Company will be responsible for our business in Saudi Arabia and the unification and integration of personnel, money and commodities, including production and living bases and various engineering construction equipments and machine tools, to achieve centralised management and optimal utilisation of resources.

3.2.5 Safe Operation

During the Reporting Period, the Group further improved the QHSE management system and enhanced QHSE management and control capability. The Group carried out comprehensive and strict management of activities, paid close attention to the implementation of policies and assignment of responsibilities, and based on the principle of strengthening management and implementation of responsibilities, implemented the requirements for full participation, assignment of responsibilities, perfection of systems, continual improvement, process control and serving clients. Through activities such as signing QHSE liability statements, conducting training, supervision and inspections, we strengthened the management of sub-contractors, seriously looked for weak links, properly managed the QHSE supervision and management of direct operation segments. As a result, the basic management work was further enhanced, and the quality, safety and overseas public security of the projects under construction were under full control. The lost time injury frequency rate of the whole year (number of injuries per million labour-hour) is 0.0016 and the recordable event rate (number of injuries per million labour-hour) is 0.0288.

3.2.6 Other Aspects

During the Reporting Period, the Group officially released *Visual Image Recognition System Management Manual of SINOPEC ENGINEERING (GROUP) CO., LTD.* (the “VI Manual”). Releasing the VI Manual only one year after the Company was listed is an important milestone for the Group in promoting the establishment of brand management system, standardising enterprise branding image, create and bring about widespread influence of our brand domestically and internationally, and this is necessary for internal reform and management of our workforce.

3.3 Business Prospects

3.3.1 Actively Explore the Market, Strive to Succeed Amid Adversity

Looking forward to 2015, the world’s economic situation is still complex: The price for crude oil is expected to remain at low levels while the market for new coal chemical engineering will temporarily face adverse conditions. In the past two years, the expansion of the capability in the oil refining industry slowed down. However, the low oil price is advantageous to the revitalisation of the petrochemical industry, and the market for new coal chemical engineering will revive with a rally of oil price in the future.

In 2015, the Group will respond to the situations appropriately, seize opportunities, meet challenges and make every effort to implement existing projects by strengthening internal management and promoting resource optimisation. We will give full play to our competitive advantages, strengthen market development efforts, and ensure the undertaking of key projects. In 2015, the target domestic new contract amount of the Group is RMB40 billion, and the target overseas new contract amount is USD2.5 billion.

3.3.2 Continuously Promote In-depth Reform, Resource Optimisation and Professionalised Restructuring

In 2015, the Group will stick to the general keynote of seeking improvement in stability, actively adapt to the “new normal”, center on efficiency, deepen reform, strengthen management, optimise resources and govern the Company according to laws, so as to expedite the progress of building a world-class engineering company.

Firstly, we will continue to promote physical operation of the Lift and Transportation Company and relevant work, as well as to promote the transformation, upgrade and differentiated development of our subsidiaries.

Secondly, we will continue to adjust overseas company structure and promote internationalisation process steadily. Depending on the existing projects in Malaysia, Saudi Arabia and Kazakhstan, we will set up and promote a unified brand image of the Group and enhance our competitiveness. While devoting ourselves to expanding the regional market in the Middle East and Central Asia with our projects under construction, we will also steadily enter the markets in Southeast Asia, America and Africa.

Thirdly, we will effectively promote reform and development of the R&D centers to embody the benefits of resource optimisation. The Group, as the bond and bridge for transforming advanced technology into advanced productivity, will give full play to the advantage of production, learning, research and construction, and lay a foundation for our commercial development mode of “technology + engineering”.

Fourthly, we will continue to promote the reform of our manufacturing business and facilitate high-end oriented development of the manufacturing business.

Fifthly, we will initiate the relevant work of the Group’s environmental protection companies and energy saving companies, integrate relevant resources and facilitate the development of our related businesses.

3.3.3 Positively Exploit International Cooperation and Open up New Business Realms

According to the strategy of technology-guiding-the-market, the Group will positively promote proprietary technology, vigorously launch strategic cooperation with internationally well-known technology licensors and continuously improve our industry chain to improve the overall competitiveness of the Group. We will constitute overall advantage in the coal gasification domain through strategic cooperation with internationally renowned gasifier licensors, and realise technical coverage of the whole coal chemical industry chain, especially the enrichment and expansion of processing and utilisation of lignite gasification and lignite upgrading industry chain. We will realise technical coverage of the whole industry chain of shell gas processing and utilisation through strategic cooperation with internationally renowned technology licensors in the domains of shale gas purification and liquidation, etc. We will build up overall advantage of energy-saving service domain through sorting out our energy-saving technology and strategic cooperation with

energy-saving technology licensors and equipment manufacturers. We will build up an advantage of an overall industry chain in environmental protection domain through strategic cooperation with well-known domestic and foreign licensors in the fields of water treatment and gas purification, etc. We will consider “engineering+engineering” cooperation, for example, cooperation with upstream oil exploitation, coal preparation and other superior engineering companies, in addition to “technology+engineering” cooperation..

3.3.4 Reinforce Control of Project Process, Take Various Measures Simultaneously, and Reduce Cost While Increasing Efficiency

Firstly, we will reinforce communication and coordination in all respects to guarantee smooth implementation of projects and enhance our contract performance. We will precisely master the operational condition of projects through contract information management system and comprehensively collect, combine and analyse financial statement information, strengthen communication with the owners, and timely coordinate the problems existing in project implementation to further guarantee the smooth implementation of projects.

Secondly, we will strengthen project management during the execution process, timely confirm progress and contract alteration, and pay attention to settlement and collection of claim evidences. We will periodically collect analysis of settlement data, analyze existing problems, provide solutions, set targets for settlement, formulate plans to reduce inventories and receivables, and speed up recovery of project funds.

Thirdly, we will intensify sub-contracting management, realise resource sharing, reduce cost and enhance economic benefit of the Company. We will establish and perfect the sub-contracting management system, build a unified management mechanism of sub-contractor resources, sub-contracting project bidding and sub-contractor assessment.

3.3.5 Steadily Exploit Overseas Market and Solidly Promote International Operation

As we target to be a world-class company as our target, we will further reinforce and optimise our international business. We will establish a comprehensive management system and set standards for overseas projects, establish the protection mechanism for overseas projects, devote ourselves to building a team of talents with international exposure and improving the project management and execution capability of our, gradually consolidate overseas branches (subsidiaries), intensify market exploitation, explore the markets of Middle East countries while using Saudi Arabia as the centre, explore the Central Asia and Russia markets using the support of our business in Kazakhstan, and explore the Southeast Asia market using the support of our business in Malaysia and achieve substantial breakthrough in Africa and South America markets. We will further enhance the cooperation with international engineering companies and actively participate in tender offers with overseas consortiums.

The Group will keep following opportunities for strategic development brought about by China's "Belt and Road" strategy. "Belt and Road" is the route which will lead to joint development and prosperity, mutual understanding and comprehensive communication. The strategy is proposed by the Chinese government and aims to facilitate the planning of regional collaboration to be driven by countries along the road as well as international stakeholders. The wide variation of natural resources along the "Belt and Road" region would have a significant economic compensation effect on related countries with great potential for cooperation. The interconnect and interwork of energy infrastructure is one of the top priorities for cooperation. The utilisation and development of energy and output of the refined oil and chemical products in related countries will be improved. The Group will work towards becoming both the builder and beneficiary.

3.3.6 Strive to Elevate Scientific and Technology Innovation and Maintain Technological Leadership Advantage

By establishing the R&D Center, we could develop technologies for sustainable development of the Group and provide technical support for engineering projects as well as special technical service for the energy and chemical engineering industries. We will create and build two "platforms" with a view to serve for the scientific development policy of "deepened cooperation, breakthrough at key points, collaborative innovation and future leadership" of the Group, turning them into the driving force for the improvement of the engineering technology of the Group.

Firstly, we will give play to the strengths of integration, consolidate integrate internal resources and be committed to creating a resource-sharing engineering technology R&D platform, serving the development of first-class engineering companies and all subsidiaries internally.

Secondly, we will strengthen cooperation by leveraging on the characteristics of being an engineering company and differentiation of hardware and software resources, and be devoted to creating a new technology innovation platform of collaborative innovation, serving technology-exploited market of the Group externally.

The Group will extensively carry out technologies exchange and cooperation, guarantee investment and improve the standard of managing technology R&D. Firstly, we will build and complement an advanced engineering research platform for the purpose of the development of our main businesses. We will expand the scope of research and service with a focus, including petrochemical and new energy, and improve our technical capability. Secondly, we will strengthen organisation and collaboration of engineering technology R&D, support development of oil refining, olefin, arene and new coal chemical industry and consolidate and upgrade technologies such as catalyzing, reforming, hydrogenation, coking, ethylene and low carbon olefin utilisation, MTO, flue gas cleaning, sewage treatment, and provide services for technology licensing, engineering design and on-site services.

3.3.7 Vigorously Exploit Environmental Protection and Energy Saving Fields, and Create New Business Growth Points

With many regulations and standards being enacted, the requirements on environmental protection are becoming more and more rigid, and thus the energy enterprises are bound to increase environmental protection input. Targeted at the huge potential of the environmental protection market, the Group has formed an overall solution of environmental protection field based on existing, advanced technology and the advantageous technology cooperated with third parties. We will reinforce treatment of waste water, flue gas desulfurisation and denitrification, carbon dioxide emission reduction, soil restoration, and development of the environmental protection market, make every endeavor to establish a new mode of environmental protection project with controllable risks, and actively participate in Sinopec Group's "Clear Water and Blue Sky" project.

The energy-saving market will embrace new opportunities, and the oil refining and chemical engineering industry will bring room for development of the energy-saving market due to potential tapping and efficiency increase. The R&D and application of new technologies have promoted the project progress, and the national policies have provided positive guidance. We have set up a working team for the "Energy Efficiency Doubling" plan, and will further strengthen energy-saving technology R&D and foreign technology cooperation, and promote industrialised application in the future. We will provide energy conservation plan for enterprises, and explore potential and increase efficiency of the existing devices by resorting to our strong engineering advantage and leading technology. We will collaborate with professional technology merchants in the field of low-temperature heat electricity generation, ethylene stove energy conservation, etc., to explore energy management contracting, and actively participate in Sinopec Group's "Energy Efficiency Doubling" project.

In addition, we plan to set up the Engineering Technology Centre for Energy-saving and Environmental Protection (the "Centre"). The Centre will reorganise in-house resources, and upgrade the existing technology of energy-saving and environmental protection. For enhancing the energy-saving and environmental protection businesses, it will drive the engineering technology R&D, cooperation with third-parties, marketing, etc.

3.3.8 Establish Modern Human Resource Management System and Management Incentive Mechanism

Firstly, we will establish a flexible project employment mechanism. Subject to the orderly development of the size of our personnel and the vitalisation of our internal human resources, we will fully utilise social resources and construct a management mechanism of flexible labour usage for the project department, in order to satisfy the needs of human resources of different projects.

Secondly, we will speed up construction of the multi-level and full-channel staff career system. Based on the existing position-management system and our strategic goal, we will match the position hierarchy with talent echelon. We will make the career advancement of our staff smooth and scientific through establishing a position capability model and improving the criteria of talents selection.

Thirdly, we will perfect our salary management system. Currently, the Group has initially established a market-oriented salary system conforming to the requirements of a modern enterprise. The Group is dedicated to continuously improving the labour cost allocation mechanism connected with the goals of business development and effectiveness, and promoting the salaries of our employees to match the market trend and maintain competitiveness.

Fourthly, we will construct a scientific performance assessment system. We will break down our strategies, define the performance targets of our staff, establish an integrated staff performance assessment and management system centered on setting performance indicators qualitatively and quantitatively combined with differentiation so as to fully stimulate the enthusiasm and creativity of each employee.

Fifthly, we will implement a mid- and long-term incentive mechanism. We have been formulating a mid- and long-term incentive plan for our senior management and key staff in order to motivate and utilise business intelligence and the decision-making capabilities of the management, thus promoting the sustainable development of the Company.

3.3.9 Construct an Integrated Management Information System

Closely following the development strategies of the Group, we would earnestly implement the policy of information work which is “collaborative intelligence, innovative enhancement, concentrated integration, and service sharing”. In accordance with the development plan for information construction of the 12th Five Year Plan and the requirements of the mid- and long-term development plan of the Group, and also, on the principles of expansion and generalisation, improvement and enhancement, emphasising the principles of practical efficiency and breakthrough and with the target of improving quality and effectiveness of development, we will vigorously improve business management platform centering on ERP and BW, the project implementation platform centering on engineering design integration and project management modernisation, the owner delivery platform centering on digital factory and the infrastructure platform centering on engineering cloud and database center. We will enhance information safety, reinforce fundamental work, optimise resource allocation, integrate knowledge management, improve platform effects and application level, and facilitate enterprise management and technology innovation, so as to improve our core competitiveness and provide information support for reform development, quality and efficiency enhancement and management solidification.

4 Management Discussion and Analysis

4.1 Analysis of the reasons of the significant changes in the revenue structure compared to last financial year

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

4.1.1 Revenue

The revenue of the Group increased by 13.3% from RMB43.572 billion for the year ended 31 December 2013 to RMB49.346 billion for the year ended 31 December 2014. The increase was mainly due to that a number of large EPC Contracting projects, such as Yuanba Natural Gas Purification Project, Sinochem Quanzhou Project, Shaanxi Pucheng DMTO Project, Shandong LNG Storage Tank Zone Project, Zhongtian Hechuang Coal Chemical Project, U.S. JUMBO PTA and PET Project, Aromatics Project of Kazakhstan Atyrau Refinery, etc., completed a considerable amount of work during the Reporting Period.

4.1.2 Cost of sales

The cost of sales of the Group increased by 15.8% from RMB37.166 billion for the year ended 31 December 2013 to RMB43.055 billion for the year ended 31 December 2014, primarily due to the increased direct costs including sub-contracting and expenditure on procurement of materials and equipment caused by the increase in revenue.

4.1.3 Gross profit

The gross profit of the Group decreased by 1.8% from RMB6.406 billion for the year ended 31 December 2013 to RMB6.291 billion for the year ended 31 December 2014, which was mainly due to the reduction of engineering business with high gross profit margin, as compared with the same period of the previous year.

4.1.4 Other income

The other income of the Group increased by 122.0% from RMB78 million for the year ended 31 December 2013 to RMB174 million for the year ended 31 December 2014, which was mainly due to the subsidies and rewards granted by the government during the Reporting Period.

4.1.5 Selling and marketing expenses

The selling and marketing expenses of the Group increased by 21.1% from RMB101 million for the year ended 31 December 2013 to RMB122 million for the year ended 31 December 2014, mainly due to the Group's increased investment in marketing during the Reporting Period.

4.1.6 Administrative expenses

The administrative expenses of the Group increased by 3.3% from RMB1.089 billion for the year ended 31 December 2013 to RMB1.125 billion for the year ended 31 December 2014, which is similar to that of the same period of the previous year.

4.1.7 Research and development costs

The research and development costs of the Group increased by 48.4% from RMB630 million for the year ended 31 December 2013 to RMB934 million for the year ended 31 December 2014, which was mainly due to the Group's increase in investment in research and development.

4.1.8 Other operating expenses

The other operating expenses of the Group increased by 2.1% from RMB256 million for the year ended 31 December 2013 to RMB262 million for the year ended 31 December 2014, which is similar to that of the same period of the previous year.

4.1.9 Other gains - net

The net other gains of the Group increased by 320.4% from RMB4 million for the year ended 31 December 2013 to RMB17 million for the year ended 31 December 2014, which was mainly due to the increase of investment gains through disposal of the available-for-sale financial assets during the Reporting Period.

4.1.10 Operating profit

Due to the above reasons, the operating profit of the Group decreased by 8.5% from RMB4.413 billion for the year ended 31 December 2013 to RMB4.039 billion for the year ended 31 December 2014.

4.1.11 Finance income - net

The net finance income of the Group increased by 53.2% from RMB324 million for the year ended 31 December 2013 to RMB497 million for the year ended 31 December 2014, mainly due to an increase in the interest income receivable from the ultimate holding company and bank deposits interest income as compared with the same period of the previous year.

4.1.12 Income tax expense

The Group's income tax expense decreased by 3.0% from RMB1.094 billion for the year ended 31 December 2013 to RMB1.061 billion for the year ended 31 December 2014. The main reason for the decrease was that the Group's profit before taxation decreased from RMB4.751 billion for the year ended 31 December 2013 to RMB4.551 billion for the year ended 31 December 2014.

4.1.13 Profit for the year

Due to the above reasons, the profit in the Reporting Period decreased by 4.6% from RMB3.657 billion for the year ended 31 December 2013 to RMB3.490 billion for the year ended 31 December 2014.

4.1.14 Total comprehensive income for the year

As a combined result of the reasons above and the effects of other comprehensive income from the Group, the total amount of the comprehensive income of the Group decreased by 16.3% from RMB3.928 billion for the year ended 31 December 2013 to RMB3.286 billion for the year ended 31 December 2014.

4.2 Discussion on the backlog and new contracts

On 13 August 2014, both 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 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 31 December 2014 (RMB '000)	As at 31 December 2013 (RMB '000)	Change (%)
Engineering, consulting and licensing	6,514,745	6,050,017	7.7
EPC Contracting	82,079,668	74,039,061	10.9
Construction	15,191,362	12,216,820	24.3
Equipment manufacturing	136,508	262,454	(48.0)
Total	<u>103,922,283</u>	<u>92,568,352</u>	12.3

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

	As at 31 December 2014 (RMB '000)	As at 31 December 2013 (RMB '000)	Change (%)
Oil refining	26,639,953	18,752,220	42.1
Petrochemicals	23,600,743	27,275,478	(13.5)
New coal chemicals	47,261,719	39,159,298	20.7
Other industries	6,419,869	7,381,356	(13.0)
Total	103,922,283	92,568,352	12.3

The following table sets forth the total value of backlog categorised by different regions where the Group's clients operate as at the dates indicated:

	As at 31 December 2014 (RMB '000)	As at 31 December 2013 (RMB '000)	Change (%)
PRC	77,288,816	70,546,482	9.6
Overseas	26,633,467	22,021,870	20.9
Total	103,922,283	92,568,352	12.3

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

	As at 31 December 2014 (RMB '000)	As at 31 December 2013 (RMB '000)	Change (%)
Sinopec Group and its associates	41,346,352	36,450,335	13.4
Non-Sinopec Group and its associates	62,575,932	56,118,017	11.5
Total	103,922,283	92,568,352	12.3

As at 31 December 2014, the value of the Group's backlog amounted to RMB103.922 billion, increased by 12.3% as compared with that as at 31 December 2013, representing 2.1 times of the total revenue of RMB49.346 billion in 2014.

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

	Year ended 31 December		Change
	2014	2013	
	(RMB '000)	(RMB '000)	(%)
Engineering, consulting and licensing	4,109,902	5,411,511	(24.1)
EPC Contracting	38,172,858	51,234,601	(25.5)
Construction	18,299,071	13,439,019	36.2
Equipment manufacturing	118,059	504,333	(76.6)
Total	<u>60,699,890</u>	<u>70,589,464</u>	(14.0)

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

	Year ended 31 December		Change
	2014	2013	
	(RMB '000)	(RMB '000)	(%)
Oil refining	17,894,394	6,969,953	156.7
Petrochemicals	12,336,104	23,648,150	(47.8)
New coal chemicals	23,040,511	34,828,363	(33.8)
Other industries	7,428,881	5,142,998	44.4
Total	<u>60,699,890</u>	<u>70,589,464</u>	(14.0)

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

	Year ended 31 December		Change
	2014	2013	
	(RMB '000)	(RMB '000)	(%)
PRC	49,249,344	59,294,522	(16.9)
Overseas	11,450,546	11,294,942	1.4
Total	<u>60,699,890</u>	<u>70,589,464</u>	(14.0)

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

	Year ended 31 December		Change (%)
	2014 (RMB '000)	2013 (RMB '000)	
Sinopec Group and its associates	24,234,279	28,089,140	(13.7)
Non-Sinopec Group and its associates	36,465,611	42,500,324	(14.2)
Total	<u>60,699,890</u>	<u>70,589,464</u>	(14.0)

During the Reporting Period, the value of the Group's new contracts was RMB60.700 billion, representing a decrease of 14.0% as compared with that of the same period of the previous year.

4.3 Assets, Liabilities, Equity and Cash Flows

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

4.3.1 Assets, Liabilities and Equity

Units: RMB'000

	As at 31 December 2014	As at 31 December 2013	Change
Total assets	52,084,595	47,365,269	4,719,326
Current assets	44,032,264	39,198,790	4,833,474
Non-current assets	8,052,331	8,166,479	(114,148)
Total liabilities	29,212,021	26,384,928	2,827,093
Current liabilities	26,347,950	23,620,920	2,727,030
Non-current liabilities	2,864,071	2,764,008	100,063
Non-controlling interests	3,458	3,627	(169)
Total equity	22,872,574	20,980,341	1,892,233
Total equity attributable to			
shareholders of the Company	22,869,116	20,976,714	1,892,402
Share capital	4,428,000	4,428,000	0
Reserves	18,441,116	16,548,714	1,892,402

As at the end of the Reporting Period, the total assets of the Group were RMB52.085 billion, the total liabilities were RMB29.212 billion, and the total equity attributable to the shareholders of the Company was RMB22.869 billion. The changes in the assets and liabilities as compared with those at 31 December 2013 and the main reasons are as follows:

As at the end of the Reporting Period, the total assets were RMB52.085 billion, increased by RMB4.719 billion as compared with that at the end of 2013. In particular, the current assets were RMB44.032 billion, increased by RMB4.833 billion as compared with that at the end of 2013, mainly due to the increase in notes and trade receivables. The non-current assets were RMB8.052 billion, representing a decrease of RMB114 million as compared with that at the end of 2013, mainly due to the decrease in amortisation of intangible assets and land use right.

As at the end of the Reporting Period, the total liabilities were RMB29.212 billion, increased by RMB2.827 billion as compared with that at the end of 2013. In particular, the current liabilities were RMB26.348 billion, increased by RMB2.727 billion as compared with that at the end of 2013, mainly due to increase in notes and trade payables and amounts due to customers for contract work as compared with those at the beginning of 2014. The non-current liabilities were RMB2.864 billion, increased by RMB100 million as compared with that at the end of 2013, mainly due to the increase in retirement and other supplemental benefit obligations.

The total equity attributable to shareholders of the Company was RMB22.869 billion, increased by RMB1.892 billion as compared with that at the end of 2013, primarily as the result of the increase in the profit of the Group during the Reporting Period.

4.3.2 Cash Flows

During the Reporting Period, the net increase in cash and cash equivalents was RMB3.662 billion and net cash generated from operating activities was RMB333 million. The following table sets forth the main items and their changes in the Group's consolidated statements of cash flows for the years ended 31 December 2014 and 2013, respectively.

Units: RMB'000

Major items of cash flow	Year ended 31 December	
	2014	2013
Net cash generated from/(used in) operating activities	333,312	(85,995)
Net cash generated from/(used in) investing activities	4,725,026	(6,963,183)
Net cash (used in)/generated from financing activities	(1,396,551)	7,810,661
Net increase in cash and cash equivalents	<u>3,661,787</u>	<u>761,483</u>

During the Reporting Period, the profit before taxation was RMB4.551 billion, and the profit was RMB4.798 billion after adjusting the items in expenses that did not affect the cash flow in operating activities (the “**Non-cash Items**”) which was mainly reflected in: an increase of RMB607 million for depreciation and amortisation, an increase of RMB238 million for impairment of trade and other receivables, a decrease of RMB606 million for interest income, an increase of RMB109 million for interest expense and a decrease of RMB87 million for net foreign exchange

gains. The changes in working capital caused a cash outflow of RMB3.764 billion in operating activities, mainly because: trade receivables and inventories balances increased due to growth of business volume, affecting the net cash outflow from operating activities by RMB5,504 million; trade payables increased due to the growth in business volume and purchasing costs, affecting the net cash flow from operating activities by RMB1.341 billion; and cash flow for contract work-in-progress increased due to the enhancement of engineering project settlement by the Group, causing a net cash inflow of RMB406 million.

After adjusting for Non-cash Items, receivables and payables for the profit before taxation, and after deducting the income tax paid amounting to RMB924 million, the net cash generated from operating activities was RMB333 million.

Net cash generated from investing activities was RMB4.725 billion, mainly due to a cash inflow of RMB4.937 billion as collection of time deposits in third-party financial institutions by the Group.

Net cash used in financing activities was RMB1.397 billion, mainly due to the payment of dividends of RMB1.394 billion by the Group during the Reporting Period.

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

4.3.3 Summary of Financial Ratios

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

Main financial ratios	Year ended 31 December	
	2014	2013
Net profit margin (%)	7.1	8.4
Return on assets (%) ⁽¹⁾	7.0	8.7
Return on equity (%) ⁽²⁾	15.3	17.4
Return on invested capital ⁽³⁾	15.3	17.4
Main financial ratios	As at 31 December 2014	As at 31 December 2013
	net cash	net cash
Gearing ratio (%) ⁽⁴⁾	0.0	0.0
Net debt to equity ratio (%) ⁽⁵⁾	net cash	net cash
Current ratio (%) ⁽⁶⁾	1.7	1.7
Quick ratio (%) ⁽⁷⁾	1.6	1.6

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

Return on assets

During the Reporting Period, the Group's return on assets decreased to 7.0% for the year ended 31 December 2014 from 8.7% for the year ended 31 December 2013. The decrease was mainly due to the decrease in the net profit and increase in the total average asset at the end of the Reporting Period as compared with those at the beginning of the Reporting Period.

Return on equity

The Group's return on equity decreased to 15.3% for the year ended 31 December 2014 from 17.4% for the year ended 31 December 2013, mainly due to the decrease in the net profit and increase in the total equity as compared to those of the same period of the previous year.

Return on invested capital

The Group's return on invested capital decreased to 15.3% for the year ended 31 December 2014 from 17.4% for the year ended 31 December 2013 for the same reasons as the decrease in return on equity.

Gearing ratio

As at 31 December 2014, the Group's gearing ratio is 0, which remained stable as compared with that as at 31 December 2013, since the Group did not have any borrowings as at the end of the Reporting Period.

Net debt to equity ratio

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

Current ratio

As at 31 December 2014, the Group's current ratio is 1.7, which remained stable as compared with that as at 31 December 2013.

Quick ratio

As at 31 December 2014, the Group's quick ratio is 1.6, which remained stable as compared with that as at 31 December 2013.

5 Significant Events

5.1 Dividends

At the 2013 annual general meeting convened on 8 May 2014, an ordinary resolution was passed to approve the authorisation to the Board to determine the interim profit distribution plan for the year 2014. The dividend distribution plan of RMB0.125 per share (inclusive of applicable tax) for the six months ended 30 June 2014 was approved at the twelfth meeting of the First Session of the Board convened on 15 August 2014. The dividend distribution plan was implemented after review and approval at the twelfth meeting of the First Session of the Board.

The final dividend distribution plan for the year ended 31 December 2014 was approved at the fifteenth meeting of the First Session of the Board. The final dividend distribution shall be calculated based on the total number of Shares on 28 May 2015 (the “**Record Date**”) and the final cash dividend distribution shall be based on RMB0.187 per Share (inclusive of applicable tax). That distribution scheme will be implemented after review and approval at the annual general meeting to be held on 18 May 2015. The dividend will be paid on or before Tuesday, 30 June 2015 to all the shareholders of the Company whose names appear on the register of members of the Company at the close of business on Thursday, 28 May 2015. In order to qualify for the dividend, the holders of H Shares must lodge all share certificates accompanied by the transfer documents with Computershare Hong Kong Investor Services Ltd. (address: Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong) before 4:30 p.m. on Friday, 22 May 2015. For the purpose of ascertaining Shareholders who qualify for the dividend, the register of members for H Shares will be closed from Saturday, 23 May 2015 to Thursday, 28 May 2015 (both days inclusive).

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

In accordance with the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法) and its implementation regulations which came into effect on 1 January 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of members for H shares when distributing the cash dividends. Any H shares not registered under the name of an individual Shareholder, including HKSCC Nominees Limited, other nominees, agents or trustees, or other organisations or groups, 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 your agents or trustees. The Company will strictly comply with the law or the requirements of the relevant government authority and withhold and pay enterprise income tax on behalf of the relevant Shareholders based on the register of members for H shares as at the Record Date.

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

Pursuant to the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知) (Caishui [2014] No. 81):

For domestic investors investing in the H Shares through Shanghai-Hong Kong Stock Connect, the Company shall withhold and pay income tax at the rate of 20% on behalf of individual investors and securities investment funds. The Company will not withhold or pay the income tax in respect of dividends for domestic enterprise investors. Those domestic enterprise investors shall report and pay the relevant tax themselves.

5.2 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 deaths of two workers and injuries of four others. The case is currently in the evidence exchange and cross-examination phase.

As for the arbitration case between the Company and Medicine Bow Fuel & Power LLC filed by Medicine Bow Fuel & Power LLC at the International Dispute Resolution Center under the American Arbitration Association, the Medicine Bow Fuel & Power LLC has withdrawn such arbitration application.

The arbitration case between Sinopec Ningbo Engineering Company Limited, a wholly-owned subsidiary of the Company, and INEOS USA LLC filed by INEOS USA LCC at the Arbitration Institute of the Stockholm Chamber of Commerce has been suspended and the two parties are negotiating settlement.

Save as disclosed in this annual report, there were no other material litigation or arbitration events during the Reporting Period.

5.3 Repurchase, sale and redemption of shares

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

5.4 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 prepared in accordance with the IFRS in the Annual Report.

5.5 Review of Annual Report

The Company's audit committee has reviewed the Annual Report and does not have different views on the financial statements contained in the Annual Report.

The audit committee is comprised of all independent non-executive Directors, namely, Mr. YE Zheng, Mr. HUI Chiu Chung, Stephen and Mr. JIN Yong. Among them, Mr. YE Zheng has the appropriate professional qualifications (member of Hong Kong Institute of Certified Public Accountants) and more than 19 years of experience in auditing, internal control and consultancy.

6 Compliance with Corporate Governance Code

From the listing date of the Company to 31 December 2014, the Company abided by the provisions in the Code on Corporate Governance Practices set out in Appendix 14 to the Hong Kong Listing Rules and did not conduct any acts which deviated from such provisions.

7 Financial Report

7.1 Auditor's opinion

The financial statements for the year ended 31 December 2014 of the Group, prepared in accordance with the IFRS and contained in the Annual Report, have been audited by Grant Thornton Hong Kong Limited, which has issued standard unqualified opinions on the financial statements.

7.2 Accounting policies

Compared to the last audited financial statements of the Group, there are no significant changes to accounting policies.

7.3 Financial Statements

The financial statements prepared in accordance with the IFRS for the year ended 31 December 2014.

7.3.1 Consolidated Statement of Comprehensive Income

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

	Year ended 31 December	
	2014	2013
	RMB '000	RMB '000
Revenue	49,345,959	43,571,851
Cost of sales	(43,055,347)	(37,165,660)
Gross profit	6,290,612	6,406,191
Other income	173,788	78,291
Selling and marketing expenses	(121,828)	(100,610)
Administrative expenses	(1,124,985)	(1,088,531)
Research and development costs	(934,253)	(629,698)
Other operating expenses	(261,808)	(256,315)
Other gains - net	17,477	4,157
Operating profit	4,039,003	4,413,485
Finance income	605,803	428,394
Finance expenses	(109,108)	(104,123)
Finance income, net	496,695	324,271
Share of profits of joint arrangements	844	1,324
Share of profits of associates	14,153	11,961
Profit before taxation	4,550,695	4,751,041
Income tax expense	(1,060,746)	(1,093,877)
Profit for the year	3,489,949	3,657,164
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
Accumulated fair value change of available-for-sale financial assets reclassified to profit or loss upon disposal	(11,484)	—
Exchange differences arising on translation of foreign operations	3,566	1,549
	(7,918)	4,772

	Year ended 31 December	
	2014	2013
	RMB '000	RMB '000
Item that will not be reclassified subsequently to profit or loss:		
(Losses) /Gains on revaluation of retirement benefit plans obligations	<u>(195,573)</u>	<u>266,318</u>
Other comprehensive income for the year, net of tax	<u>(203,491)</u>	<u>271,090</u>
Total comprehensive income for the year	<u><u>3,286,458</u></u>	<u><u>3,928,254</u></u>
Profit attributable to:		
Equity holders of the Company	3,489,799	3,656,802
Non-controlling interests	<u>150</u>	<u>362</u>
Profit for the year	<u><u>3,489,949</u></u>	<u><u>3,657,164</u></u>
Total comprehensive income attributable to:		
Equity holders of the Company	3,286,308	3,927,892
Non-controlling interests	<u>150</u>	<u>362</u>
Total comprehensive income for the year	<u><u>3,286,458</u></u>	<u><u>3,928,254</u></u>
	RMB	RMB
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)		
- Basic and diluted	<u><u>0.79</u></u>	<u><u>0.93</u></u>

7.3.2 Consolidated Statement of Financial Position

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	4,089,588	4,049,488
Land use rights	2,807,632	2,857,234
Intangible assets	384,847	443,779
Investment in joint arrangements	7,812	8,184
Investment in associates	105,213	95,059
Available-for-sale financial assets	2,750	19,362
Deferred income tax assets	654,489	693,373
Total non-current assets	8,052,331	8,166,479
Current assets		
Inventories	1,623,654	1,245,147
Notes and trade receivables	11,076,064	6,946,818
Prepayments and other receivables	5,368,153	4,608,499
Amounts due from customers for contract work	6,656,897	5,952,132
Loans due from the ultimate holding company	9,600,000	9,500,000
Restricted cash	25,644	19,152
Time deposits	500,000	5,412,552
Cash and cash equivalents	9,181,852	5,514,490
Total current assets	44,032,264	39,198,790
Total assets	52,084,595	47,365,269

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
EQUITY		
Share capital	4,428,000	4,428,000
Reserves	18,441,116	16,548,714
Consolidated equity attributable to equity holders of the Company	22,869,116	20,976,714
Non-controlling interests	3,458	3,627
Total equity	22,872,574	20,980,341
LIABILITIES		
Non-current liabilities		
Retirement and other supplemental benefit obligations	2,529,913	2,396,554
Provision for litigation claims	302,094	329,890
Deferred income tax liabilities	32,064	37,564
Total non-current liabilities	2,864,071	2,764,008
Current liabilities		
Notes and trade payables	12,287,138	10,194,259
Other payables	7,827,395	8,361,040
Amounts due to customers for contract work	6,014,636	4,903,978
Current income tax liabilities	218,781	161,643
Total current liabilities	26,347,950	23,620,920
Total liabilities	29,212,021	26,384,928
Total equity and liabilities	52,084,595	47,365,269
Net current assets	17,684,314	15,577,870
Total assets less current liabilities	25,736,645	23,744,349

7.4 Notes to the Financial Statements prepared in accordance with the IFRS

7.4.1 Revenue

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

	2014	2013
	RMB'000	RMB'000
Engineering, consulting and licensing	3,645,174	4,354,199
EPC Contracting	30,132,251	23,505,528
Construction	15,324,529	15,214,927
Equipment manufacturing	244,005	497,197
	<u>49,345,959</u>	<u>43,571,851</u>

7.4.2 Income tax expense

	2014	2013
	RMB'000	RMB'000
Current tax		
PRC enterprise income tax	874,188	1,001,879
Overseas enterprise income tax	39,078	29,639
Under-provision for income tax in prior years	68,141	43,706
	<u>981,407</u>	<u>1,075,224</u>
Deferred tax		
Origination and reversal of temporary differences	79,339	18,653
Income tax expense	<u>1,060,746</u>	<u>1,093,877</u>

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the years ended 31 December 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 years ended 31 December 2014 and 2013, other members of the Group are 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:

	2014	2013
	RMB'000	RMB'000
Profit before taxation	<u>4,550,695</u>	<u>4,751,041</u>
Taxation calculated at the statutory tax rate	1,137,674	1,187,760
Income tax effects of:		
Preferential income tax treatments of certain companies	(336,476)	(185,143)
Difference in overseas profits tax rates	(9,770)	(1,744)
Non-deductible expenses	156,654	42,798
Income not subject to tax	(199)	(4,896)
Unrecognised tax losses	48,480	13,045
Utilisation of previously unrecognised tax losses	(3,758)	(1,649)
Under provision for income tax in prior years	<u>68,141</u>	<u>43,706</u>
Income tax expense	<u>1,060,746</u>	<u>1,093,877</u>
Effective income tax rate	23%	23%

7.4.3 Earnings per share

(a) Basic

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

	2014	2013
Profit attributable to equity holders of the Company (RMB'000)	3,489,799	3,656,802
Weighted average number of ordinary shares in issue	4,428,000,000	3,911,353,425
Basic earnings per share (RMB)	0.79	0.93

(b) Diluted

As the Company had no dilutive shares for the each of the years ended 31 December 2014 and 2013, dilutive earnings per share for the years ended 31 December 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 years ended 31 December 2014 and 2013.

	2014	2013
	RMB'000	RMB'000
Special dividends ⁽¹⁾	—	363,299
Interim dividends of RMB0.125 per ordinary share (2013: RMB0.134) ⁽²⁾	553,023	593,352
Proposed final dividends of RMB0.187 per ordinary share (2013: RMB0.190) ⁽³⁾	828,036	841,320

- (1) 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 Group between 30 June 2012 to 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.
- (2) Pursuant to a resolution passed at the Directors' meeting on 15 August 2014, the Directors authorised to declare the interim dividends for the year ended 31 December 2014 of RMB0.125 per share totalling RMB553,023,000 (2013: RMB593,352,000). Interim dividends have been paid in October 2014.
- (3) Pursuant to the Directors' meeting on 27 March 2015, the Directors recommended to declare the final dividends for the year ended 31 December 2014 of RMB0.187 per share totalling RMB828,036,000 (2013: RMB841,320,000). Such recommendation is to be approved by the shareholders at the Annual General Meeting. Dividends declared after the end of the reporting period are not recognised as a liability at the end of the reporting period.

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.

By the Order of the Board
SINOPEC Engineering (Group) Co., Ltd
ZHANG Jianhua
Chairman

Beijing, the PRC

30 March 2015

As at the date of this announcement, the executive Directors are LU Dong, YAN Shaochun, SUN Lili (employee representative Director) and WU Derong (employee representative Director); the non-executive Directors are ZHANG Jianhua and LI Guoqing; and the independent non-executive Directors are HUI Chiu Chung, Stephen, JIN Yong and YE Zheng.