



# 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

## GLOBAL OFFERING



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\* For identification purposes only.

# IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



## 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)

### GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	1,328,000,000 H Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Public Offer Shares	:	66,400,000 H Shares (subject to adjustment)
Number of International Offer Shares	:	1,261,600,000 H Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	:	HK\$13.10 per H Share payable in full on application subject to refund on final pricing, plus brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%
Nominal Value	:	RMB1.00 per H Share
Stock Code	:	2386

#### Joint Sponsors

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix VIII — Documents Delivered to the Registrar of Companies and Available for Inspection", has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or for any other document referred to above.

The Offer Price is expected to be determined by an agreement between us and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or about May 16, 2013 and, in any event, not later than May 20, 2013. The Offer Price will be not more than HK\$13.10 and is currently expected to be not less than HK\$9.80 per Offer Share unless otherwise announced. The Joint Global Coordinators (on behalf of the Hong Kong Underwriters, and with our consent) may reduce the number of Offer Shares stated in this prospectus and/or the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering in which case, notice of such reduction will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and will be posted on the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and on the website of our Company ([www.segroup.cn](http://www.segroup.cn)). Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares" in this prospectus.

If, for whatever reason, the Offer Price is not agreed between us and the Joint Global Coordinators (on behalf of the Underwriters) on or before May 20, 2013, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong, and the fact that there are different risks relating to investment in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong, and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set forth in the sections headed "Risk Factors", "Regulations", "Appendix V — Summary of Principal Legal and Regulatory Provisions" and "Appendix VI — Summary of Articles of Association" to this prospectus.

The Offer Shares have not been and will not be, registered under the U.S. Securities Act or any state securities laws in the United States, and may not be offered, sold, pledged or transferred within the United States, except that the Offer Shares may be offered, sold and delivered in the United States to QIBs pursuant to Rule 144A or another exemption from registration under the U.S. Securities Act, or outside the United States in reliance on Regulation S.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, Hong Kong Public Offer Shares are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), if certain grounds arise at or prior to 8:00 a.m. (Hong Kong time) on the day dealings in the H Shares first commence on The Stock Exchange of Hong Kong Limited (such first dealing date is currently expected to be May 23, 2013). Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

\* For identification purposes only.

May 10, 2013

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## EXPECTED TIMETABLE<sup>(1)</sup>

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We will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable of the Hong Kong Public Offering.

Application lists of the Hong Kong Public Offering open<sup>(2)</sup> ..... 11:45 a.m. on  
Wednesday, May 15, 2013

Latest time to:

- complete electronic applications under the **White Form eIPO** service through the designated website, **www.eipo.com.hk**<sup>(3)</sup> ..... 11:30 a.m. on  
Wednesday, May 15, 2013
- lodge **WHITE** and **YELLOW** Application Forms ..... 12:00 noon on  
Wednesday, May 15, 2013
- complete payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s) ..... 12:00 noon on  
Wednesday, May 15, 2013
- give **electronic application instructions** to HKSCC<sup>(4)</sup> ..... 12:00 noon on  
Wednesday, May 15, 2013

Application lists of the Hong Kong Public Offering close ..... 12:00 noon on  
Wednesday, May 15, 2013

Expected Price Determination Date<sup>(11)</sup> ..... Thursday, May 16, 2013

Announcement of

- the Offer Price;
- the level of indications of interest in the International Offering;
- the level of applications in the Hong Kong Public Offering; and
- the basis of allotment of the Hong Kong Public Offer Shares to be published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), on the website of our Company at **www.segroup.cn** and on the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** on or before ..... Wednesday, May 22, 2013

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## EXPECTED TIMETABLE<sup>(1)</sup>

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- Announcement of results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and the website of our Company at **www.segroup.cn** (please see paragraph headed "Publication of Results, Dispatch/Collection of H Share Certificates and Refund Monies" in the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus on . . . . .Wednesday, May 22, 2013
- Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** with a "search by ID" function . . . . .Wednesday, May 22, 2013
- H Share certificates in respect of wholly or partially successful applications will be dispatched or deposited into CCASS on or before<sup>(5) to (10)</sup> . . . . .Wednesday, May 22, 2013
- Dispatch of White Form e-Refund payment instructions/refund cheques (if applicable) in respect of wholly or partially unsuccessful applications on or before<sup>(6) to (10)</sup> . . . . .Wednesday, May 22, 2013
- Dealings in H Shares on the Hong Kong Stock Exchange expected to commence on . . . . .Thursday, May 23, 2013

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*Notes:*

- (1) All dates and times refer to Hong Kong local dates and times, except otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.
- (2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, May 15, 2013, the application lists will not open on that day. Please see the section headed "How to Apply for Hong Kong Public Offer Shares — Effect of Bad Weather on the Opening of the Application Lists" in this prospectus.
- (3) You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (4) Applicants who apply for Hong Kong Public Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed "How to Apply for Hong Kong Public Offer Shares — Applying by Giving Electronic Application Instructions to HKSCC via CCASS" in this prospectus.
- (5) **H Share certificates will only become valid certificates of title if the Global Offering has become unconditional and if neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk.**
- (6) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application. Part of your Hong

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## EXPECTED TIMETABLE<sup>(1)</sup>

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Kong identity card number or passport number or, if you are joint applicants, part of the Hong Kong identity card or passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data may also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number or passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number or passport number may lead to a delay in encashment or may invalidate your refund cheque.

- (7) Applicants who apply on **WHITE** Application Forms for 1,000,000 H Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms their wish to collect H Share certificates and refund cheques (as applicable) in person from our H Share Registrar may collect (where applicable) share certificates and (where applicable) refund cheques in person from our H Share Registrar, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, May 22, 2013. Applicants being individuals who opt for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives each bearing a letter of authorization from his corporation stamped with the corporations chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our H Share Registrar.
- (8) Applicants who apply on **YELLOW** Application Forms for 1,000,000 H Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms their wish to collect refund cheques (where relevant) in person may do so but may not elect to collect their H Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for applicants who apply on **YELLOW** Application Forms for H Shares is the same as that for **WHITE** Application Form applicants.
- (9) Applicants who apply for 1,000,000 Hong Kong Public Offer Shares or more through the White Form eIPO service by submitting an electronic application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) and whose applications are wholly or partially successful, may collect H Share certificate(s) in person from our H Share Registrar, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, May 22, 2013, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of H Share certificates/e-Refund payment instructions/refund cheques. Identification and (where applicable) authorization documents acceptable to our H Share Registrar must be produced at the time of collection.  
  
For applicants who apply for less than 1,000,000 Hong Kong Offering Offer Shares, H Share certificate(s) will be sent to the address specified in the applicant's application instructions through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) on Wednesday, May 22, 2013, by ordinary post and at the applicant's own risk. Applicants who paid the application monies from a single bank account may have e-Refund payment instructions (if any) dispatched to the application payment bank account on Wednesday, May 22, 2013. Applicants who used multiple bank accounts to pay the application monies may have refund cheques (if any) dispatched to the applicants on Wednesday, May 22, 2013.
- (10) Uncollected H Share certificates and refund cheques will be dispatched by ordinary post at the applicant's own risk to the addresses specified in the relevant Application Forms. Further information is set out in the paragraph headed "How to Apply for Hong Kong Public Offer Shares — Dispatch/Collection of H Share Certificates and Refund Monies" in this prospectus.
- (11) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or around Thursday, May 16, 2013, and in any event not later than Monday, May 20, 2013. If, for any reason, the Offer Price is not agreed by the Company and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

You should read carefully the sections headed "Underwriting", "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares" in this prospectus for details relating to the structure and conditions of the Global Offering, how to apply for Hong Kong Public Offer Shares and the expected timetable, including, among other things, conditions, effect of bad weather and the dispatch of refund cheques and share certificates.

We will publish an announcement in the event that there is any change in the expected timetable of the Hong Kong Public Offering as described above.

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### IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by SINOPEC Engineering (Group) Co., Ltd. solely in connection with the Hong Kong Public Offering and the Hong Kong Public Offer Shares. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Public Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdictions or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made in this prospectus must not be relied upon by you as having been authorized by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, affiliates or advisors, or any other person or party involved in the Global Offering. Information contained in our website, located at [www.segroup.cn](http://www.segroup.cn), does not form part of this prospectus.

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the whole document including the appendices hereto, which constitute an integral part of this prospectus, before you decide to invest in our Offer Shares. Information contained in our website, located at [www.segroup.cn](http://www.segroup.cn), does not form part of this prospectus.*

*There are risks associated with any investment. Some of the particular risks in investing in our Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in our Offer Shares.*

### OVERVIEW

We are the leading oil refining, petrochemical and new coal chemical engineering company in the PRC. According to ICIS Consulting, we ranked first both in 2010 and 2011 among all PRC Exploration and Design Enterprises providing services to oil refining and chemical industries based on total revenue, and we ranked among the top 10 global contractors in 2011 based on revenue generated from services provided to oil refining and chemical industries. Leveraging 60 years of industry experience and continual innovation in specialized technologies, we have developed the strongest execution capabilities in the PRC with respect to engineering and constructing large-scale oil refining, petrochemical and new coal chemical complexes and are highly competitive in the international engineering market.

With a team of high-caliber professionals, comprehensive technologies and extensive experience in oil refining and chemical engineering, we provide a variety of services including licensing, engineering, consulting, EPC Contracting, construction and equipment manufacturing to clients in a broad range of industries including oil refining, petrochemicals, new coal chemicals, inorganic chemicals, pharmaceutical chemicals, clean energy, storage and transportation, environmental engineering and utilities. Since the beginning of the 21st century, we have participated in the engineering and construction of key national energy and chemical industry bases across the PRC, including the Yangtze River Delta, the Pearl River Delta, the Bohai Bay, the Beibu Bay and the central and western regions. We have also completed numerous landmark projects, including the PRC's first single-train oil refining complex with an annual processing capacity of ten million tons, first ethylene complex with an annual production capacity of one million tons and first direct coal liquefaction facility, as well as the world's first commercial olefin production project that uses methanol produced from coal. We have also undertaken a number of notable projects overseas. Leveraging our proprietary technologies and strong performance record, we have established an extensive and stable client base.

We conduct the following four key businesses:

- **Engineering, consulting and licensing:** The engineering, consulting and licensing segment is the central part of our business. We provide a variety of engineering and consulting services during a project's preparatory work phase, definition phase and implementation phase, including master planning, scheme study, project environmental impact assessment, feasibility study, project application report, process package design, general engineering design, basic engineering design, detailed engineering design and project management



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## SUMMARY

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contracting. We also license our solely- or jointly-owned process technologies to our clients through process design packages or other deliverables. Our licensing business has benefited our engineering, consulting and EPC Contracting businesses. According to data from the MOHURD and a survey conducted by ICIS Consulting, we ranked first in both 2010 and 2011 among all PRC Exploration and Design Enterprises providing services to oil refining and chemical industries based on revenue generated from exploration and design activities.

- ***EPC Contracting***: We provide engineering, procurement and construction (“EPC”) services, as well as other types of EPC Contracting services. We provide a full range of services throughout the entire course of engineering and construction projects, ranging from process design packages to commissioning and start-up, for large and complex engineering and construction projects. The business models we have adopted for our EPC Contracting business mainly include EPC, EPCC, EP, PC and EPCM. According to data from the CEDA and a survey conducted by ICIS Consulting, we ranked first in both 2010 and 2011 among all PRC Exploration and Design Enterprises providing services to oil refining and chemical industries based on completed contract value of EPC Contracting business.
- ***Construction***: We are one of the largest service providers of construction contracting and specialized construction in the oil refining and chemical industries in the PRC. We provide construction services for new construction, modification and expansion projects and overhaul and maintenance projects in various industries, including oil refining, petrochemicals, new coal chemicals, pharmaceutical chemicals, clean energy, environmental engineering, power generation, and storage and transportation in the PRC and overseas. Our construction business models include construction contracting, specialized construction contracting and construction management.
- ***Equipment manufacturing***: We are one of the major manufacturers and suppliers of large static equipment used in oil refineries and chemical plants in the PRC. We manufacture various types of large static equipment, which are used in our EPC Contracting and construction projects as well as for sales to our clients. We also provide related services including technical consultation, installation and inspection, and overhaul and maintenance with respect to equipment.

We also engage in inter-segment transactions from time to time in our key business segments. Inter-segment transactions arise mainly from inter-segment sales from the construction segment to the EPC Contracting segment and inter-segment sales from the equipment manufacturing segment to the EPC Contracting and construction segments.

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## SUMMARY

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### SUMMARY FINANCIAL INFORMATION

The following summary of our consolidated results of operations for the years ended December 31, 2010, 2011 and 2012 is extracted from Appendix I — Accountants' Report to this prospectus. Please read the following summary together with the Accountants' Report and the notes thereto.

#### Summary Consolidated Income Statement

The table below sets forth our summary consolidated income statement for the periods indicated.

	Year ended December 31,		
	2010	2011	2012
	(RMB'000)		
<b>Revenue</b> .....	29,897,489	30,600,677	38,526,489
Cost of sales .....	(25,358,790)	(25,526,341)	(32,998,383)
<b>Gross profit</b> .....	4,538,699	5,074,336	5,528,106
Other income .....	74,958	78,896	85,392
Selling and marketing expenses.....	(68,881)	(75,364)	(90,546)
Administrative expenses.....	(680,349)	(815,260)	(947,076)
Research and development costs .....	(411,752)	(504,323)	(547,561)
Other operating expenses .....	(146,110)	(38,352)	(154,559)
Other gains/(losses) — net.....	31,518	4,659	(41,733)
<b>Operating profit</b> .....	3,338,083	3,724,592	3,832,023
<b>Finance income — net</b> .....	319,472	528,563	404,665
Share of profits of joint ventures .....	2,005	738	1,753
Share of profits/(losses) of associates .....	18,454	(9,935)	13,626
<b>Profit before taxation</b> .....	3,678,014	4,243,958	4,252,067
Income tax expense.....	(787,543)	(868,846)	(934,798)
<b>Profit for the year</b> .....	<u>2,890,471</u>	<u>3,375,112</u>	<u>3,317,269</u>

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## SUMMARY

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### Revenue by Business Segment

The following table sets forth the revenue generated from each of our business segments before and after inter-segment elimination and their respective percentage of our total revenue before inter-segment elimination for the periods indicated.

	Year ended December 31,					
	2010		2011		2012	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Engineering, consulting and licensing .....	3,233,316	10.3	3,418,709	10.2	4,121,829	10.1
EPC Contracting .....	16,327,804	51.5	15,005,581	45.0	20,082,442	48.8
Construction .....	11,355,150	35.8	14,118,461	42.4	16,296,826	39.6
Equipment manufacturing.....	760,431	2.4	787,299	2.4	624,960	1.5
Sub-total .....	<u>31,676,701</u>	<u>100.0</u>	<u>33,330,050</u>	<u>100.0</u>	<u>41,126,057</u>	<u>100.0</u>
Inter-segment elimination.....	<u>(1,779,212)</u>		<u>(2,729,373)</u>		<u>(2,599,568)</u>	
Total <sup>(1)</sup> .....	<u><u>29,897,489</u></u>		<u><u>30,600,677</u></u>		<u><u>38,526,489</u></u>	

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(1) Total refers to 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 inter-segment sales to the EPC Contracting segment made by the construction and equipment manufacturing segments. Additional information relating to inter-segment sales is disclosed in Note 7 to Appendix I — Accountants' Report to this prospectus.

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## SUMMARY

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### Gross Profit and Gross Profit Margin

Our gross profit is calculated based on total revenue less total cost of sales. Gross profit for each business segment is calculated based on the segment revenue less segment cost of sales. The following table sets forth our gross profit and gross profit margin for each business segment for the periods indicated.

	Year ended December 31,								
	2010			2011			2012		
	Gross profit	Percentage of total gross profit	Gross profit margin	Gross profit	Percentage of total gross profit	Gross profit margin	Gross profit	Percentage of total gross profit	Gross profit margin
(RMB'000)	(%)	(%)	(RMB'000)	(%)	(%)	(RMB'000)	(%)	(%)	
Engineering, consulting and licensing .....	1,586,518	35.0	49.1	1,516,284	29.9	44.4	1,857,763	33.6	45.1
EPC Contracting .....	2,523,450	55.5	15.5	2,889,433	56.9	19.3	2,856,980	51.7	14.2
Construction.....	416,007	9.2	3.7	633,422	12.5	4.5	833,731	15.1	5.1
Equipment manufacturing .....	12,724	0.3	1.7	35,197	0.7	4.5	(20,368)	(0.4)	(3.3)
<b>Total.....</b>	<u>4,538,699</u>	<u>100.0</u>	15.2 <sup>(1)</sup>	<u>5,074,336</u>	<u>100.0</u>	16.6 <sup>(1)</sup>	<u>5,528,106</u>	<u>100.0</u>	14.3 <sup>(1)</sup>

(1) Total gross profit margin is calculated based on total gross profit divided by total revenue, which is the aggregate revenue generated from each business segment after inter-segment elimination. Inter-segment elimination mainly arises from inter-segment sales to the EPC Contracting segment made by the construction and equipment manufacturing segments. Additional information relating to inter-segment sales is disclosed in Note 7 to Appendix I — Accountants' Report in this prospectus.

### Backlog and New Contracts

For the years ended December 31, 2010, 2011 and 2012, the value of our new contracts (which represents the aggregate value of the contracts we entered into during a specified period) was RMB41.21 billion, RMB50.30 billion and RMB40.14 billion, respectively. As of December 31, 2012, our backlog (which represents the total estimated contract value of work that remains to be completed pursuant to outstanding contracts as of a certain date, net of estimated value added tax and assuming performance in accordance with the terms of the contract) was RMB76.05 billion. In addition, as of December 31, 2012, we received letters of intent to engage us to work on several engineering, consulting and EPC Contracting projects with a total contract value of approximately RMB14.43 billion.

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## SUMMARY

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### COMPETITIVE STRENGTHS

We believe the following strengths enable us to maintain our leading position in the PRC market and effectively expand our operations overseas:

- We are the largest and most seasoned oil refining, petrochemical and new coal chemical engineering company in the PRC with the strongest execution capabilities, and are highly competitive in the international engineering market;
- We possess great strengths in technologies, capabilities for continual innovation and a strong R&D platform, which also create a solid foundation for the expansion of our business;
- We have completed numerous landmark projects, accumulated extensive engineering and construction experience and developed strong project execution capabilities during our 60 years of operation;
- We have established an extensive and stable client base, as well as a strong domestic and overseas marketing network and resource platform;
- We are able to provide total solutions and a full range of services to clients; and
- We have an experienced management team, a talented technology team and a corporate culture of pursuing excellence.

### BUSINESS STRATEGIES

We strive to become a first-tier global energy and chemical engineering company through integration, globalization, differentiation, innovation and green and low-carbon development. To achieve this goal, we intend to pursue the following strategies:

- Continually expand in the domestic market to strengthen our leading position among the PRC's oil refining, petrochemical and new coal chemical engineering companies;
- Actively expand our presence in the overseas market and advance our position in the international market;
- Further improve our R&D capability and ability to convert research achievements into engineering capabilities, thereby maintaining our leading edge in industry technologies;
- Further expand into new business areas and broaden the scope of our services;
- Enhance our current business structure, explore new business models, and improve our profitability and competitiveness;

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## SUMMARY

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- Optimize resource allocation, further improve project management and increase operational efficiency; and
- Improve information system to enhance our overall engineering capabilities and quality of corporate management.

### COMPETITION AND OUR CLIENTS

We believe we are one of the major players in the PRC engineering industry and the market leading engineering company providing services to the oil refining, petrochemical and new coal chemical industries in the PRC. Our main competitors in the PRC market include China Petroleum Engineering & Construction Corporation, China Huanqiu Contracting & Engineering Corporation and China National Chemical Engineering Co., Ltd. (including its subsidiaries, China Chengda Engineering Co., Ltd., China Tianchen Engineering Co., Ltd. and Wuhuan Engineering Co., Ltd.).

Leveraging our established platform in the PRC's oil refining and chemical industries, we have established a growing international presence and participated in the engineering, EPC Contracting and construction of overseas projects in the Middle East, Central Asia, Asia Pacific, Africa, South America and North America. Our main competitors in the overseas market are international engineering companies from countries including Korea, the United States, Italy and France.

We operate our business in most provinces, municipalities and autonomous regions in the PRC. In recent years, our overseas business has grown rapidly as we have participated in a number of projects in the Middle East, Central Asia, Africa, South America, North America and Southeast Asia.

The following table sets forth our revenue from the PRC and overseas during the periods indicated:

	Year ended December 31,					
	2010		2011		2012	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
PRC .....	26,364,550	88.2	26,359,631	86.1	32,011,159	83.1
Overseas <sup>(1)</sup> .....	3,532,939	11.8	4,241,046	13.9	6,515,330	16.9
Middle East .....	3,428,952	11.5	3,954,254	12.9	4,294,486	11.1
Central Asia .....	61,987	0.2	200,836	0.7	1,985,842	5.2
Asia Pacific .....	25,383	0.1	65,690	0.2	227,809	0.6
Africa .....	16,165	0.0	—	—	—	—
Americas .....	452	0.0	20,266	0.1	6,690	0.0
Other regions .....	—	—	—	—	503	0.0
Total .....	<u>29,897,489</u>	<u>100.0</u>	<u>30,600,677</u>	<u>100.0</u>	<u>38,526,489</u>	<u>100.0</u>

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## SUMMARY

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- (1) During the periods indicated, our revenue from overseas was generated primarily from Saudi Arabia, the United Arab Emirates and Iran in the Middle East, Kazakhstan in Central Asia, Singapore, India, Bangladesh, Myanmar, Australia, New Zealand and Malaysia in Asia Pacific, Algeria and Chad in Africa, Cuba in the Americas and the United Kingdom and other countries which were categorized as other regions.

As of December 31, 2012, our major PRC and overseas clients included Sinopec Group, CNOOC, CNPC, Shaanxi Yanchang Petroleum (Group) Co., Ltd., Shenhua Group, Sinochem Group, China National Coal Group, Exxon Mobil Corporation, BP, Shell, Saudi Aramco, SABIC, BASF, KMG, Bayer AG and Novartis International AG, among which Sinopec Group, CNPC, Shaanxi Yanchang Petroleum (Group) Co., Ltd., Shenhua Group, Sinochem Group and KMG had been among our five largest clients in one or more years during the Track Record Period. For the years ended December 31, 2010, 2011 and 2012, revenue derived from our five largest clients together accounted for 67.6%, 59.5% and 62.6%, respectively, of our total revenue. For the same periods, revenue from Sinopec Group and its associates, our largest client, was approximately RMB19.8 billion, RMB16.9 billion and RMB19.4 billion, respectively, accounting for 66.1%, 55.1% and 50.2%, respectively, of our total revenue. Excluding Sinopec Group, the aforementioned major PRC and overseas clients together accounted for 7.7%, 13.7% and 24.0%, respectively, of our total revenue for the year ended December 31, 2010, 2011 and 2012.

During the Track Record Period, most of our long-term contracts in the engineering, consulting and licensing, EPC Contracting, construction and equipment manufacturing businesses were on a fixed-price basis.

### SUPPLIERS AND SUBCONTRACTORS

We require substantial amounts of equipment, materials and consumables, which include static and rotating equipment, electrical components, instruments, steel components and welding materials, among others, in our EPC Contracting and construction businesses. We generally do not procure equipment and materials for our engineering, consulting and licensing business, and the raw materials we procure for our equipment manufacturing business are relatively small and vary on a contract-by-contract basis. We ensure the supply, quality and cost control of our purchased equipment and materials through appropriate procurement procedures designated for different materials and equipment. In managing our suppliers of equipment and materials, we focus on factors such as product quality, timing of delivery, price competitiveness and credit and financial status.

For most projects, we act as the EPC or construction contractor and we procure services from subcontractors when necessary to facilitate project progress and improve overall project profitability. We adhere to strict standards for selecting subcontractors and maintain a list of preferred subcontractors to ensure availability of appropriate subcontractors when necessary. We incorporate subcontractors' work quality, progress, health, safety and environmental protection record into our management system and continuously monitor our subcontractors' performance.

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## SUMMARY

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For the years ended December 31, 2010, 2011 and 2012, purchases from our largest supplier of goods or services, including subcontracting services, accounted for approximately 2.8%, 3.6% and 2.0%, respectively, of our total purchases. For the same periods, purchases from our five largest suppliers of goods or services, including subcontracting services, in aggregate accounted for approximately 7.2%, 12.2% and 8.1%, respectively, of our total purchases.

### GLOBAL OFFERING STATISTICS

The statistics in the following table are based on the assumptions that (i) the Global Offering is completed and 1,328,000,000 H Shares are issued in the Global Offering, (ii) the Over-allotment Option is not exercised, and (iii) 4,428,000,000 Shares are issued and outstanding following the completion of the Global Offering:

	Based on an indicative Offer Price of HK\$9.80 per H Share	Based on an indicative Offer Price of HK\$13.10 per H Share
Market capitalization of the Shares (in millions).....	HK\$43,394.4	HK\$58,006.8
Unaudited pro forma adjusted consolidated net tangible assets per Share .....	HK\$4.74	HK\$5.72

### USE OF PROCEEDS

We estimate that the net proceeds we will receive from the Global Offering (after deducting underwriting commissions, fees and anticipated expenses payable by us in connection with the Global Offering) will be approximately HK\$14,908.8 million, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$11.45 per H Share, being the mid-point of the Offer Price range of HK\$9.80 to HK\$13.10 per H Share as stated in this prospectus. If the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds of approximately HK\$2,246.6 million (after deducting underwriting commissions, fees and other relevant expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$11.45 per H Share. We currently intend to apply these net proceeds for the following purposes, assuming the Over-allotment Option is not exercised:

Amount (HK\$ in millions)	Percentage of the total estimated net proceeds	Intended use of the net proceeds
3,429.0.....	23%	Establishing six R&D centers in the PRC for research and development of engineering and construction technologies with focuses on oil refining engineering technology, new coal chemical and natural gas chemical technology, petrochemical-alternative energy engineering technology and construction technology, with a total investment of approximately RMB2.3 billion, mostly to be deployed within the years of 2013 and 2014. The R&D centers were at an initial planning stage as of December 31, 2012 and are expected to be completed by the end of 2014



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## SUMMARY

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Amount (HK\$ in millions)	Percentage of the total estimated net proceeds	Intended use of the net proceeds
5,963.5.....	40%	Supporting operation funds for our EPC Contracting services to selected projects that are important for the development of our EPC Contracting business and enhancing our client base, such as the Shaanxi Yulin methanol acetic acid deep processing EPC project
1,640.0.....	11%	Improving our overseas marketing networks, including establishing an operation and maintenance center in Saudi Arabia, an integrated operating center in North America, and several overseas subsidiaries or branches in South Asia, Africa and South America
1,043.6.....	7%	Improving our information system
1,341.8.....	9%	Purchasing crawler cranes with high lifting capacities to enhance our specialized construction capacity
1,490.9.....	10%	Working capital and other general corporate purposes

Please see the section headed “Future Plans and Use of Proceeds” in this prospectus for further details.

### **DIVIDEND POLICY AND DISTRIBUTION PRIOR TO THE LISTING**

We may declare and pay dividends by way of cash or by other means that we consider appropriate in the future. Distribution of dividends shall be formulated by our Board at their discretion and will be subject to shareholders’ approval. During the two years ended December 31, 2010 and 2011, the dividends distributed by us to Sinopec Group were RMB295.3 million and RMB429.8 million, respectively. In the future, we expect to distribute no less than 30% of our annual distributable net profits as dividends. There is, however, no assurance that we will be able to distribute dividends of such amount or any amount each year or in any year. In addition, declaration and/or payment of dividends may be limited to legal restrictions and/or by financing arrangements that we may enter into in the future. Please see the section headed “Financial Information — Dividend Policy” in this prospectus for further details.

Dividend distribution prior to the Listing are paid out of distributable profits as determined under PRC GAAP or IFRS, whichever is lower. Our accumulated distributable profits prior to the Global Offering are distributed as follows:

- In accordance with the Provisional Regulation Relating to Corporate Reorganization of Enterprises and Related Management of State-owned Capital and Financial Treatment (企業公司制改建有關國有資本管理與財務處理的暫行規定) issued by MOF and the resolution of the Shareholders’ meeting dated August 24, 2012, Sinopec Group and SAMC were entitled to special dividends of approximately RMB363.3 million, which was

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## SUMMARY

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determined based on our consolidated net profits attributable to equity owner/shareholders of the Company for the period from July 1, 2012, the date immediately after the date on which our assets were valued for the establishment of our Company as a joint stock limited liability company, to August 28, 2012, the date of our establishment.

### OUR CONTROLLING SHAREHOLDER

Upon completion of the Global Offering, Sinopec Group, our Controlling Shareholder, will beneficially own an aggregate of approximately 67.01% of our outstanding shares, assuming the Over-allotment Option is not exercised. Please see the sections headed “History, Reorganization and Corporate Structure”, “Relationship with Controlling Shareholders” and “Substantial Shareholders” in this prospectus for further details.

Sinopec Group is the largest integrated oil and petrochemical enterprise in the PRC. It principally engages in the following businesses: (i) exploration, development, production and trading of oil and gas, (ii) oil processing, production, trading, transportation, distribution and marketing of oil products (iii) production, distribution and trading of petrochemical and other chemical products; (iv) oil engineering, such as engineering and technical services for oil and gas fields, oil and gas field surface engineering design and construction, crude oil and gas pipeline design and construction, manufacturing of oil and gas related equipment, oil field informatization and development and operation of related products, and (v) other businesses, such as international trading, R&D as well as manufacturing of chemical fiber, fertilizer and polyester related equipment. We are the operating platform for the oil refining and chemical engineering businesses within Sinopec Group. Our core business includes EPC Contracting, designing, construction, project management, procurement, special equipment manufacturing, operation and maintenance and repair services for production units, project consulting services in relation to oil refining engineering, chemical engineering, pharmaceutical engineering, storage and transportation facilities engineering and ancillary facilities engineering and other business and services in relation to EPC Contracting within or outside the PRC (“Core Business”). With respect to storage and transportation facilities engineering, we focus on the design and construction of oil products pipelines, oil depot, LNG storehouse and LPG storage; with respect to special equipment manufacturing, we focus on the manufacturing of equipment for oil refining, ethylene and aromatics production, etc. With respect to engineering and technical services, we focus on clients in the oil refining and chemical industries, whilst Sinopec Group focuses on clients in the oil and gas exploration and production industries. Sinopec Group and our Company confirm that the Parent Group is not currently operating any business that competes with our Core Business, and they will not, other than the Excluded Business, compete, directly or indirectly with our Core Business. Please refer to the section headed “Relationship with Controlling Shareholders” for further details.

For the years ended December 31, 2010, 2011 and 2012, Sinopec Group and its associates, as our largest client, accounted for 66.1%, 55.1% and 50.2%, respectively, of our total revenue. In addition, Sinopec Corp., a subsidiary of Sinopec Group, was one of our five largest suppliers for the years ended December 31, 2010 and 2012. However, we believe that we can conduct our business independently from Sinopec Group and its associates. Please see the sections headed “Relationship with Controlling Shareholders” and “Connected Transactions” for further details.

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## SUMMARY

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For the overseas projects which we undertook during the Track Record Period, we were sometimes required, as part of the typical bidding qualifications required by our clients, to obtain guarantees for the performance of our contractual obligations from our parent company, Sinopec Group (“Parent Guarantees”). The total contract value of the contracts involving Parent Guarantees accounted for approximately 2.79%, 4.26% and nil of the total contract value of our new contracts for the years ended December 31, 2010, 2011 and 2012, respectively. We believe that the small proportion of projects requiring parent guarantees does not reflect a dependence on Sinopec Group from a financial perspective. We do not intend to release the Parent Guarantees before Listing as the relevant overseas projects involving Parent Guarantees are still in progress and any early release of such guarantees may adversely affect the successful and timely execution of these projects. Barring exceptional circumstances, going forward, we do not expect to enter into EPC contracts requiring parent guarantees and we generally expect that guarantees issued by the Company will be sufficient if it is so required by the owners of the projects. Please see section headed “Relationship with Controlling Shareholders” for further details.

In relation to the Kazakhstan Atyrau Refinery Aromatic Hydrocarbons Project and the Kazakhstan KPI IPCI Project, we obtained letters of guarantees from The Export-Import Bank of China (“China EXIM”) and as at the Latest Practicable Date, the outstanding guarantee amount was approximately US\$308.8 million. In connection with the guarantees provided by China EXIM, Sinopec Group provided counter-guarantees for an equivalent amount in favor of China EXIM. Such counter-guarantees constitute a form of financial assistance pursuant to Rule 14A.65 of the Hong Kong Listing Rules. However, as such financial assistance is provided on normal commercial terms and there is no security over our assets granted in respect of such financial assistance, it is exempted from the reporting, announcement and independent shareholders’ approval requirements under Rule 14A.65(4) of the Hong Kong Listing Rules. Going forward, we do not generally expect to enter into overseas projects requiring counter-guarantees provided by Sinopec Group and the guarantees issued by us should be generally sufficient to the financial institutions. We have been able to secure overseas projects independently in the past and the provision of Sinopec Group counter-guarantees was a special case, and we believe that we will continue to be able to secure new overseas projects independently. Please see sections headed “Relationship with Controlling Shareholders” and “Connected Transactions” for further details.

### **HISTORICAL OPERATIONS IN THE SANCTIONED COUNTRIES**

The U.S. and other jurisdictions, including the European Union, Australia and the United Nations, have comprehensive or broad economic sanctions targeting the Sanctioned Countries. For details of the relevant sanctions laws, see “Regulations — Descriptions and Impact of Sanctions Laws.” We historically had certain operations in certain of the Sanctioned Countries and our revenue derived therefrom in aggregate accounted for 5.0%, 4.4% and 2.8%, respectively, of our total revenue for the years ended December 31, 2010, 2011 and 2012. For details of the projects, see “Business — Historical Operations in the Sanctioned Countries — Projects in the Sanctioned Countries.” All the related obligations and payments under all of our projects in the Sanctioned Countries have been fully completed and settled.

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## SUMMARY

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In relation to the contracts described above, we have not been notified that any sanctions will be imposed. No U.S. individuals employed by us or U.S. companies with which we conduct business are involved in the supply of our products and services to the Sanctioned Countries, and we are not involved in re-exporting goods of U.S. origin to the Sanctioned Countries. However, for risk relating to our historical operations in the Sanctioned Countries, see “Risk Factors — Risks Relating to Our Business and Our Industry — We could be materially and adversely affected as a result of our operations in certain countries that are subject to evolving economic sanctions of the United States government, the United Nations Security Council, the European Union and other relevant sanctions authorities.”

We undertake to the Hong Kong Stock Exchange that we will not use the proceeds from the Global Offering, as well as any other funds raised through the Hong Kong Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Sanctioned Country or any other government, individual or entity sanctioned by the European Union, the United Nations, the U.S. or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanction. In addition, we have no present intention to undertake any future business that would cause us, the Hong Kong Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders to violate or become target of sanctions laws of the European Union, the United Nations, the U.S. or Australia. We will continuously monitor and evaluate our business and take measures to protect the interests of our Group and our Shareholders. For details of our internal control procedures, see “Business — Historical Operations in the Sanctioned Countries — Our Undertakings and Internal Control Procedures.”

### RISK FACTORS

There are certain risks involved in our operations, some of which are beyond our control. These risks can be broadly categorized into: (i) risks relating to our business and our industry; (ii) risks relating to doing business in the PRC; and (iii) risks relating to the Global Offering. Potential investors in our H Shares should consider carefully all the information set forth in this prospectus and, in particular, this section in connection with an investment in us. For more details regarding the risks involved, please see the section headed “Risk Factors” in this prospectus.

### RECENT DEVELOPMENTS

Based on our unaudited management accounts, as of March 31, 2013 we had a total current assets of RMB28.38 billion and a total current liabilities of RMB25.13 billion. See “Financial Information — Liquidity and Capital Resources” for further details of our current assets and current liabilities. There was no adverse change in our gross profit margin and net profit margin for the three months ended March 31, 2013 comparing to those for the year ended December 31, 2012. As of March 31, 2013, our backlog was RMB82.46 billion. The value of our new contracts for the three months ended March 31, 2013 was RMB14.22 billion. In particular, in January 2013, we entered into an EPC contract of a contract value of US\$1.15 billion to construct PTA/PET plants in the U.S.

As of the Latest Practicable Date, there had been no material adverse change in our financial or trading position since December 31, 2012 and no event had occurred since December 31, 2012 that would materially and adversely affect the information in Accountants’ Report set out in Appendix I.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings. Certain other terms are explained in the section headed "Glossary."*

“Application Form(s)”	<b>WHITE</b> application form(s), <b>YELLOW</b> application form(s) and <b>GREEN</b> application form(s), or where the context so requires, any of them
“Articles of Association or “Articles”	the articles of association of our Company, adopted on September 3, 2012, as amended from time to time, a summary of which is set out in “Appendix VI — Summary of Articles of Association” to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“BASF”	BASF SE and, except where the context otherwise requires, all of its associates
“Board of Directors” or “Board”	our board of directors
“BP”	BP plc and, except where the context otherwise requires, all of its associates
“Business Day” or “business day”	any day (other than a Saturday, Sunday or public holiday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business
“CAD”	Canadian dollars, the lawful currency of Canada
“CAGR”	compound annual growth rate
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant

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## DEFINITIONS

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“CCIA”	China Construction Industry Association (中國建築業協會)
“CEMAC”	Construction Enterprise Management Association of China (中國施工企業管理協會)
“China Exploration & Design Association” or “CEDA”	China Exploration and Design Association (中國勘察設計協會), a non-governmental organization in China formed in 1985 as an industry trade group for China’s exploration, design and engineering consulting industry
“China National Association of Engineering Consultants”	China National Association of Engineering Consultants (中國工程諮詢協會), a non-governmental organization in China formed in 1992 as an industry trade group for China’s engineering consulting industry
“Chinese Academy of Engineering”	Chinese Academy of Engineering (中國工程院), the national academy of the People’s Republic of China for the research and promotion of engineering and technological sciences
“Chinese Academy of Sciences”	Chinese Academy of Sciences (中國科學院), the national academy of the People’s Republic of China for the research and promotion of natural sciences
“CNOOC”	China National Offshore Oil Corporation (中國海洋石油總公司) and, except where the context otherwise requires, all of its associates
“CNPC”	China National Petroleum Corporation (中國石油天然氣集團公司) and, except where the context otherwise requires, all of its associates
“Company” or “our Company”	SINOPEC Engineering (Group) Co., Ltd., a joint stock limited liability company incorporated under the laws of the PRC on August 28, 2012, and, except where the context otherwise requires and except in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the business carried on by such subsidiaries or (as the case may be) their respective predecessors
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“Company Law” or “PRC Company Law”	Company Law of the PRC (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People’s Congress on October 27, 2005 and effective on January 1, 2006, as amended, supplemented and otherwise modified from time to time
“connected person(s)”	has the meaning ascribed thereto in the Hong Kong Listing Rules
“Construction Enterprise”	a company in the PRC with a primary business scope of construction, equipment installation, material erection and construction supervision. See “Industry Overview — Overview of the Oil Refining and Chemical Industries”
“Controlling Shareholder(s)”	has the meaning ascribed thereto in the Hong Kong Listing Rules
“Cornerstone Investors”	the cornerstone investors as described in the section headed “Our Cornerstone Investors” in this prospectus
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of our Company
“Domestic Share(s)”	ordinary share(s) of our capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi and are unlisted Shares which are currently not listed or traded on any stock exchange
“Eleventh Five-Year Plan”	the Eleventh Five-Year Plan for National Economic and Social Development (2006-2010) approved by the Tenth NPC in 2006
“ENR”	Engineering News-Record, a magazine that provides news, analysis, data and commentary on the engineering industry worldwide and annually ranks the largest contractors and design firms internationally and globally
“EUR”, “Euro” or “euro”	the lawful currency of the member states of the European Union that have adopted the single currency in accordance with the treaty establishing the European Community, as amended
“Excluded Business”	any Core Business not undertaken by the Group in the Sanctioned Countries or prohibited by the relevant laws and regulations. See “Relationship with Controlling Shareholders — Delineation of Business and Competition.”

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## DEFINITIONS

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“Exploration and Design Enterprise”	a company in the PRC with a primary business scope of consulting, exploration, engineering, EPC Contracting, construction supervision and commissioning. See “Industry Overview — Overview of the Oil Refining and Chemical Industries”
“FCC”	Sinopec The Fourth Construction Company Limited(中石化第四建設有限公司), a company incorporated in the PRC with limited liability on April 6, 2012 (with its predecessor established on December 17, 1985) and a wholly-owned subsidiary of our Company
“GAQSIQ”	General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局)
“GDP”	gross domestic product; except as otherwise specified, all references to GDP growth rates are to real as opposed to nominal rates of GDP growth
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider Computershare Hong Kong Investor Services Limited
“Group”, “us” or “we”	our Company and its subsidiaries
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“H Share(s)”	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are to be subscribed for and traded in Hong Kong dollars and for which an application has been made for the granting of listing and permission to deal in, on the Hong Kong Stock Exchange
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKIAC”	Hong Kong International Arbitration Centre
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC



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## DEFINITIONS

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“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Hong Kong Public Offering”	the offer by our Company of initially 66,400,000 H Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed “Structure of the Global Offering”) for cash at the Offer Price (plus brokerage fee of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%) and on the terms and subject to the conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering” in this prospectus
“Hong Kong Public Offer Share(s)”	the H Share(s) offered in the Hong Kong Public Offering
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters listed in the section headed “Underwriting — Hong Kong Underwriters”, being the underwriters of the Hong Kong Public Offering
“Hong Kong Underwriting Agreement”	the underwriting agreement dated May 9, 2013 relating to the Hong Kong Public Offering entered into between us, the Joint Global Coordinators, the Joint Sponsors and the Hong Kong Underwriters, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Hong Kong Underwriting Agreement” in this prospectus
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards, which include IAS, amendments and interpretations issued by the International Accounting Standards Board
“Indebtedness Date”	March 31, 2013
“Independent Third Party(ies)”	party(ies) not connected with any of the Directors, Supervisors, chief executive or Substantial Shareholders of our Company or of any of its subsidiaries or their respective associates
“IMF”	the International Monetary Fund
“Internal Control Consultant”	Beijing Jingdu Management Consultants Co., Ltd.

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## DEFINITIONS

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“International Offering”	the offer by our Company of initially 1,261,600,000 H Shares for subscription by professional, institutional and other investors, as further described in the section headed “Structure of the Global Offering” in this prospectus, subject to the Over-allotment Option
“International Offer Share(s)”	the H Share(s) offered in the International Offering
“International Underwriters”	the group of international underwriters expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering and to be entered into between, among others, us, the International Underwriters and the Joint Global Coordinators on or around May 16, 2013, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — International Offering” in this prospectus
“Joint Bookrunners”	J.P. Morgan Securities plc, CITIC Securities Corporate Finance (HK) Limited, UBS AG, Hong Kong Branch, Goldman Sachs (Asia) L.L.C., China International Capital Corporation Hong Kong Securities Limited, The Hongkong and Shanghai Banking Corporation Limited, Haitong International Securities Company Limited, Citigroup Global Markets Limited, Merrill Lynch International, Deutsche Bank AG, Hong Kong Branch, CMB International Capital Limited, BOCOM International Securities Limited and BOCI Asia Limited
“Joint Global Coordinators”	J.P. Morgan Securities (Asia Pacific) Limited, CITIC Securities Corporate Finance (HK) Limited, UBS AG, Hong Kong Branch, and Goldman Sachs (Asia) L.L.C.

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## DEFINITIONS

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“Joint Lead Managers”	J.P. Morgan Securities plc (in relation to the International Offering), J.P. Morgan Securities (Asia Pacific) Limited (in relation to the Hong Kong Public Offering), CITIC Securities Corporate Finance (HK) Limited, UBS AG, Hong Kong Branch, Goldman Sachs (Asia) L.L.C., China International Capital Corporation Hong Kong Securities Limited, The Hongkong and Shanghai Banking Corporation Limited, Haitong International Securities Company Limited, Citigroup Global Markets Limited (in relation to the International Offering), Citigroup Global Markets Asia Limited (in relation to the Hong Kong Public Offering), Merrill Lynch International (in relation to the International Offering), Merrill Lynch Far East Limited (in relation to the Hong Kong Public Offering), Deutsche Bank AG, Hong Kong Branch, BOCOM International Securities Limited, CMB International Capital Limited, BOCI Asia Limited
“Joint Sponsors”	J.P. Morgan Securities (Far East) Limited, CITIC Securities Corporate Finance (HK) Limited and UBS Securities Hong Kong Limited
“KMG”	KazMunayGas and, except where the context otherwise requires, all of its associates, all of which are Independent Third Parties
“Latest Practicable Date”	April 30, 2013, the latest practicable date for the inclusion of certain information in this prospectus prior to its publication
“Listing”	listing of our H Shares on the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about May 23, 2013, on which our Offer Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“LPEC”	Sinopec Luoyang Petrochemical Engineering Corporation (中石化洛陽工程有限公司), a company incorporated in the PRC with limited liability on April 6, 2012 (with its predecessor established on March 6, 1985) and a wholly-owned subsidiary of our Company
“Mandatory Provisions”	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, promulgated by the former State Council Securities Committee and other PRC government departments on August 27, 1994, as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“MOEP” or “Ministry of Environmental Protection”	Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部)
“MOF” or “Ministry of Finance”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM” or “Ministry of Commerce	Ministry of Commerce of the PRC (中華人民共和國商務部)
“MOHURD”	Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部)
“NBSC”	National Bureau of Statistics of the PRC (中華人民共和國國家統計局)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Ningbo Institute”	Sinopec Ningbo Technology Research Institute Company Limited (中石化寧波技術研究院有限公司), a company incorporated in the PRC with limited liability on April 24, 2012 (with its predecessor established on October 23, 2006) and a wholly-owned subsidiary of our Company
“Non-Competition Agreement”	the non-competition agreement dated December 19, 2012 entered into between Sinopec Group and our Company, as referred to in the section headed “Relationship with Controlling Shareholders” in this prospectus
“NPC”	the National People’s Congress (全國人民代表大會)
“NSSF”	National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會), an organization authorized by the State Council which is responsible for the administration of the PRC’s national social security funds
“OFAC”	The U.S. Department of Treasury’s Office of Foreign Assets Control
“Offer Price”	the final Hong Kong dollar price per Hong Kong Public Offer Share (exclusive of the brokerage, Hong Kong Stock Exchange trading fee and SFC transaction levy) at which the Hong Kong Public Offer Shares are to be subscribed for pursuant to the Hong Kong Public Offering, to be determined as further described in the section headed “Structure of the Global Offering”
“Offer Share(s)”	the H Share(s) offered in the Global Offering, where relevant including any additional H Shares issued pursuant to the exercise of the Over-allotment Option

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## DEFINITIONS

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“Over-allotment Option”	the option granted by us to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters, at any time from the date of the International Underwriting Agreement until 30 days from the last day for lodging applications under the Hong Kong Public Offering, to require us to allot and issue up to an aggregate of 199,200,000 additional H Shares at the Offer Price to cover, among other things, over-allocations in the International Offering, if any, details of which are described in the section headed “Structure of the Global Offering”
“Parent Group”	collectively, Sinopec Group and its subsidiaries (excluding our Group)
“PBOC”	People’s Bank of China (中國人民銀行)
“PBOC rate”	the exchange rate for foreign exchange transactions set daily by the PBOC based on the previous day’s interbank foreign exchange rate in China and with reference to prevailing exchange rates on the world financial markets
“People’s Congress”	the PRC’s legislative apparatus, including the National People’s Congress and all the local people’s congresses (including provincial, municipal and other regional or local people’s congresses), as the context may require, or any of them
“PRC” or “China” or “People’s Republic of China”	the People’s Republic of China which, for the purpose of this prospectus, excludes Hong Kong, Macau Special Administration Region of the PRC and Taiwan
“PRC EIT Law”	the Enterprise Income Tax Law of the PRC, adopted by the Tenth National People’s Congress on March 16, 2007 and effective on January 1, 2008
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC government” or “government”, “State” or “state”	the government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities or, where the context requires, any of them
“Price Determination Date”	the date, expected to be on or around Thursday, May 16, 2013 and, in any event, not later than Monday, May 20, 2013, on which the Offer Price is to be fixed by agreement between our Company and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) to determine the Offer Price

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## DEFINITIONS

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“Promoter(s)”	the promoters of our Company, namely Sinopec Group and SAMC
“Province” or “province”	a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the central government of the PRC
“QIBs”	qualified institutional buyers within the meaning of Rule 144A
“R&D”	research and development
“Regulation S”	Regulation S under the U.S. Securities Act
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reorganization”	the reorganization arrangements undergone by our Group as described in the section headed “History, Reorganization and Corporate Structure — Reorganization” of this prospectus
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SABIC”	Saudi Basic Industries Corporation and, except where the context otherwise requires, all of its associates
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAMC”	Sinopec Assets Management Co., Ltd. (中國石化集團資產經營管理有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Sinopec Group
“Sanctioned Countries”	Countries that are the targets of general, country-wide economic sanctions imposed by the U.S., the European Union, Australia or the United Nations, presently Cuba, Sudan, North Korea, Iran, Syria and Myanmar
“SASAC”	Stated-owned Assets Supervision and Administration Commission of the State Council of the PRC (中華人民共和國國務院國有資產監督管理委員會)
“Saudi Aramco”	Saudi Arabian Oil Company and, except where the context otherwise requires, all of its associates

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## DEFINITIONS

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“SAWS”	State Administration of Work Safety of the PRC (中華人民共和國國家安全生產監督管理總局)
“SE” or “Sinopec Engineering”	Sinopec Engineering Co., Ltd. (中國石化集團煉化工程有限公司), a company incorporated in the PRC with limited liability in July 2007 and the predecessor of our Company
“SE America”	Sinopec Engineering Group America, L.L.C, a company incorporated in the State of Delaware, United States with limited liability on February 13, 2012 and a wholly-owned subsidiary of our Company
“SE&C Middle East”	Sinopec E&C Middle East Co., Ltd., a company incorporated in Saudi Arabia with limited liability on April 17, 2009 and a wholly-owned subsidiary of our Company
“SE&C Nigeria”	Sinopec E&C Nigeria Limited, a company incorporated in Nigeria with limited liability on June 25, 2010 and a wholly-owned subsidiary of our Company
“SE&C Singapore”	Sinopec Engineering & Construction (Singapore) Pte. Ltd., a company incorporated in Singapore with limited liability on December 8, 2010 and a wholly-owned subsidiary of our Company
“SEI”	Sinopec Engineering Incorporation (中國石化工程建設有限公司), a company incorporated in the PRC with limited liability on April 10, 2012 (with its predecessor established on November 18, 1985) and a wholly-owned subsidiary of our Company
“SFC”	the Securities and Futures Commission of Hong Kong
“SFCC”	The Fifth Construction Company of Sinopec (中石化第五建設有限公司), a company incorporated in the PRC with limited liability on April 11, 2012 (with its predecessor established on March 25, 1991) and a wholly-owned subsidiary of our Company
“SGEC”	Sinopec Guangzhou Engineering Co., Ltd. (中石化廣州工程有限公司), a company incorporated in the PRC with limited liability on June 16, 1998 and a wholly-owned subsidiary of our Company
“Shareholder(s)”	holder(s) of our Shares
“Share(s)”	share(s) in the share capital of our Company, with a nominal value of RMB1.00 each

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## DEFINITIONS

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“Shell”	Shell Oil Company and, except where the context otherwise requires, all of its associates
“Shenhua Group”	Shenhua Group (神華集團) and, except where the context otherwise requires, all of its associates
“Sinopec Corp.”	China Petroleum & Chemical Corporation (中國石油化工股份有限公司), a joint stock limited liability company incorporated under the laws of the PRC, which is listed on the Hong Kong Stock Exchange (0386.HK), Shanghai Stock Exchange (600028.SH), the London Stock Exchange (LSE: SNP) and the New York Stock Exchange (NYSE: SNP) and is a subsidiary of Sinopec Group
“Sinopec Century Bright”	Sinopec Century Bright Capital Investment Limited (中國石化盛駿國際投資有限公司), a limited liability company incorporated in Hong Kong on November 29, 1994 and a connected person of our Company, with 100% of its equity interest being held by Sinopec Group
“Sinopec Finance”	Sinopec Finance Co., Ltd. (中國石化財務有限責任公司), a limited liability company incorporated in the PRC in 1998 and a connected person of our Company, with 49% of its equity interest being held by Sinopec Corp. and 51% of its equity interest being held by Sinopec Group
“Sinopec Finance Companies”	Sinopec Century Bright and Sinopec Finance
“Sinopec Group”	China Petrochemical Corporation (中國石油化工集團公司), a state-owned enterprise incorporated under the laws of the PRC and established in July 1998 upon reorganization of the former China Petrochemical Corporation (中國石油化工總公司), and our Controlling Shareholder
“Sinopec Group’s Listed Subsidiaries”	China Petroleum & Chemical Corporation (中國石油化工股份有限公司), Sinopec Kantons Holdings Limited (中石化冠德控股有限公司), Sinopec Shanghai Petrochemical Company Limited (中國石化上海石油化工股份有限公司), and Kingdream Public Limited Company (江漢石油鑽頭股份有限公司)
“SIPO”	State Intellectual Property Office of the PRC (中華人民共和國國家知識產權局)
“SNEC”	Sinopec Ningbo Engineering Company Limited (中石化寧波工程有限公司), a company incorporated in the PRC with limited liability on September 30, 2003 and a wholly-owned subsidiary of our Company



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## DEFINITIONS

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“SNEI”	Sinopec Nanjing Engineering & Construction Incorporation (中石化南京工程有限公司), a company incorporated in the PRC with limited liability on December 21, 2009 (with its predecessor established on April 28, 1986) and a wholly-owned subsidiary of our Company
“Special Regulations”	Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on August 4, 1994, as amended, supplemented or otherwise modified from time to time
“SSEC”	Sinopec Shanghai Engineering Co., Ltd. (中石化上海工程有限公司), a company incorporated in the PRC with limited liability on April 3, 2003 (with its predecessor established on September 18, 1993) and a wholly-owned subsidiary of our Company
“Stabilizing Manager”	Goldman Sachs (Asia) L.L.C. or its affiliates or any person acting for it
“State Council”	State Council of the PRC (中華人民共和國國務院)
“State Development Planning Commission” or “SDPC”	the PRC State Development Planning Commission (中華人民共和國國家發展計劃委員會) and, formerly, the PRC State Planning Commission
“State Economic and Trade Commission” or “SETC”	the State Economic and Trade Commission of the PRC (中華人民共和國國家經濟貿易委員會)
“State Restructuring Commission”	the State Council Office for Restructuring the Economic System of the PRC (中華人民共和國國家經濟體制改革委員會)
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“Substantial Shareholder(s)”	has the meaning ascribed thereto in the Hong Kong Listing Rules
“Supervisor(s)”	the member(s) of the Supervisory Committee
“Supervisory Committee”	our supervisory committee established pursuant to the Company Law, as described in the section headed “Directors, Supervisors, Senior Management and Employees”

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## DEFINITIONS

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“Takeovers Code”	the Code on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time
“TCC”	Sinopec Tenth Construction Company (中石化第十建設有限公司), a company incorporated in the PRC with limited liability on April 9, 2012 (with its predecessor established on May 10, 1989) and a wholly-owned subsidiary of our Company
“Track Record Period”	the three years ended December 31, 2012
“Twelfth Five-Year Plan”	the Twelfth Five-Year Plan for National Economic and Social Development (2011-2015) approved by the Eleventh NPC in 2011
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“White Form eIPO”	the application for Hong Kong Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of the White Form eIPO Service Provider, <b>www.eipo.com.hk</b>
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“YANSAB”	Yanbu National Petrochemical Company and, except where the context otherwise requires, all of its associates, all of which are Independent Third Parties

*If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “\*” and the Chinese translation of company names in English which are marked with “\*” are for identification purposes only.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary of technical terms contains explanations of certain terms used in this prospectus as they relate to us and as they are used in this prospectus in connection with our business or us. These terms and their meanings may not always correspond to standard industry meaning or usage of these terms.*

“acetic acid core unit”	a unit in a petrochemical plant that produces acetic acid, which is chemical reagent for the production of chemical compounds such as vinyl acetate and esters
“acrylic acid”	an organic compound used in a number of industrial applications, such as the production of acrylic esters and resins primarily used in coatings and adhesives
“acrylonitrile”	an important monomer used to manufacture synthetic rubbers, synthetic fibers and plastics
“aromatics” or “benzene, toluene and xylene”	aromatic hydrocarbon or arene, a type of hydrocarbon with alternating double and single bonds between carbon atoms, which are extracted from gasoline and utilized in chemical industry widely
“aromatics extraction”	the process of splitting aromatics such as benzene, toluene and the three types of xylene, known as BTX, from crude oil distillates such as naphtha
“crude and vacuum distillation unit” or “CDU/VDU”	a common process unit found in an oil refinery in which crude oil is distilled into fractions at atmospheric pressure and vacuum
“boiler”	a common unit installed in an industrial plant which is used to generate steam
“butadiene”	an important industrial chemical used as a monomer in the production of synthetic rubber and other industrial chemicals
“butene-1”	a chemical used as a co-monomer for the production of high density polyethylene and linear low density polyethylene products and a feedstock for the production of other industrial chemicals
“C5 removal”	a process in which C5 fractions are split from by-products of ethylene cracker plant; C5 fractions are used to rubber, pharmaceutical and fine chemical industry
“catalyst”	a substance that improves the expected performance of a chemical reaction, for which it may remain unchanged

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## GLOSSARY OF TECHNICAL TERMS

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“catalytic cracking”	the process of breaking long-chain hydrocarbons into short-chain hydrocarbons by increasing the temperature and using catalysts. See “fluid catalytic cracking unit” or “Fcc”
“clean energy”	energy that creates no emission or less emission than traditional energy sources such as crude oil and coal. Clean energy includes energy from renewable sources such as water, wind and the sun, and may include energy from natural gas or certain types of coal production and use
“coal chemicals”	industry processes including conventional coal chemicals and new coal chemicals. See “Industry Overview — The New Coal Chemical Industry in the PRC”
“coal gasification”	chemical processes that convert coal into coal gas, a type of syngas combining carbon monoxide and hydrogen. See “new coal chemicals”
“coal-generated hydrogen”	hydrogen produced by coal gasification, in contrast to hydrogen produced from natural gas
“compressor unit”	a mechanical device that increases the pressure of a gas by reducing its volume, which can be used to increase the pressure on a gas phase fluid
“continuous catalytic reforming”	a process in which low octane naphtha is converted into high octane reformat which has higher content of aromatics and cyclic hydrocarbons
“conventional coal chemicals”	industry processes including coking, calcium carbide, synthetic ammonia and methanol
“crawler crane”	a crane mounted on an undercarriage with a set of tracks, or crawlers, which provide stability and mobility
“crude oil”	a naturally occurring flammable liquid consisting of a complex mixture of hydrocarbons of various molecular weights and other liquid organic compounds, which is used as the raw material for the production of oil and petrochemical products
“delayed coking unit”	a common process unit found in an oil refinery in which heavy residual oil feed is converted into gasoline and diesel fuel, leaving petroleum coke as a residual product
“denitration”	process by which nitrate or other nitrogen compounds are removed from mixtures or compounds

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## GLOSSARY OF TECHNICAL TERMS

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“desulfurization”	process by which sulfur or sulfur compounds are removed from mixtures or compounds. See “hydrotreating unit”
“diesel hydrotreating”	the mixing of hydrogen with diesel fractions of petroleum in an oil refinery to improve quality of diesel by removing sulfur and nitride through reaction with hydrogen
“direct coal liquefaction”	a method of converting coal to a liquid fuel whereby the fuel is not first converted to a gaseous state as an intermediate process. See “new coal chemicals”
“distributed control system”	control system in which controller elements are not central in a location but are distributed throughout the system with each component sub-system controlled by one or more control systems
“DMTO”	Dalian methanol to olefins. See “methanol to olefins”
“Enterprise Resource Planning” or “ERP”	a system for integrating internal and external management information across an entire organization, generally using integrated software applications to automate the integration
“environmental engineering”	the application of science and engineering principles to improve the natural environment to provide healthy water, air and land for human habitation and to remediate polluted sites, including waste water management, air pollution control and waste disposal
“EPC”	Engineering, procurement and construction; a business model by which a service provider undertakes the engineering, procurement and construction of a project. An EPC contractor is typically responsible to the project owner for the quality, schedule and costs of a project
“EPC Contracting”	one of our business segments, under which we adopt business models including engineering, procurement and construction (“EPC”), engineering, procurement, construction and commissioning (“EPCC”), engineering and procurement (“EP”), procurement and construction (“PC”) and engineering, procurement and construction management (“EPCM”). See “Business — EPC Contracting — Business Models”
“ethylbenzene”	an aromatic hydrocarbon; an intermediate product in the production of styrene, which in turn is used to make polystyrene, a common plastic material

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## GLOSSARY OF TECHNICAL TERMS

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“ethylene oxide/ethylene glycol”	also known as EO/EG, which are important raw materials used in the large-scale chemical production. Most ethylene oxide is used for synthesis of ethylene glycol, which is mainly used as antifreeze and in the production of polyester and polyethylene terephthalate, liquid coolants and solvents
“ethylene”	a hydrocarbon with the formula $C_2H_4$ . It is the simplest alkene (a hydrocarbon with carbon-carbon double bonds) and widely used in the chemical industry with the worldwide production exceeding that of any other organic compound. Ethylene is typically produced in the petrochemical industry by steam cracking
“FEED” or “front-end engineering design”	the basic engineering design following the conceptual design or feasibility study, which defines the basic scope, parameters and economic impact of the project; it is generally used as the basis for soliciting bids for engineering and EPC Contracting contracts in project implementation phase
“fluid catalytic cracking unit” or “Fcc”	a common process unit found in an oil refinery which converts high molecular weight hydrocarbon fractions of petroleum to more valuable lower molecular weight hydrocarbon fractions such as gasoline, olefins and other products
“gas purification”	the removal of impurities contained in industrial gases
“gasification technology”	the various methods for converting organic or fossil-based carbonaceous materials into carbon monoxide, hydrogen and carbon dioxide without combustion
“heat exchanger”	equipment designed to efficiently transfer heat from one medium to another; for example, equipment used to heat crude oil before it enters an atmospheric distillation unit
“HSE”	health, safety and environment
“hydrocarbon”	molecule comprised of hydrogen and carbon atoms of varying forms and lengths
“hydrocracking unit”	a component of an oil refinery that uses hydrogen gas to upgrade high molecular weight hydrocarbon fractions of petroleum to more valuable lower molecular weight hydrocarbon fractions
“hydrogen production unit”	a unit of an oil refinery that produces hydrogen

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## GLOSSARY OF TECHNICAL TERMS

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“hydrotreating unit”	a component of an oil refinery that decreases the amount of sulfur, among other elements, in the oil products by using hydrogen
“industrial furnace module”	a unit in a petroleum refinery or petrochemical plant that generates heat for various processes
“indirect coal liquefaction”	a method of converting coal to a liquid fuel whereby the fuel is first converted to a gaseous state before being converted to a liquid state. See “new coal chemicals”
“IGCC”	integrated gasification combined cycle, a technology that is typically used for energy saving and emission reduction scheme, which uses a gasifier to turn coal and other carbon-based fuels into syngas from which impurities such as sulfur, mercury and particulates can be removed prior to combustion; the technology is integrated because the syngas produced is used as fuel for a gas turbine and steam produced by the syngas coolers are used to drive a steam turbine
“isopropyl benzene”	an organic compound based on an aromatic hydrocarbon used to produce industrially important chemicals such as phenol and acetone
“Ktpa”	thousand tons per annum
“linear low-density polyethylene”	a substantially linear polyethylene polymer commonly made by copolymerization of ethylene with longer-chain olefins
“LNG”	also known as liquefied natural gas, a gas comprised predominantly of methane that has been converted to liquid form for ease of storage or transport
“low density polyethylene”	also known as LDPE, a thermoplastic made from the monomer ethylene, widely used in the plastics industry
“low-level heat recovery”	the process of recovering heat generated during oil refining and chemical production, for use in other applications and processes, such as generating electricity
“methanol”	methanol is used to produce the industrial chemical formaldehyde, fuel or fuel additives and olefins such as ethylene and propylene
“methanol to olefins” or “MTO”	a process for producing olefins from methanol

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## GLOSSARY OF TECHNICAL TERMS

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“modularized installation”	a method for installing components of a structure where the subassemblies of the component are integrated to the highest degree possible before the component is installed in the plant
“Mt”	million tons
“MTBE”	also known as methyl tert-butyl ether, used in gasoline as an octane booster and oxygenate. MTBE can also be used to make high purity isobutylene for butyl rubber and polyisobutylene production and employed as a solvent and extractant
“Mtpa”	million tons per annum
“naphtha”	intermediate hydrocarbons derived from the refining of crude oil. Naphtha can be used as a feedstock for producing high octane gasoline via catalytic reforming and in the petrochemical industry for producing olefins in steam crackers
“natural gas to liquid fuel” or “GTL”	a process in oil refineries which converts natural gas into longer-chain hydrocarbons such as gasoline or diesel fuel
“new coal chemicals”	industry processes including the conversion of coal to oil products, natural gas or oil alternatives for use as raw materials for the production of olefins and other basic organic materials
“OBE” or “open book estimate”	a method of providing engineering and construction services whereby the general contractor provides all of its working documentation to the client for review so that the client may assess the total scope of work to be delivered in order to negotiate an EPC contract
“oil refining and petrochemical integrated engineering”	the application of technology and scientific principles to the integration of processes traditionally associated with oil refining, such as producing various types of oil products, with petrochemical processes traditionally carried out downstream, such as producing ethylene and propylene
“olefin”	also known as an alkene, an unsaturated hydrocarbon. The simplest olefin is ethylene. Other olefins include propylene, butene, among others
“phenol-acetone”	two chemicals used to make products in industries such as pharmaceuticals, plastic, clothing and textiles, automotive components and household appliances



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## GLOSSARY OF TECHNICAL TERMS

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“phosphate compound fertilizer”	various fertilizers based on phosphate compounds important in the agricultural sector
“polyethylene”	a thermoplastic polymer consisting of ethylene. Polyethylene is the world’s most widely-used plastic
“polyolefin”	a polymer produced from a simple olefin as a monomer. Common polyolefins include polyethylene, produced from polymerizing ethylene, and polypropylene, produced from polymerizing propylene
“polypropylene”	a thermoplastic polymer used in a wide variety of applications including packaging and labeling, textiles, plastic parts and reusable containers of various types, among others
“potassium hydroxide”	an inorganic compound with many industrial and niche applications, such as the production of soft and liquid soaps and the removal of organic acids and sulfur compounds in petroleum and natural gas refining
“pressure vessels”	closed containers designed to hold gases, liquids or solids at a pressure substantially different from the ambient pressure
“propylene”	also known as propene, a hydrocarbon with the formula $C_3H_6$ , which is the second simplest alkene (a hydrocarbon with carbon-carbon double bonds) and widely used in the chemical industry. Propylene is the raw material for a wide variety of products
“PTA”	purified terephthalic acid, a key raw material for the manufacture of polyester fiber, resin, and film; used to produce polyethylene terephthalate, or PET
“p-Xylene” or “PX”	an aromatic hydrocarbon used in the manufacture of terephthalic acid, which is in turn used to produce polyester
“pyrolysis gasoline hydrotreating”	subjecting pyrolysis gasoline, a naphtha-range liquid by-product of ethylene and propylene production with a high aromatics content, to chemical reaction with hydrogen in the presence of a catalyst to increase saturation and decrease sulfur- and nitrogen-containing compounds to enable it suitable for use as a gasoline additive
“reactors”	vessels, tubes, pipes or other containers within which a chemical reaction is made to take place; such reaction can be a batch or a continuous reaction and can use thermal, catalytic or irradiation actuation

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## GLOSSARY OF TECHNICAL TERMS

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“residue”	the heaviest fractions in crude oil, comprised of hydrocarbon chains with over 26 carbon atoms, which are generally further processed after initial distillation of the crude oil to create lighter fractions or petroleum coke
“rotating equipment”	equipment used in oil refineries and chemical plants that have significant rotating parts, such as pumps, compressors and turbines, and stand in contrast to equipment with no significant rotating parts, such as heat exchangers, reactors and pressure vessels and other static equipment. See “static equipment”
“seam gas”	a form of natural gas extracted from coal seams, or coal beds
“shale gas”	natural gas that is present in shale, a type of sedimentary rock, that is generally harvested through a process of hydraulic fracturing
“single-train oil refinery”	an oil refinery that comprises only one of each key functional unit
“SMTO”	Sinopec methanol to olefins. See “methanol to olefins”
“static equipment”	equipment used in oil refineries and chemical plants that do not have significant rotating parts, such as heat exchangers, reactors, pressure vessels, condensers, furnaces, piping systems, towers (columns) and storage tanks, and stand in contrast to equipment with significant rotating parts, such as pumps, compressors, turbines and other rotary equipment. See “rotating equipment”
“steel structures”	the structural framework for many of the processing units and piping systems in an industrial plant
“storage and transportation engineering”	the application of technology and scientific principles to the planning, functional design, operation and management of facilities for any mode of storage and transportation in order to provide for the safe, convenient, economical and environmentally compatible movement of goods, including the use of tanks, tankers and pipelines for the storage and transport of crude oil and oil and chemical products
“syngas”	synthesis gas, a gas mixture that contains varying amounts of carbon monoxide and hydrogen, produced by the steam reforming of natural gas or by the gasification of coal
“t/d”	tons per day

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## GLOSSARY OF TECHNICAL TERMS

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“towers”	general term for various columns which comprise units of oil refineries and chemical plants used for split process
“vinyl acetate”	an organic compound used in the production of polyvinyl acetate, an important industrial polymer
“Xylene tower”	a unit in an oil refinery or petrochemical plant designed to split Xylene isomers from other fractions

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## FORWARD-LOOKING STATEMENTS

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This prospectus contains forward-looking statements that are not historical facts, but relate to our plans, intentions, beliefs, expectations and predictions for the future, particularly under the sections headed “Summary”, “Risk Factors”, “Industry Overview”, “History, Reorganization and Corporate Structure”, “Business”, “Regulations”, “Relationship with Controlling Shareholders”, “Connected Transactions”, “Financial Information” and “Future Plans and Use of Proceeds.” By their nature, these forward-looking statements are subject to risks and uncertainties.

These forward-looking statements in this prospectus include, without limitation, statements relating to:

- the competition in the market in which we operate;
- our operations and business strategies;
- general domestic and global economic conditions, including those related specifically to China;
- changes in the regulatory policies of the PRC government and other relevant government authorities relating to the industries discussed herein and their potential impact on our business;
- the effects of domestic and overseas competition in our industry and their potential impact on our business;
- changes in pricing for our services;
- changes in the availability of, or requirements for, financing;
- changes in regulations and restrictions;
- our ability to expand and manage our business and to introduce new services;
- future development, trends and conditions in the industry in which we operate;
- changes in political, economic, legal and social conditions in the PRC, including specifically, the PRC government’s policies with respect to economic growth, inflation and foreign exchange;
- macroeconomic measures taken by the PRC government to manage economic growth;
- changes in restrictions on foreign currency convertibility and remittance abroad;
- fluctuations in exchange rates and interest rates;
- our financial condition and performance;

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## FORWARD-LOOKING STATEMENTS

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- our ability to implement our business strategy, plans objectives and goals;
- our expansion and capital expenditure plans;
- our dividend policy;
- certain statements in the sections headed “Business” and “Financial Information” in this prospectus with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this prospectus that are not historical facts.

In addition, statements regarding our future financial position, strategy, projected costs and the plans and the objectives of our management for future operations are forward-looking statements. In some cases, we use words such as “aim”, “continue”, “predict”, “propose”, “believe”, “seek”, “intend”, “anticipate”, “estimate”, “project”, “forecast”, “target”, “plan”, “potential”, “will”, “would”, “may”, “could”, “should” and “expect”, and the negatives of these words and other similar expressions, to identify forward-looking statements.

These forward-looking statements reflect our current views on future events but are not assurance of future performance, and will be affected by certain risks, uncertainties and assumptions, including the risk factors mentioned in this prospectus. The possible occurrence of one or more relevant risk factors or uncertainties, or the potential inaccuracy of the relevant assumptions, may cause actual results, performance or effects or industry results to differ materially from any future results, performance or presentation indicated expressly or implicitly in the forward-looking statements.

These forward-looking statements are based on current plans and estimates, and speak only as at the date they are made. We undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise, except as required by law and the Hong Kong Listing Rules. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statements.

Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to these cautionary statements.

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## RISK FACTORS

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*You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. You should pay particular attention to the fact that we are a PRC company, that most of our business is conducted in the PRC and that we are governed by a legal and regulatory environment which in some respects may differ from those in other countries. There are risks associated with investing in our H Shares not typical of investment in the capital stock of companies incorporated and/or engaging business in Hong Kong or the United States. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our H Shares could decline owing to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, please see “Regulations” and “Appendix V — Summary of Principal Legal and Regulatory Provisions” to this prospectus. Additional risks and uncertainties not presently known to us or which we currently deem immaterial may arise or become material in the future and may have a material adverse effect on us.*

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business and our industry; (ii) risks relating to doing business in the PRC; and (iii) risks relating to the Global Offering.

### **RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY**

*Demand for our services may be adversely impacted by conditions in the industries in which our clients operate.*

Our business is affected by cyclical changes and the general level of activities in the industries in which our clients operate, including but not limited to the oil refining, petrochemical, new coal chemical, natural gas chemical and other chemical industries. Fluctuations in prices of oil, coal, natural gas and other forms of energy, and the global demand for commodities such as oil, coal, natural gas and chemical products, may affect our clients’ demand for our engineering and construction services, which in turn will affect our business. As a result, our past results of operations have varied, and our future results of operations may continue to vary depending upon the future demand for engineering and construction services of the industries in which our clients operate.

Adverse global economic conditions may negatively impact our clients’ ability to raise funds for projects and their willingness to invest in new projects. This may cause our clients to reduce their capital expenditures, change the types of services purchased or seek more favorable pricing and other terms in their contracts with us. Moreover, our clients may be unable to predict the timing, impact or duration of any economic slowdown or subsequent economic recovery globally and in the regions in which they operate. As a result, they may find it difficult to accurately forecast and plan future business activities and may therefore reduce the scale and slow the pace of their investments, resulting in a reduction in demand for our services.

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## RISK FACTORS

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In recent years, a number of international, national and regional measures limiting greenhouse gas emissions have been enacted around the world. For example, more than 180 nations are signatories to the United Nations Framework Convention on Climate Change, commonly known as the “Kyoto Protocol.” Implementation of the Kyoto Protocol and other potential legislation limiting greenhouse emissions could affect the global demand for fossil fuels. In addition, several countries, including the PRC, have “taken note” of the Copenhagen Accord, a voluntary non-binding agreement to work cooperatively toward curbing global climate change. If the PRC or other countries in which we operate or seek to operate enact legislation focused on reducing greenhouse gases or imposing more stringent environmental protection requirements, either independently or in response to the Kyoto Protocol, the Copenhagen Accord or any successor agreement, our clients in the oil refining, petrochemical, new coal chemical and natural gas chemical industries may require substantial capital expenditures for compliance with such laws and standards. While such compliance requirements could bring us new business opportunities, the increase in cost for each individual project may affect our clients’ willingness to make investment generally, which could ultimately lead to a reduction in demand for our services and adversely impact our revenue and strategic growth opportunities.

Policies and measures to encourage the development and utilization of alternative energy have been implemented in certain regions, including some European countries (notably Germany and Spain), Asian countries (including China, Japan and Korea), Australia and the United States. We cannot predict whether various governments will enhance the degree and scope of existing incentives with respect to alternative energy. If the PRC or other countries and regions in which we operate or seek to operate adopt policies and measures to encourage the development of alternative energy (including renewable energy such as wind energy, solar energy, hydro power and geothermal energy), the development of conventional energy industries in which many of our clients operate may be affected, which will have a material adverse impact on our business. The demand for our services is strongly correlated with the competitiveness of conventional energy (such as oil, coal and natural gas) in the overall energy market, which is affected by the supply and pricing of alternative energy. Conventional energy is currently more competitively priced than alternative energy in the absence of government subsidies. If the price of conventional energy increases relative to the price of alternative energy, or if alternative energy providers and users make technological breakthroughs or enjoy new government subsidies or economic incentives that could lower their pricing, our clients in the conventional energy industries may have difficulty competing with alternative energy providers and users, which could have a material adverse impact on our business, financial condition and results of operations.

***Most of our revenue is derived from a limited number of major clients, including our Controlling Shareholder, and any decrease in orders from these clients could have a material and adverse effect on our business.***

The industries in which our clients operate are capital- and technology-intensive, with high barriers to entry. As a result, these industries are relatively concentrated. We depend on a limited number of major clients for a significant portion of our business. For the years ended December 31, 2010, 2011 and 2012, revenue derived from our five largest clients together accounted for 67.6%, 59.5% and 62.6%, respectively, of our total revenue. In particular, for the years ended December 31, 2010, 2011 and 2012, revenue derived from our Controlling Shareholder and its associates represented 66.1%, 55.1% and 50.2% of our total revenue, respectively. Our business is subject to potential risks

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## RISK FACTORS

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associated with the dependence on a limited number of major clients. If our major clients choose to purchase from our competitors, experience financial difficulties or decrease their orders for our services for other reasons, we may in turn experience material fluctuations or declines in our revenue. Although we plan to expand our client base and endeavor to secure more new clients for our domestic and overseas operations, there can be no assurance that our plan will be implemented successfully or will achieve any positive results in the short term. We anticipate that we will continue to provide services to and generate a significant portion of our revenue from our major clients in the future. However, there is no assurance that we will be able to generate significant revenue from any of our current major clients in the future, or that we will be able to continue to provide services to these clients at current levels or at all. Any failure to maintain our existing client relationships or to expand our existing client base could materially and adversely affect our results of operations.

***The uncertainty of the global economic conditions could have a material adverse impact on our financial condition and results of operations.***

The global economy as a whole has experienced a slowdown in recent years due to factors such as the Eurozone debt crisis and resulting pressure on global financial markets. The economic growth of major emerging economies such as the PRC has also slowed down. According to the NBSC, the annual GDP growth rate in the PRC decreased from 10.4% in 2010 to 9.2% in 2011 and further decreased to 7.8% in 2012. Uncertainties in the PRC and global economies could have adverse impact on our financial condition and results of operations in several aspects. For instance, during economic downturn, our clients or other counterparties may face financial constraints, or even the risk of bankruptcy, resulting in an increasing likelihood of default or delinquent payment by our clients or other counterparties, which could have an adverse impact on our results of operations and financial condition. Uncertainty in global economic conditions may also negatively impact our clients' ability to fund their projects and their willingness to develop new projects, which may lead to a reduced demand for the services we provide. Moreover, we may not be able to raise additional capital on favorable terms or at all, which could have an adverse impact on our business.

We are unable to predict the timing, impact or duration of any economic recession or subsequent economic recovery globally and in the regions in which we operate. As a result, we may find it difficult to predict and plan future business activities. A continuation or further weakening of current economic conditions could have a material adverse impact on our business, financial condition and results of operations.

***The industries in which we and our clients operate are influenced by policies and measures of the PRC government, governments of other countries where we have operations and international and regional organizations, as well as by public opinion. Adjustment or changes to these policies, measures or public opinion could have an adverse impact on our business.***

Government policies generally have significant impact on the oil refining and chemical industries, especially with respect to engineering and construction of oil refineries and chemical plants. The PRC government and governments of other countries in which we operate implement various industry policies and other economic measures, such as those relating to government spending, credit and financing, use of land, governmental approval for new projects, environmental protection, production safety, technological and capacity requirements for operation facilities, industry entry and



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## RISK FACTORS

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foreign investment. These policies and economic measures may significantly impact capital expenditures of the oil refining and chemical industries and subsequently clients' demand for our services. The nature, scale and implementation of these policies and measures may be affected by various factors, including environmental and economic consideration and public opinion. In addition, the PRC government and governments of other countries in which we operate may, from time to time, adopt new policies and economic measures or amend existing policies and economic measures affecting requirements for the oil refining and chemical projects. There is no assurance that we will be able to adjust our services, provide new services, develop new technologies or otherwise react promptly to the industry policies and economic measures affecting our business. If we fail to do so in an effective and timely manner, our business, financial condition and results of operations could be adversely affected. Additionally, changes in the public perception of oil refining and chemical projects may affect governmental approval for such projects and the construction of these projects, which could have an adverse impact on our business and our clients' businesses.

In addition, any adjustment or change to the policies and measures of international and regional organizations may have an impact on our business and our clients' businesses. For instance, the Organization of the Petroleum Exporting Countries ("OPEC"), which is responsible for the overall coordination of petroleum policies of each major petroleum exporting country, can exert great influence over international oil prices, which could affect the costs of our clients' products and their demand for our services. Furthermore, the industrial standards and codes we follow in carrying out engineering and construction operations are subject to change from time to time. We may not be able to promptly react to changed standards and codes. We and our clients may not be able to accurately predict the policies adopted by these international or regional organizations and may not be able to promptly react to changed policies, which could have an adverse impact on our business, financial condition and results of operations.

***We may not be able to successfully develop or adopt new technologies in a timely manner. In particular, our investments in R&D may not yield any positive results as we expect, which could affect our ability to maintain our leading position in technologies and meet the changing demands of our clients.***

Our future business success will largely depend on our ability to achieve continual technology innovation and meet changing market trends and evolving client demand. Accordingly, we need to understand, predict and adapt to changing market trends, develop or adopt competitive technologies and apply our technological innovations to the development of our services and products in a timely manner. There is no assurance that our efforts in this regard will succeed. If we fail to develop or adopt new technologies in a timely manner to meet the changing demands of our clients in the future, or if our clients or competitors have developed or adopted advanced technologies which are more effective or more commercially attractive, our licensing business may be adversely affected and we may lose other business opportunities, which may materially and adversely affect our business, financial condition, results of operations and future development.

In addition, to maintain and enhance our competitive advantages, and to facilitate the continuing growth of our business, we plan to design, develop and provide to clients more cost-effective services to meet ever-changing market demands. The development of new technologies requires substantial amount of time, capital and other resources but may not generate revenue in line with our

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## RISK FACTORS

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expectations. For the years ended December 31, 2010, 2011 and 2012, our expenses relating to R&D were approximately RMB411.8 million, RMB504.3 million and RMB547.6 million, respectively. We expect to continue to invest in R&D in the future. For instance, we plan to use the proceeds from the Global Offering to establish various R&D centers. However, R&D activities involve uncertainties. The use of new technologies, innovative engineering designs and construction methods could also result in implementation failures, unexpected increases in costs and unstable conditions which could adversely affect the planning and profitability of our projects. We cannot guarantee that our investments and efforts in R&D can achieve positive results as we expect. In particular, there is no guarantee that the R&D centers established with the proceeds from the Global Offering can achieve the anticipated operating results. If we fail in our efforts in R&D, our financial condition and results of operations may be materially and adversely affected.

*If we are unable to accurately estimate or control our costs for projects, or there are substantial changes to the scope of work we are required to perform, we may incur additional expenses, which could adversely affect our profitability and could give rise to contract disputes.*

In most circumstances, we enter into long-term contracts on a fixed-price basis for our engineering, consulting and licensing, EPC Contracting, construction and equipment manufacturing businesses. We are sometimes responsible for our own related costs and risks pursuant to the contracts. Our profitability is largely dependent on our effective cost control. Cost overruns may result in lower profit margin or even losses in a project. Total costs incurred in any project are influenced by a variety of factors, including but not limited to climatic conditions, availability of labor, materials and equipment, production efficiency, changes in project scope or conditions, fluctuations in the prices of materials, components and equipment, performance of subcontractors, exchange rate fluctuations and changes in monetary policy, many of which may be beyond our control. In addition, it may be difficult for our clients to obtain government permits or approvals which may result in delay to our project schedule, or we may face schedule delays due to technical bottlenecks which may result in an increase of our costs. Increases in costs in any particular project, especially to the extent that such increases were unforeseen at the time when we entered into the contract and that such increases are not factored into the initial pricing and are not otherwise passed to our clients, may lead to lower-than-expected profits or even losses for us, which could materially and adversely affect our business, financial condition and results of operations.

Some of our contracts contain price adjustment clauses, allowing us to adjust the price for additional costs incurred due to unexpected increases in costs of materials, components and equipment. Even in such cases, however, we typically are required to bear a certain portion of the increased costs. In addition, many of our contracts do not contain such price adjustment clauses.

The scope of work we are required to perform in relation to a contract is also subject to change. From time to time, our clients may require us to perform additional work pursuant to changed orders, even in situations which the client has not agreed in advance on the scope or the price of the work to be performed. We cannot assure you that we will be able to recover costs in full or at all for such

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## RISK FACTORS

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additional work that we undertake on our contracts, which could adversely affect our business, financial condition and results of operations. Moreover, the performance of such additional work pursuant to changed orders may have a negative impact on our ability to meet the specified deadlines of our other projects.

We occasionally bring contract claims or enter into other disputes against our clients to recover additional costs exceeding the original contract price or for expenditures not included in the original contract price. These claims and disputes usually arise from matters such as delays caused by the client or deviations from the initial project scope, which may result in additional costs to us, both direct and indirect. These claims are often subject to lengthy arbitration or litigation proceedings, and it is often difficult to predict when or how these claims will be fully resolved. See “— The outcome of pending and future claims and litigation could have a material adverse impact on our business, financial condition and results of operations.” When such events occur and unresolved claims are pending, we may invest significant working capital in these projects or legal proceedings pending the resolution of the relevant claims. Failure to promptly recover on these types of claims could have a material adverse impact on our liquidity and financial condition. Moreover, such disputes may have an adverse impact on our business, results of operations and prospects.

***Our backlog may not be a reliable indicator of our future results of operations.***

In this prospectus, we have provided contract backlog figures that represent the total estimated contract value of work that remains to be completed pursuant to the terms of outstanding contracts as of a certain date. As of December 31, 2012, we had an aggregate backlog of approximately RMB76.05 billion. This figure is net of estimated value added tax and based on the assumption that the relevant contracts will be performed in accordance with their terms. Any modification, termination or suspension of these contracts by our clients, especially with regard to any one or more sizeable contracts, may have a substantial and immediate effect on our backlog. Projects may also remain in our backlog for an extended period of time beyond what was initially anticipated due to various factors beyond our control. Adding new contracts may also have a direct impact on our backlog. Moreover, backlog is not a measure defined by generally accepted accounting principles. Due to various reasons, including some projects commencing and ending within a short period of time, not all revenue will be recorded in the backlog information. Therefore, our backlog information only reflects the general volume of our future projects under contract and may not be indicative of future operating results. See “Business — Backlog and new contract value — Backlog.” In addition, as of December 31, 2012, we received letters of intent to engage us to work on several engineering, consulting and EPC Contracting projects with a total contract value of approximately RMB14.43 billion. Such letters of intent do not have binding legal effect on the signing parties. We cannot guarantee that the estimated amount of our backlog will be realized in time, or at all, or that even if realized, such amounts will result in profits for us. As a result, investors shall not unduly rely on our backlog information or consider it as a reliable indicator of our future profits or results of operations.

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## RISK FACTORS

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*We could be materially and adversely affected as a result of our operations in certain countries that are subject to evolving economic sanctions of the United States government, the United Nations Security Council, the European Union and other relevant sanctions authorities.*

The U.S. and other jurisdictions, including the European Union, Australia and the United Nations, have comprehensive or broad economic sanctions targeting the Sanctioned Countries. For details of the relevant sanctions laws, see “Regulations — Descriptions and Impact of Sanctions Laws.”

We historically had certain operations in certain of the Sanctioned Countries and our revenue derived therefrom in aggregate accounted for 5.0%, 4.4% and 2.8%, respectively, of our total revenue for the years ended December 31, 2010, 2011 and 2012. For details of the projects, see “Business — Historical Operations in the Sanctioned Countries — Projects in the Sanctioned Countries.” All the related obligations and payments under all of our projects in the Sanctioned Countries have been fully completed and settled. In relation to those contracts, we have not been notified that any sanctions will be imposed on us. No U.S. individuals employed by us or U.S. companies with which we conduct business are involved in the supply of our products and services to the Sanctioned Countries, and we are not involved in re-exporting goods of U.S. origin to the Sanctioned Countries.

As a company incorporated and based in China, we will comply with all PRC laws and applicable laws in the jurisdictions where we have operations. We believe we are not directly subject to compliance with OFAC regulations as a U.S. person as we do not conduct business in or through the U.S. (except for one U.S. subsidiary incorporated in February 2012, which has not been involved with our historical operations in the Sanctioned Countries). However, if any of our transactions is conducted in or through the U.S., or otherwise involves U.S. persons or U.S.-origin goods, OFAC regulations will be applicable to such transaction, and U.S. extraterritorial sanctions may effectively prohibit in certain circumstances non-U.S. persons from interacting with the U.S. market. If such sanctions were imposed on us, our business and your investment in us could be impacted.

We cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels or any policy by the European Union, Australia, the United Nations and other applicable jurisdictions with respect to any current or future activities by us or our affiliates in these countries. We have no present intention to undertake any future business that would cause us, the Hong Kong Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders to violate or become a target of sanctions laws of the European Union, the United Nations, U.S. or Australia. However, we can provide no assurances that our future business will be free of risk under U.S. sanctions or that we will conform our business to the expectations and requirements of U.S. authorities or the authorities of any other government that does not have jurisdiction over our business but nevertheless asserts the right to impose sanctions on an extraterritorial basis. Our business and reputation could be adversely affected if the government of the U.S., the European Union, the United Nation Security Council or any other governmental entities were to determine that any of our activities constitute violations of the sanctions they impose. In addition, because many sanctions programs are evolving, new requirements or restrictions could come into effect which might increase scrutiny on our business or result in one of or more of our business activities being deemed to violate sanctions. In addition, certain U.S. state and local governments and universities have restrictions on the investment of public funds or endowment funds, respectively, in companies that are members of corporate groups with activities in

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## RISK FACTORS

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certain countries that are subject of U.S. sanctions, such as Iran, Cuba and Myanmar. As a result, concern about potential legal or reputational risk associated with our historical operations in Iran, Cuba and Myanmar could also reduce the marketability of the Offer Shares to particular investors, which could affect the price of our Offer Shares and your investment in us, despite our commitment not to direct the proceeds from the Global Offering to dealings with sanctioned parties. Before investing into our Shares, you should consider if such investment would expose you to any OFAC or sanctions law risk arising from your nationality or residency. Any of these events could have an adverse effect on the value of your investment in us.

***We rely on subcontractors, including other third parties, to provide support for our projects, which may subject us to associated risks.***

In our operations, we often engage subcontractors, including other third parties, to provide additional support for our projects. However, qualified subcontractors may not always be readily available when we require support. If we are unable to hire qualified subcontractors or additional temporary laborers, our ability to complete our current projects on time or undertake additional projects could be impaired. Additionally, if the cost for subcontractors rises, our profitability may be affected, particularly to the extent that such increases cause our costs to exceed what we estimated when pricing our fixed-price contracts with clients. In addition, we may not be able to monitor the performance of a subcontractor as directly and efficiently as we monitor our own employees. We may have to find a replacement in the case of any failure on the part of a subcontractor to perform its contractual obligations with quality, which may result in delay and increased costs, affecting the profitability of the relevant projects. Where a subcontractor fails to meet our standards, the overall quality of the project may be affected. This could harm our reputation and potentially expose us to litigation and claims for damages, in which case our business, financial condition and results of operations could be materially and adversely affected.

In addition, we may also be subject to claims arising from defective work performed by subcontractors. While we may attempt to seek indemnity from the relevant subcontractors, the subcontractors may not be able to perform or timely perform their obligations and we may be required to compensate our clients before recovering the amount from the subcontractors. Moreover, warranty periods provided by subcontractors may be shorter than the warranty period we provide to our clients, and warranty claims against subcontractors may be subject to certain conditions precedent that are not easily satisfied. If no claim can be asserted against a subcontractor, or amounts that we claim cannot be recovered from the subcontractors, we may be required to bear client claims to the extent that such amounts are not covered by insurance coverage (if any), in which case our business, financial condition and results of operations could be materially and adversely affected. Although we carefully select subcontractors based on factors such as qualifications, financial strength, product and service quality and past cooperation, we cannot guarantee that the aforementioned risks can be avoided.

***Our clients and other contractual counterparties may not be able to fulfill their contractual obligations to us, which could negatively impact our working capital, cash flow and results of operations.***

Most of our EPC Contracting and construction projects, including our overseas projects, take a long period of time to complete. Therefore, the contracts for our EPC Contracting business generally

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## RISK FACTORS

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require our clients to make payments to us in installments upon our achieving certain project milestones, and the contracts for our construction business generally require our clients to make progress payments on a regular basis. See “Business — EPC Contracting — Business Process and Contract Terms” and “Business — Construction — Business Process and Contract Terms.” Delays in or failures to make payment by our clients may negatively influence our cash flow position and our ability to meet our working capital requirements. In addition, we incur costs associated with a project — primarily materials, equipment and labor costs — on an ongoing basis, and quite frequently at the beginning of a project or before achieving relevant project milestones. In respect of the projects on which we have already incurred significant costs and expenditures, clients’ defaults in making payments could materially and adversely affect our results of operations and reduce our working capital that would otherwise be available for other projects.

Additionally, approximately 5% of the contract value is typically withheld by our clients as retention deposits against any possible defects in the quality of our work and will only be released after expiration of the warranty period, which typically lasts one to two years after completion of a project. As a result, we are often required to bear some costs and expenditures for projects prior to receiving sufficient payment from our clients to cover such costs and expenditures. Furthermore, our clients generally require us to provide advance payment guarantees and performance guarantees in an amount equal to approximately 5% to 15% of the contract value to secure our contractual obligations. If our clients make demand on such guarantees, claiming that we have failed to perform our obligations (whether or not such claims are meritorious), or if our clients delay or refuse to repay retention deposits, our liquidity could be materially and adversely affected in a direct or indirect way. See “Business — EPC Contracting — Business Process and Contract Terms.”

As a result of the foregoing, we may have substantial receivables on any particular date. As of December 31, 2010, 2011 and 2012, our total notes and trade receivables were RMB3,621.0 million, RMB4,809.4 million and RMB6,074.4 million, respectively. Any default in payments of receivables and progress payments or delays in payments of retention deposits owed to us or any unilateral demands on performance and quality guarantees from us by our clients may lead to a decrease of working capital available for our other operations. While we may file claims against clients for uncompensated costs we have incurred pursuant to our contracts, dispute resolutions may require significant time, financial and other resources, and the outcome is often uncertain. See “— The outcome of pending and future claims and litigation could have a material adverse impact on our business, financial condition and results of operation.” In general, we make provisions for bad debts relating to both on-going and completed projects primarily based on the period of delay in payment and other factors affecting the perceived likelihood of collection on the receivables. We cannot assure you that our clients will make payments to us in full on a timely basis or that we will be able to efficiently manage the level of bad debt arising from receipt of payments in installments.

In addition, we face the risk that our clients may be unable to perform their contractual obligations to us due to failure to obtain sufficient funding for project development, general financial difficulties or other reasons. In particular, many of our clients require bank financing for EPC Contracting and construction projects. Accordingly, the availability and terms of financing in the market have a significant influence on clients’ demand for our services. To the extent there is instability in the credit markets, the availability of credit may be limited and it may be relatively

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## RISK FACTORS

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difficult or expensive to obtain financing. This situation could negatively impact our clients' ability to fund their projects and purchase our services. Accordingly, if our clients are unable to obtain financing in a timely manner or at a reasonable cost, relevant projects may be adversely affected, and our financial performance and prospects may be materially and adversely affected.

Furthermore, the counterparties to our credit agreements may suffer liquidity constraints or financial distress, which may prevent them from fulfilling their obligations under our agreements and adversely affect our cash flows. We also routinely enter into contracts with counterparties including vendors, suppliers and subcontractors that may be negatively impacted by the credit market. If those counterparties are unable to perform their obligations to us or our clients, we may be required to provide additional services or make alternate arrangements on less favorable terms with other parties to ensure adequate performance and delivery of services to our clients. Moreover, we may be subject to disputes brought by clients, subcontractors or suppliers that seek to avoid payment to us of costs exceeding forecasted expenditures or who deny their obligation to perform certain duties under their contracts with us. These circumstances could also lead to disputes and litigations with our clients or other contractual counterparties, which could have a material adverse impact on our reputation, business, financial condition and results of operations.

***Our business and operations require capital resources on an ongoing basis. Any failure to obtain sufficient funding may adversely affect our business, financial performance, growth prospects and expansion plans.***

We require capital resources to fund our business and to purchase necessary equipment. In addition, pursuant to some of our EPC Contracting and construction contracts, we are required to bear costs and expenditures relating to projects prior to receiving full payment from our clients to cover such costs and expenditures. Furthermore, we expect to invest in certain projects to capture more EPC Contracting business opportunities, and selectively provide “build and transfer” (“BT”) and “build, operate and transfer” (“BOT”) services to clients for certain projects, which require substantial working capital expenditure over extended periods of time. Further growth of our operating scale and expansion into new business areas and new geographic markets may also call for increased capital expenditures, further increasing our capital requirements.

To the extent that our capital requirements exceed our financial resources, we will be required to seek additional debt or equity financing or to defer planned expenditures. We have historically financed our working capital requirements and capital expenditures primarily with cash generated from our operations and through external financing, including bank and other borrowings. Our ability to obtain external financing in the future and the cost of such financing are subject to a variety of uncertainties, including but not limited to:

- the overall condition of financial markets;
- potential changes in monetary policies with respect to bank interest rates and lending policy;
- our ability to obtain the PRC government approvals required to obtain domestic or international financing; and

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- the performance of our operations.

Any adverse change in our cash flows generated from our operations may weaken our financial condition and adversely affect our ability to obtain external financing in a timely fashion or on terms acceptable to us. If we are unable to obtain sufficient financing on a timely basis and at a reasonable cost, our business, financial condition and results of operations could be adversely affected.

***We engage in a highly competitive business, especially in the overseas markets. If we fail to obtain new contracts, we could lose market share and our business, results of operations and financial condition could be materially and adversely affected.***

We face increasingly intense competition in the business we operate, especially in the overseas market. See “Business — Competition.” Factors affecting our competitive position include the quality of our products and services, the reliability of our contract performance, technology and the price of our services. Some of our international competitors may have advantages in financial, sales and marketing, R&D, personnel and other resources. Our competitors may also respond more quickly to changes in technology or client demand, or offer similar services at lower prices, and may have advantages over us in technology, management, financing channels and high-end business. Moreover, most of our existing or prospective clients are large oil refining and chemical companies, some of which may leverage their financial and technological advantages to expand their business and offer services and solutions similar to those offered by us, thereby becoming our competitors.

Furthermore, a substantial portion of our overseas revenue is generated from large-scale international projects awarded to us. These projects often involve complex and lengthy negotiations, and tendering and bidding processes, which can be impacted by a wide variety of factors, including governmental approvals, financing contingencies, commodity prices, environmental conditions and overall economic conditions. Consequently, whether we are permitted to bid on projects, the timing of announcing the winning bids and other similar issues are often beyond our control. Moreover, we may not be successful in winning project awards we bid on due to uncompetitive bidding price, lack of client’s confidence in our ability to perform and/or technological advantages held by our competitors. If we are unable to win bids for such large-scale international projects and our overseas market share shrinks as a result, our revenue and results of operations could be materially and adversely affected.

All of the foregoing factors and any adverse or unforeseen change in our competitive environment may have a material and adverse effect on our business, financial condition, results of operations and prospects.

***Our overseas operations are subject to economic cycles, political uncertainties, security risks and other risks which could materially and adversely affect our employees, overseas expansion, overall financial condition and profitability.***

We conduct an increasing part of our operations in foreign countries and regions, including less developed areas. For the years ended December 31, 2010, 2011 and 2012, revenue generated from our overseas operations accounted for approximately 11.8%, 13.9% and 16.9%, respectively, of our total revenue. Going forward, we expect that an increasing portion of our revenue will be derived from our



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overseas operations. Our business is therefore subject to changing and unstable international economic and political conditions and local conditions in the jurisdictions in which we have operations, including the Middle East, Central Asia, Southeast Asia, Africa and South America. In particular, any changes in the diplomatic and economic relations between the PRC government and governments of regions where we have operations could adversely affect our operations in such regions.

Our overseas operations also expose us to a number of risks, including but not limited to: expropriation and nationalization of our assets in foreign countries, civil unrest, acts of terrorism, war or other armed conflicts, sanctions imposed by certain countries against transactions with other countries in which we have operation, inflation, fluctuations in the exchange rates, devaluations and conversion restrictions with regard to the local currency of the jurisdictions where we have operations (such as the Saudi riyal) and any other foreign currencies (such as the U.S. dollar and Euro), confiscatory taxation or other adverse tax policies, government activities that limit or disrupt markets, restrict payments or limit the movement of funds, government activities that may result in deprivation of contract rights, lack of a well-developed legal system that makes it difficult to enforce our contractual rights, and government activities that may result in our inability to obtain or retain licenses required for our operations.

To the extent that we have employees or operations in high-risk regions, we may incur significant costs for the purchase of insurance and other measures to protect our personnel and assets. We cannot assure you that our measures aimed at protecting our personnel and assets overseas will always be sufficient and effective. To the extent that our business is affected by unexpected, uncontrollable and adverse economic, political and social conditions, we may experience project disruptions, loss of assets, difficulty in recovering payments and other receivables, employee casualties and other direct or indirect losses, which could adversely affect our business and results of operations.

In addition, we cannot assure you that the proceeds of the Global Offering used for our overseas expansion, such as the establishment of the overseas marketing network, will lead to expected operating results.

***Our operations depend on the adequate and timely supply of equipment, materials and energy at acceptable prices and quality, which may subject us to related risks.***

Our successful operations depend on our ability to obtain sufficient equipment, materials and energy from suppliers at commercially acceptable prices and quality in a timely manner. We are exposed to the market risk of price fluctuations for certain materials, equipment and components. The prices and availability of such products may vary significantly from period to period due to factors such as consumer demand, production capacity, market conditions and costs of materials. In particular, certain equipment, electrical components, instruments, steel components, welding materials and other items required for our operations may be subject to substantial price cyclicality and periodic shortages. In addition, we procure certain equipment and components, such as electrical components and steel components, prices of which may fluctuate with the prices of the underlying raw materials such as steel and copper, among other things. Fluctuations in the prices of the underlying raw materials may indirectly impact the prices of equipment and components procured for our operations. Increases in prices or unavailability or interruption in the supply of any of these essential materials

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or equipment could materially and adversely affect our business. Furthermore, our suppliers may delay their delivery of the equipment and materials that we purchase, which may lead to delays in our project schedule. We may also be subject to warranty claims as a result of defective equipment and materials provided by our suppliers.

We do not enter into long-term supply contracts for certain materials, components and equipment and are therefore exposed to the risk of substantial price fluctuations of such items. Moreover, we are sometimes required to work with suppliers who are designated by our clients, which may limit our ability to manage the suppliers. Additionally, we procure equipment, components and materials from overseas markets, which exposes us to exchange rate fluctuations. The supply of energy required for our operations to a large extent depends on the economic, natural and other conditions of the regions in which our projects are located. As such, we cannot assure you that we will be able to continue to obtain adequate equipment, materials and energy on commercially acceptable terms, in a timely manner, or at all. Furthermore, costs of equipment, materials and energy may increase in the future and we may not be able to pass on these increased cost to our clients. Any failure to obtain adequate equipment, materials and energy, or to do so on commercially acceptable terms, could materially and adversely affect our business, results of operations and financial condition.

***Our Group has recently undergone business integration and there can be no assurance that our efforts to integrate our businesses and operations will be successful. We have included historical financial information in this prospectus that may not be fully indicative of our future financial condition, results of operations and cash flows.***

Our Company was established as a joint stock limited liability company in the PRC on August 28, 2012 pursuant to the Reorganization under which Sinopec Group transferred to us at nil consideration its 100% equity interest in subsidiaries principally engaged in oil refining and chemical engineering businesses. See “History, Reorganization and Corporate Structure.” Our subsidiaries have historically been managed and operated as separate and independent operating entities that may have competed among themselves. Going forward, we may need to integrate the businesses of our subsidiaries to achieve greater synergy. As part of a business integration initiative, we plan to centrally coordinate our key activities, including resource allocation, financing, marketing, procurement and R&D activities. In addition, our financial and information management systems and internal control measures will require continuous improvement and development in order for us to operate more effectively and efficiently as an integrated entity. Our business integration initiative is exposed to certain challenges and risks and may not be implemented effectively or on a timely basis. We may also face issues such as excess administrative personnel or inability to obtain other necessary support for our integrated operations. Should cost overruns, changing conditions, opposition from our employees or other events occur, the operational efficiencies and the business synergies that our business integration initiatives were formulated to achieve may not materialize. We may also face difficulties in planning our future development and tackling additional risks as a result of the increased scale of our operations, as well as developing and maintaining management and administrative systems or undertaking the additional responsibilities of becoming a public company. If we are not able to successfully implement our business integration initiatives, our business, financial condition, results of operations and prospects may be adversely affected.

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We have a limited operating history as an integrated group, which may impact investors' ability to evaluate our business and growth potential. We have included historical financial information in this prospectus that may not necessarily be fully indicative of our future financial condition, results of operations and cash flows.

*Any acquisitions, dispositions, market development or other investments that we may undertake may present risks or uncertainties.*

We may selectively pursue acquisitions or dispositions of businesses, or strategic investments. There can be no assurance that we will be able to locate suitable targets for acquisitions or investments, or that we will be able to consummate any such transactions on terms and conditions acceptable to us, or that such transactions will be successful. Acquisitions may cause us to enter into businesses that we have not previously conducted and expose us to additional business risks that are different from those we have historically experienced. We may also encounter difficulties identifying all significant risks relating to potential acquisitions during our due diligence activities and successfully managing the growth we expect to experience from such acquisitions. With respect to potential dispositions, we may be unable to successfully cause a buyer of a divested business to assume the liabilities of that business or, even if such liabilities are assumed, we may have difficulties enforcing our rights, contractual or otherwise, against the buyer. With respect to other investments, the companies that we invest in may fail, causing a loss of all or part of our investment.

In addition, we plan to expand into new business areas and new overseas markets and may take measures to increase investment in engineering and construction of projects in alternative energy and chemical materials sectors, such as new coal chemicals and natural gas chemicals, among others. The new coal chemical and natural gas chemical industries are still evolving, and their development in the future will be largely influenced by government policies which are beyond our control. We cannot assure you that the new coal chemical engineering and natural gas chemical engineering businesses will maintain strong development momentum, or that our investments in these energy and chemical engineering sectors will bring returns. If our investment is not successful, resulting in loss of all or part of our investment, our business and financial condition could be materially and adversely affected.

Moreover, marketing and sales of our services in overseas markets may subject us to various risks, including low demand, more stringent quality requirements, different standards for engineering, construction and quality between PRC and overseas markets, difficulties in the management of foreign operations, including that of personnel, cost, compliance, after-sales service support and taxation, and other restrictions and costs. All of these factors could lead to an increase in the price of our services and products relative to those of our competitors, which in turn could weaken our competitiveness in some countries and lead to a decrease in client demand for our services and products in those countries, which would adversely affect our business prospects and plans to expand our business in the overseas market.

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*Our operations are subject to inherent operational risks and occupational hazards, which could cause us to incur substantial costs and to face contractual claims and litigation.*

Due to the nature of our business, we engage or may engage in certain inherently hazardous activities, including operations at height, use of heavy machinery and working with flammable and explosive materials. Despite compliance with requisite safety requirements and standards and the establishment of a department dedicated to safety monitoring, we are still subject to risks surrounding these activities, such as geological catastrophes, toxic gas and liquid leakages, equipment failure, industrial accidents, fire and explosions. These hazards can cause personal injury and loss of life; damage to or destruction of property and equipment; and environmental damage and pollution, any of which could result in suspension of our operations or even imposition of civil or criminal penalties, which could in turn cause substantial costs and damage to our reputation. For the years ended December 31, 2010, 2011 and 2012, we recorded 10 accidents resulting in a total of 10 fatalities, all of whom were our subcontractors' employees. See "Business — Health, Safety and Environmental Protection — Health and Safety" and "Business — Health, Safety and Environmental Protection — Environmental Protection."

In addition, contractual claims involving project owners, clients, subcontractors and suppliers may be brought against us or by us in the ordinary course of our business. Claims may be brought against us for alleged defective or incomplete work, defective products or services, related personal injuries and death, damage to or destruction of property, breaches of warranty, delayed completion of projects and delayed payment of receivables, among others. The claims may involve actual damages and liquidated damages. If we were to be found liable on any such claims against us, we would incur a charge against earnings to the extent that a reserve had not been established for the matter in our accounts, or to the extent the claims were not sufficiently covered by our insurance. In addition, we may be subject to government sanctions, including fines and the loss of certain permits and licenses, and our reputation could be harmed if we were found liable on such claims. Claims brought by us against our clients may include claims for additional costs incurred in excess of current contract provisions arising out of project delays or changes in the scope of work. Claims brought by or against our subcontractors and suppliers may include claims similar to those described above. Both claims brought against us and by us, if not resolved through negotiation, may be subject to lengthy and expensive litigation or arbitration proceedings. Such claims could therefore have a material adverse impact on our financial condition, results of operations and cash flow.

We are 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 (the "Oil and Gas Storage Tank Project") on April 24, 2007, which resulted in the deaths of two workers and injuries of four others. See "Business — Regulatory Compliance and Legal Proceedings" for further details regarding these pending claims.

Although we believe that we have meritorious defenses and intend to pursue all avenues available to vigorously defend the lawsuit, the outcome of any litigation is subject to inherent uncertainties and the actual cost will depend upon many unknown factors. Moreover, we could be forced to expend significant resources in the defense of the lawsuits. As such, during the four years ended December 31, 2012, we recorded a total provision of RMB380.1 million which represented the high end of the estimated range of the legal exposure (the estimated range is based on consultation

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with our Canadian legal counsel, our accountants and our Company's judgment) and related costs associated with this matter in the event that we do not completely prevail in our defense of the suit. While we believe the reserve represents a reasonable estimate of the high end of our legal exposure and other costs, it is possible that our actual exposure or other associated costs differ from the reserve. As such, it is possible that we have overestimated or underestimated our exposure. If the amount of our actual exposure is materially different from our reserve, there could be a material impact on our consolidated financial condition and results of operations.

We normally seek to lower our exposure to the potential claims associated with our business through contractual limitations of liability, indemnities from our clients, subcontractors and suppliers and the purchase of insurance. However, these measures may not provide sufficient protection for us due to various factors, many of which may be beyond our control. These factors include but are not limited to the following:

- in some of the jurisdictions in which we operate, including the PRC, environmental liabilities may be assigned to us as a matter of law and may not be limited through contracts;
- our clients, subcontractors or suppliers may not have adequate financial resources to satisfy their indemnity obligations to us;
- losses may arise from risks not addressed in our indemnity agreements; and
- our insurance coverage may not be sufficient, and it may not be possible to obtain adequate insurance to cover some risks on commercially reasonable terms, or at all.

The occurrence of any of the above circumstances may result in business interruption or imposition of civil liabilities or administrative penalties. Although we have measures in place to avoid potential harms to our business resulting from the above factors, we cannot guarantee that our business will not be adversely affected at all by these factors. If we fail to adequately protect ourselves or third parties against these potential liabilities, we may incur substantial costs which could have a material and adverse effect on our financial condition and results of operations. Additionally, the outcome of pending and future claims and litigation as well as costs associated with successfully prosecuting and defending claims could have a material adverse impact on our business, financial condition and results of operations.

***Claims or accidents arising from fault or alleged fault of our employees or subcontractors may result in reputational damages to us, which could negatively affect our business and results of operations.***

Any claims or accidents arising from fault or alleged fault of our employees or subcontractors may damage our reputation and our brand as a high quality engineering and construction service provider. Moreover, we and the projects we work on might suffer negative publicity resulting from such claims or accidents. If any negative publicity or reputational damage is not effectively remedied or reversed, our existing or potential clients and partners may start to develop negative views of the safety control and quality of our services, which may consequently impact our ability to maintain

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existing business relations, procure new business or expand into new markets. In addition, any measures we may take to remedy the reputational damages caused by such claims or accidents may be costly, both financially and in terms of management resources required, and may not generate the desired results. As a result, our business, results of operations and financial condition could be adversely affected.

***We conduct a portion of our EPC Contracting business through joint ventures, consortiums or similar cooperative arrangements. This may expose us to related risks and uncertainties, many of which we do not have full control over.***

We have conducted and will continue to conduct a portion of our EPC Contracting business through joint ventures, consortiums or similar cooperative arrangements, where control may generally be shared with independent third parties. Differences in opinion or views between partners can result in delayed decision-making and failure to agree on material issues, which could adversely affect the business and operations of such cooperative ventures. At times, we also participate in joint ventures, consortiums or similar arrangements where we are not a controlling party. In such instances, we may have limited control over the joint venture or consortium's decisions and actions, including internal controls and financial reporting, which may have an adverse impact on our business.

From time to time in order to establish or preserve a relationship, or to better ensure a joint venture or consortium's success, we may accept risks or responsibilities for the joint venture or consortium which are not necessarily proportionate to the reward we expect to receive. The success of these joint ventures or consortiums also depends, in large part, on the satisfactory performance by our partners of their contractual obligations, including their obligation to perform work, commit working capital or credit support or fulfill indemnification and other contractual obligations. If our partners fail to satisfactorily perform their contractual obligations, the joint venture or consortium may be unable to perform its contractual services with quality. Under these circumstances, we may be required to undertake additional obligations to ensure quality services being provided to the clients. These additional obligations could result in reduced profits or, in some cases, increased liabilities or even significant losses to us. In addition, a failure by a joint venture partner or a member of a consortium to comply with applicable laws or regulations could negatively impact our business, by exposing us to the risk of, among others, fines, penalties, suspension of operations, litigation or other legal proceedings.

***Our business depends substantially on our ability to attract and retain experienced professionals.***

The success of our operations depends on our ability to attract and retain experienced professionals, including executive officers and professionals such as designers, engineers, project managers, R&D personnel and senior technical workers with the requisite experience, knowledge and expertise to successfully carry out our business. Additionally, certain rules and regulations relating to the specialized certifications we hold in respect of our business require us to retain a specified number of qualified professionals on our full-time staff. Competition for qualified personnel is intense in the PRC engineering market. Moreover, as the engineering industry becomes globalized, we increasingly compete with international competitors for such qualified personnel, both in the PRC and in overseas markets where we operate. We face the risk of losing employees to competitors who are able to offer

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more competitive compensation packages, and we may be unable to find replacements in a timely manner. We may also need to make significant expenditures to train employees in order to enhance their relevant experience and specialized skills. In addition, we may need to improve our remuneration packages and our human resources management to improve employee retention.

We have entered into confidentiality agreements and non-compete agreements with our key employees to prevent information leakage of our proprietary technologies and trade secrets resulting from any loss of key employees. However, we cannot assure that there will be no violations of the terms of the confidentiality agreements and non-compete agreements.

The diversity of our businesses both in terms of scale and geographic location creates significant pressure on our human resources. Our expansion into new business areas and geographic markets may increase such pressure. Our future operating results will depend on our management's ability to maintain effective control over such a large and diversified enterprise. If we are unable to recruit personnel with the necessary skills, the attention of our management could be diverted. If we cannot recruit and retain the employees necessary for executing our contracts or performing necessary business activities, our business operation may be adversely affected.

***Our business operation management system, particularly with respect to quality control procedures, may not be able to prevent all incidences of negligence or mistake.***

Our management system, which covers matters including project scheduling, project quality, costs, health, safety and environmental protection, is essential to the effective management, progress, quality, safety and profit margins of our projects. In particular, the quality of our services is critical to the success of our business. Accordingly, we must maintain an effective quality control system for our business operations. Effective quality control depends on various factors, including the mechanism of our quality control system, management of the individual projects, provision of sufficient project-related training to our employees and our ability to ensure that employees adhere to our quality control policies and guidelines. Any negligence or mistake in quality control could result in defects in our projects or delays in our project progress, which in turn may subject us to contractual and other claims. Any such claims, regardless of outcome, could cause us to incur significant costs, harm our business reputation and result in significant disruption to our operations.

***Any failure to adequately protect our intellectual property rights or any infringement claims brought by third parties against us may have an adverse effect on our business, financial condition and results of operations.***

We rely primarily on patents and proprietary technologies to protect our technologies, which include engineering and construction technologies for our services. These patents and proprietary technologies have played a significant role in improving our production efficiency and completing large-scale and complex projects. As of December 31, 2012, we held 771 patents comprising 299 invention patents and 472 utility patents in the PRC, as well as 15 patents and 313 patent applications overseas. Meanwhile, we had approximately 500 patent applications pending in the PRC. In December 2012, we entered into an agreement with Sinopec Corp., pursuant to which we are entitled to a complete and non-restricted usage right in respect of 120 jointly owned patents and 199 jointly owned patent applications listed in the agreement. We have also developed numerous proprietary

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technologies and other intellectual property that have supported our technology licensing business, enhanced our operational efficiency and enabled us to maintain our competitiveness. However, the legal regime governing intellectual property in the PRC is still evolving and the level of protection for intellectual property rights in the PRC may differ from those in other jurisdictions. We may not be able to promptly detect infringement and take effective steps to enforce our intellectual property rights, which may be costly. In the event that the steps we have taken and the protection provided by law do not adequately safeguard our intellectual property rights, we could suffer losses due to the provision or the sale of competing services or products by others which exploit our intellectual property rights.

In addition, there can be no assurance that our intellectual property rights will not be challenged, misappropriated or circumvented by third parties, or that our competitors will not independently develop alternative technologies that are equivalent to or more advanced than our technologies. Moreover, we may not be successful in obtaining patent authorizations or registrations or protecting the patents, which could have a material and adverse impact on our business, financial condition and results of operations. We may also be subject to claims on infringement of patents, trademarks or other intellectual property rights of others. Defending or otherwise dealing with any infringement claims, whether with or without merit, could be time-consuming, costly, detrimental to our brand and trademarks, reduce our sales and require us to enter into licensing agreements that may not be favorable or acceptable to us.

We use intellectual property in our operations that may be owned by others and we also develop (independently or with other parties) intellectual property from such intellectual property for use in our operations and licensing to our clients. There can be no assurance that our use or licensing of any of such intellectual property, or of new intellectual property developed from such intellectual property, will not be challenged or that we would be able to successfully defend ourselves if challenged. If any such challenge by third parties is successful, we may not be able to use or license such intellectual property, which may have a material and adverse effect on our operations if such intellectual property involved is critical to our business.

***Failure by the Controlling Shareholder to fulfill its obligations in connection with the Reorganization and Global Offering may materially and adversely impact our business and operating results.***

In connection with the Reorganization and Global Offering, Sinopec Group, our Controlling Shareholder, and its subsidiaries have entered into certain arrangements with us, including, among others, the gratuitous transfer agreement, the promoters agreement, the Non-Competition Agreement and a number of connected transaction framework agreements. See “History, Reorganization and Corporate Structure”, “Relationship with Controlling Shareholder” and “Connected Transactions.” Sinopec Group (but not Sinopec Group’s Listed Subsidiaries) has agreed not to compete with us in our principal business. We have relied and will continue to rely in part on the connected transaction framework agreements with Sinopec Group. If, for any reason, the Controlling Shareholder fails to fulfill its obligations under the arrangements, any arrangement between us and Sinopec Group were to be terminated or changes detrimental to us were to be made to the terms of these arrangements, our business and operating results could be materially and adversely affected.



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*The development of our internal controls may not keep up with the expansion of our business and our internal control measures may not always be implemented effectively.*

The development of our management and internal controls has largely coincided with the expansion of our business. As we expand, it will be increasingly important to maintain financial and operational control through effective allocation of financial and management resources. There can be no assurance that we will be able to promptly and appropriately respond to the evolving requirements under our expanded operations and other issues we may face. Any deficiency in internal controls or resource allocations could impair our ability to accurately analyze and report our operating results and expose us to various risks. As a result, any failure to implement effective internal controls may weaken investor confidence and negatively affect our business.

*Our actual results could differ from the assumptions and estimates used to prepare our financial statements.*

In preparing our financial statements, we are required to make estimates and assumptions in respect of relevant circumstances as of the date of the financial statements. These estimates and assumptions affect the reported values of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Areas requiring significant estimates by our management include but are not limited to:

- recognition of contract revenue, costs, profits or losses in applying the principles of percentage of completion accounting;
- recognition of recoveries under contract change orders or claims;
- estimated amounts for expected project losses, warranty costs, contract close-out or other costs;
- collectability of accounts receivable and the need and amount of any allowance for doubtful accounts;
- asset valuations;
- income tax provisions and related valuation allowances;
- determination of expense and potential liabilities under pension and other post-retirement benefit programs; and
- accruals for other estimated liabilities.

Our actual business and financial results could differ from our assumptions and estimates, which could have a material negative impact on our financial condition and reported results of operations.

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*Our short-term operating results may not be indicative of our long-term operating results, and our business may be affected by seasonality.*

The durations of our EPC Contracting and construction contracts are relatively long, typically spanning approximately 20 to 40 months. Revenue from ongoing contracts is usually recognized over time in subsequent years. Therefore, our future results may fluctuate in connection with our entry into new contracts. Additionally, our profitability may not be in line with the progress of the project. The completion and settlement of large projects may significantly impact profitability for the year in which such settlement takes place, which may result in substantial fluctuations of our profitability from year to year. Accordingly, there can be no assurance that our short-term operating results are indicative of our long-term operating results. During the three years ended December 31, 2010, 2011 and 2012, our gross profit margins were 15.2%, 16.6% and 14.3%, respectively, mainly due to the fluctuation of gross profit margins of our EPC Contracting business, which profit margins were 15.5%, 19.3% and 14.2%, respectively, over the same period. See “Financial Information — Consolidated Results of Operations — Description of Selected Items of Results of Operations — Gross Profit and Gross Profit Margin.”

In addition, our construction business is affected by seasonality, primarily due to climate differences in different regions covered by our construction business. For example, our construction operations in northern China may face limitations during the winter and our construction operations in regions that have long rainy seasons may face limitations during the summer. Additionally, some of our construction projects are completely suspended during the Chinese New Year period. Although we may overcome some seasonal impacts to our construction business with the advancement of our technology and improvement of equipment, we may nonetheless incur additional expenses or experience delays in progress when conducting our construction business under inclement conditions.

*We may enter into loan agreements that contain restrictions limiting our flexibility in operating our business.*

We may enter into loan agreements, some of which may contain restrictive covenants, including significant operating and financial restrictions that limit our ability or the ability of our subsidiaries to, among other actions, pay dividends, enter into joint ventures, change shareholding structure, consolidate, spin off, merge or sell or otherwise dispose of any of our assets or business, incur or guarantee additional indebtedness and make certain investments.

In addition, future loan agreements may contain cross-default clauses whereby a default under one of our loan agreements may trigger an event of default under other loan agreements. We may also be required to maintain specified financial ratios and satisfy other financial covenants under some loan agreements. Our ability to meet such financial ratios and other financial covenants can be affected by events beyond our control, and there can be no assurance that we will meet these ratios and comply with such covenants in the future. A breach of any of these covenants could result in a default under these and other loan agreements, which may allow the lenders to declare all amounts outstanding thereunder to be immediately due and payable and terminate all commitments to extend further credit. If the indebtedness under our loan agreements were to be accelerated, there can be no assurance that we will be able to pay such indebtedness in full or at all.

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*Our financial condition and results of operations may be adversely affected by taxation policies and changes in such policies.*

We are subject to various taxes, including the enterprise income tax of 25% as determined in accordance with the relevant PRC tax laws and regulations. Pursuant to PRC national and local tax laws and regulations, some enterprises may enjoy certain preferential tax treatments based on their industries, regions or otherwise. Some of our subsidiaries are currently entitled to preferential tax treatments due to their being accredited as high technology enterprises or their participation in development projects in Western China. Our effective income tax rates for the years ended December 31, 2010, 2011 and 2012 were 21.4%, 20.5% and 22.0%, respectively. See “Financial Information — Factors Affecting Results of Operations — Taxation.” If there are changes in the PRC EIT Law regarding the preferential tax rate in the PRC, our financial results may be affected. Termination or revision of our preferential tax treatment may adversely affect our profitability, results of operations and financial condition.

Pursuant to the pilot scheme and various notices for imposition of value-added tax issued by the PRC’s national and local tax authorities, since January 1, 2012, September 1, 2012, October 1, 2012, November 1, 2012 and December 1, 2012, respectively, the R&D activities and technical services operations of our subsidiaries in Shanghai, Beijing, Jiangsu, Guangdong, Zhejiang and Tianjin are subject to value-added tax at the rate of 6% and are no longer subject to business tax. From July 1, 2010 through December 31, 2013, revenue derived from offshore service outsourcing business is exempted from business tax for enterprises in the PRC’s 21 designated “service outsourcing demonstration cities”, including Beijing, Shanghai, Nanjing and Guangzhou. At present, we cannot accurately predict the impact of the above changes to tax policy on our financial condition and results of operations. There is also no assurance that future changes in the tax policy will not have material adverse impacts on our financial condition and results of operations.

In addition, we are subject to various taxes in overseas countries and regions in which we operate. During the Track Record Period, our revenue from overseas business increased significantly, and, as a result, our taxes associated with foreign operations also increased. We expect our overseas taxes will continue to increase in future years. It is difficult for us to predict changes in tax policies in overseas countries and regions in which we operate, and such changes could have material adverse impacts on our profitability and financial performance.

*Our insurance coverage may not be sufficient to cover all potential risks or losses.*

The terms of our EPC Contracting and construction contracts normally require project owners to purchase construction all risks insurance and name us as a beneficiary of the policy. If the project owners we contract with do not purchase construction all risks insurance covering our EPC Contracting and construction projects, we purchase such insurance directly. The relevant insurance policies are generally applicable to the entire contract period, including the warranty period after completion of the projects. We maintain insurance coverage in amounts that we believe are consistent with our risk of loss and the customary practice in the industry. See “Business — Insurance.” Pursuant to relevant PRC laws and regulations, we have also purchased pension, medical, unemployment, work injury and maternity insurance for our employees and have purchased personal injury insurance for overseas and on-site construction workers. However, although we believe our insurance coverage

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meets the needs of our business, we cannot guarantee that our current levels of insurance are sufficient to cover all potential risks and losses. In addition, our insurers review our policies each year. We cannot guarantee that we can renew our policies on similar acceptable terms each year in the future, or at all. If we suffer from severe unexpected losses or losses that far exceed the policy limits, our business, financial condition and operating results could be materially and adversely affected.

Certain of our subsidiaries do not purchase any third-party liability insurance to cover claims with respect to personal injury or property or environmental damage claims arising from accidents on their properties or relating to errors and omissions in the operation of our business and have not maintained any insurance policy against losses arising from environmental regulatory requirements, business interruption, industrial accidents and demonstrations and protests by, or other activities of, our employees or third parties; nor do they carry any key-man life insurance on their key employees. Pursuant to PRC laws and regulations, purchasing these types of insurance is not compulsory, and voluntarily purchasing such insurance would incur additional costs for our business operations, which could reduce our competitiveness in the PRC. However, risks relating to our operations arising from one of the aforementioned uninsured occurrences or otherwise could expose us to material losses. In addition, the occurrence of any of these risks may harm our reputation, which could inhibit our ability to successfully bid on future projects or gain other contracts or otherwise grow our business. See “Business — Insurance.”

*Certain properties that we occupy have title defects.*

For some of the properties we occupy in the PRC, we, or our landlords, have not yet obtained valid title certificates that allow us to use or transfer the properties freely. For example, with respect to our owned properties, as of December 31, 2012, we have not obtained the appropriate building ownership certificate for two buildings with a total gross floor area of approximately 3,684.00 sq.m. Further, we had title defects with respect to four buildings or units with a total gross floor area of approximately 5,904.10 sq.m., as those buildings or units are erected in whole or in part on the state allocated land and rural collective land. We may not transfer or otherwise dispose of these properties until we obtain the appropriate land use right certificates and/or building ownership certificates. In addition, we have a building erected on a piece of rural collective land with a total gross floor area of approximately 3,729.20 sq.m., the title of which is now registered under the name of the joint developer, an Independent Third Party, which has been dissolved. See “Business — Properties.”

With respect to our leased properties, as of December 31, 2012, our landlords had defects in the title certificates for four parcels of land with a total site area of approximately 69,396.86 sq.m., and had not obtained building ownership certificates or real estate title certificates for 10 buildings with a total gross floor area of approximately 29,324.32 sq.m. These properties are used for our offices, production facilities, dormitories for employees and other commercial usages. As of December 31, 2012, the total carrying amount of our own properties with title defects is approximately RMB51.1 million and the annual rent of our leased land or buildings with title defects is approximately RMB5.4 million. See “Business — Properties.”

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We cannot predict how our rights may be adversely affected as a result of the title defects of these properties. The potential adverse impact of these title defects include the possibility that we will be required to relocate business operations currently carried out on such properties if a third party successfully claims its right in respect of such properties, which could adversely affect our financial condition and results of operations.

***We are required to comply with various environmental, safety and health laws and regulations in both domestic and overseas markets, compliance with which may be costly.***

As part of our business operations, we are required to comply with various and extensive environmental, safety and health laws and regulations promulgated by the PRC government and the governments of other overseas jurisdictions in which we operate. These laws and regulations require us to conduct an environmental impact assessment and implement environmental, safety and health related programs and standards to control risks in connection with our licensing, engineering, EPC Contracting, construction and equipment manufacturing businesses. If the projects we engineer and/or construct are identified to harm the environment or natural resources, or to cause property damage, personal injury or death, and we are found responsible for these consequences, we may need to carry out project repair or assume liability for such resulting harm, property damage, injury or death. This requires us to devote financial and other resources, including management attention to such events, which could materially impact our operations. In addition, if the projects we engineer or construct do not comply with the environmental standards provided by laws and regulations, we may be required to rectify relevant project facilities. Such violation of existing or future environmental, safety and health laws and regulations or standards may have a material adverse impact on our business, financial condition and results of operations.

In addition, these environmental, safety and health laws and regulations may be revised and updated. Judicial interpretations and the regulatory environment may change, and environmental, safety and health standards may become increasingly stringent. We cannot predict how such laws and regulations, or the regulatory environment or standards will change, or how such changes will affect our compliance costs and operations. There can be no assurance that the PRC government or the governments of other jurisdictions in which we have operations will not impose more stringent laws or regulations and standards, compliance with which may cause us to incur significantly increased costs, which we may not be able to pass on to our clients.

***We need qualifications or licenses to undertake our business operations and any revocation, cancellation or non-renewal of these qualifications or licenses could have a material and adverse impact on our business.***

We need qualifications and licenses issued by the relevant government agencies to conduct our businesses, including engineering and consulting, EPC Contracting, construction and equipment manufacturing. See “Business — Qualifications.” Likewise, clients typically require enterprises providing the aforementioned services to hold appropriate qualifications. We must comply with certain restrictions and conditions imposed by various levels of government to maintain our qualifications and licenses. See “Regulations” for more information on the PRC laws and regulations regarding qualifications and licenses applicable to us and our subsidiaries. If we fail to comply with any of the

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conditions required for obtaining and maintaining our qualifications and licenses, our qualifications and licenses could be cancelled or revoked, or the renewal of our licenses, upon expiry of their original terms, may be delayed, which could directly and adversely impact our business operations.

***Our Controlling Shareholder's interests may differ from those of our Company and other shareholders.***

As of the date of this prospectus, our Controlling Shareholder, Sinopec Group, beneficially owned 100% of our outstanding shares and upon completion of the Global Offering, will beneficially own an aggregate of approximately 67.01% of our outstanding shares, assuming the Over-allotment Option is not exercised. As such, Sinopec Group, as our Controlling Shareholder, will have substantial influence over our business, including decisions regarding significant transactions and corporate actions such as mergers, consolidations and the sale of all or substantially all of our assets, election of directors and dividend policy. In particular, as our largest client, Sinopec Group may have potential conflicts of interest with us when negotiating and entering into engineering, consulting and licensing, EPC Contracting, construction and equipment manufacturing contracts and other transactions and may take actions that are not in the interest of our Company or our other shareholders. Although we have implemented internal control measures, there can be no assurance that, if a conflict of interest arises, Sinopec Group will act in the best interests of our Company or that any conflict of interest will be resolved in our favor. In particular, Sinopec Group's influence may discourage, delay or prevent a change in control of our Company or impede a transaction that our other shareholders may otherwise view favorably, which could deprive other shareholders of an opportunity to sell their H Shares at a premium.

***Any decline in or restrictions on the ability of our operating subsidiaries to pay dividends to us could adversely affect our cash flow, earnings and ability to pay dividends.***

We conduct a substantial portion of our operations through our operating subsidiaries in the PRC. Most of our assets are held by, and most of our earnings and cash flows are attributable to, our operating subsidiaries in the PRC. If the earnings from our operating subsidiaries were to decline, our earnings and cash flow could be adversely affected. The ability of our operating subsidiaries to pay dividends depends on business considerations and regulatory restrictions, including the cash flow and articles of association of these companies, shareholders' agreements they are parties to and applicable PRC laws and regulations. In particular, under PRC law, our operating subsidiaries may only pay dividends after they have made up for any accumulated losses and 10% of their net profit has been set aside as a statutory reserve fund, unless the amount set aside for the reserve fund accounts for 50% or more of their registered capital. In addition, distributions by our operating subsidiaries to us other than dividends may be subject to governmental approval, approval by other shareholders and taxation. These restrictions could reduce the amount of distributions that we receive from our operating subsidiaries, which could restrict our ability to fund our operations, generate revenue and pay dividends. There can be no assurance that our operating subsidiaries will generate sufficient earnings and cash flows to pay dividends or otherwise distribute sufficient funds to enable us to pay dividends.

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*Our business operations may be affected by an occurrence of a widespread public health problem, acts of war, natural disasters or other factors beyond our control.*

Our business may be interrupted for reasons beyond our control, which may include widespread health problems, acts of war or natural disasters such as bad weather conditions, flooding, typhoons, tsunamis, snowstorms, landslides, earthquakes and fires, as well as labor strikes or social turmoil. We operate our business in the PRC and overseas. Our operations and business could be adversely affected by the above factors that are beyond our control.

The countries where we have operations may encounter epidemics, which may cause different degrees of damage to the national and local economies and result in material disruptions to our operations. The occurrence of natural disasters, unanticipated catastrophic events or a recurrence of an epidemic and other adverse public health developments in the countries where we have operations could severely disrupt our business operations, and in turn materially and adversely affect our business, financial condition and results of operations.

In addition, although we believe that we have a good working relationship with our employees, if our employees were to engage in a strike or other work stoppage, we could experience a significant disruption of operations and/or higher ongoing labor costs, which may have a material adverse effect on our business and results of operations.

### **RISKS RELATING TO DOING BUSINESS IN THE PRC**

Currently, the majority of our assets are located in the PRC and a significant portion of our revenue is derived from the PRC. Hence, our business operations and prospects are to a large extent affected by the economic, political, social and legal developments in the PRC.

*Changes in the economic, political and social conditions in the PRC and policies adopted by the PRC government could materially and adversely affect our business.*

A large portion of our assets and revenue are located within or derived from operations within the PRC. As a result, our financial condition and results of operations are to a large extent influenced by the economic, political and social conditions and development and the government policies of the PRC. Although the PRC's economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, a substantial portion of productive assets in the PRC is still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling foreign exchange, setting monetary policy and providing preferential treatments to particular industries or companies. In recent years, the PRC government has implemented economic reform measures emphasizing the use of market forces to drive economic development. These economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, some of these measures may benefit the overall PRC economy, but some of them may have a negative effect on the industries in which we and our clients operate and subsequently our business. The PRC has been one of the world's fastest growing economies as measured by GDP in recent years. However, there can be no assurance that the PRC economy will be able to sustain such a growth rate, and the PRC GDP growth has experienced a slowdown in recent years. In 2008, the PRC economy

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experienced a slowdown in growth primarily as a result of the global financial crisis and economic downturn. To stimulate the growth of the PRC economy, the PRC government implemented various monetary and other economic measures to expand investment in infrastructure, increase liquidity in the credit markets and create more employment opportunities. However, there is no assurance that another financial crisis and economic downturn will not occur. A significant portion of our revenue during the Track Record Period was attributable to sales made within the PRC. As such, our future success is substantially dependent on economic, political and social conditions in the PRC. Any adverse changes in the PRC's political and social conditions and any slowdown or recession of the PRC's economy could have a material and adverse effect on our business, financial condition, results of operations and prospects.

*We face foreign exchange risk, and fluctuations in exchange rates could have a material and adverse effect on our business and investors' investment.*

The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in PRC and international political and economic conditions and the PRC government's fiscal, monetary and currency policies. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to July 10, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. From July 21, 2005 to December 31, 2009, the value of the Renminbi appreciated by approximately 21.2% against the U.S. dollar. In August 2008, the PRC revised the PRC Foreign Exchange Administration Regulations to promote the reform of its exchange rate regime. On June 19, 2010, the PBOC announced that the PRC government would reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate.

The recent change in the PRC currency policy has resulted in the appreciation of the Renminbi against the U.S. dollar from approximately RMB6.83 to US\$1 on December 31, 2008 to approximately RMB6.29 to US\$1 on December 31, 2012. There can be no assurance that such exchange rate will remain stable against the U.S. dollar or other foreign currencies.

We generally attempt to denominate our contracts in the currencies of our expenditures. However, we do enter into contracts that subject us to currency risk exposure, particularly to the extent contract revenue is denominated in a currency different than the contract costs. As our contracts for projects outside the PRC are usually denominated in the U.S. dollar, Euro or other foreign currencies, the Renminbi value of our backlog outside the PRC may from time to time increase or decrease significantly based on fluctuations in currency. Non-PRC asset and liability balances are subject to currency fluctuations when measured period to period for financial reporting purposes in Renminbi. We currently have not taken measures such as currency hedging to control the risks related to exchange fluctuations.

The fluctuations in the Renminbi exchange rate against other currencies could have a material impact on our results of operations. A depreciation of Renminbi could increase our costs of purchasing



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imported equipment and components, as such depreciation would require us to convert more Renminbi to obtain the equivalent foreign currency necessary to tender payment. On the other hand, an appreciation of Renminbi may cause the prices of our services denominated in other currencies to increase and may affect our strategy to market our services overseas.

Moreover, we will need to convert part of the proceeds denominated in foreign currencies from the Global Offering into Renminbi. The appreciation of the Renminbi against the Hong Kong dollar could reduce the amount of Renminbi that would be available for our use upon conversion of such proceeds to Renminbi. We cannot predict how the Renminbi will fluctuate in the future. As a result, the fluctuation in the exchange rate between the Renminbi and other currencies could have a material and adverse effect on our business, financial condition and results of operations.

***The PRC government's control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our H Shares.***

Currently, Renminbi still cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange laws and regulations which would affect exchange rates and our foreign exchange transactions. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require prior approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. As a result, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. Our foreign exchange transactions under the capital account, however, must be approved in advance by the SAFE.

There can be no assurance that the policies regarding foreign exchange transactions under the current account and the capital account will continue in the future. In addition, these foreign exchange policies may restrict our ability to obtain sufficient foreign exchange, which could have an effect on our foreign exchange transactions and the fulfillment of our other foreign exchange requirements. If there are changes in the policies regarding the payment of dividends in foreign currencies to shareholders or other changes in foreign exchange policies resulting in insufficient foreign exchange, our payment of dividends in foreign currencies may be affected. If we fail to obtain approval from the SAFE to convert Renminbi into any foreign exchange for foreign exchange transactions, our capital expenditure plans, and even our business, financial condition and results of operations, may be adversely affected.

***Payment of dividends is subject to restrictions under PRC law.***

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits are our net profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our shareholders in the future, including periods for which our financial statements

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indicate that our operations have been unprofitable. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. Under the current PRC tax laws, regulations and applicable tax treaties, the payment of dividends to a non-PRC resident shareholder is subject to withholding tax.

***The PRC legal system is still evolving and there are inherent uncertainties as to interpretation and implementation of laws, which could limit the legal protection available to us and to our Shareholders.***

Our company and our major operating subsidiaries are incorporated in the PRC, and most of our business is operated in the PRC. These entities and operations must therefore comply with the laws of the PRC. The PRC legal system is based on written statutes and various administrative regulations and policy decrees. Prior court decisions or rulings may be cited for reference in courts and administrative proceedings but have limited precedential value. Since the 1970s, the PRC government has been committed to developing and refining its legal system and has achieved significant progress in its laws and regulations governing economic matters such as shareholders' rights, foreign investment, company organization and management, business, tax and trade. However, PRC laws and regulations are still evolving, and because of the limited number and non-binding nature of published cases, there exist uncertainties about their interpretation and implementation. Depending on the government agency or how an application or case is presented to such agency, we may receive less favorable interpretations of laws and regulations than our competitors, or we may receive interpretations that are inconsistent with our interpretations. These uncertainties may impede our ability to enforce the contracts we have entered into with our clients, suppliers and other business partners. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, the pre-emption of local regulations by national laws, or the overturn of local government decisions. These uncertainties may limit legal protections available to us. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention and have a material adverse effect on our business, prospects, financial condition and results of operations.

***It may be difficult to effect service of process upon, or to enforce any judgments obtained outside the PRC against, us, our Directors, or our senior management members who live inside the PRC.***

Substantially all of our existing Directors and senior management members reside in the PRC and substantially all of our assets and the assets of such persons are located in the PRC. Accordingly, it may be difficult for investors to effect service of process from outside PRC upon us or those persons in the PRC. In addition, the enforcement of foreign judgments in the PRC involves uncertainty. If there exists a treaty between an overseas jurisdiction and the PRC or a similar judgment made by a PRC court has been recognized before such foreign judgment, the judgment made in the jurisdiction might be recognized and enforced in the PRC. However, recognition and enforcement in the PRC of judgments of certain overseas courts in relation to any matter not subject to a binding jurisdiction provision may be difficult or impossible.

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### RISKS RELATING TO THE GLOBAL OFFERING

*There has been no prior public market for our H Shares. The trading volume and market price of the H Shares following the Global Offering may be volatile.*

Prior to the Global Offering, there was no public market for our H Shares. The initial offer price range to the public for our H Shares was the result of negotiations between us and the Joint Global Coordinators on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied to list and deal in our H Shares on the Hong Kong Stock Exchange. However, the Global Offering does not guarantee that an active liquid public trading market for our H Shares will develop. In addition, the price and trading volumes of the H Shares may be volatile. Factors such as variations in our revenue, earnings and cash flows or any other developments of our Company may affect the volume and price at which the H Shares will be traded.

*Future sales or perceived sales of substantial amounts of our securities in the public market, including any future public offering in the PRC, sale of our H Shares by NSSF or re-registration of Shares held on our Domestic share register into H Shares, could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise capital in the future, and may result in dilution of your shareholdings.*

The market price of our H Shares could decline as a result of future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the public market or the issuance of new H Shares or other securities, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital in the future at a time and at a price which we deem appropriate. In addition, our shareholders may experience dilution in their holdings to the extent we issue additional securities in future offerings. A certain amount of our Shares currently outstanding will be subject to contractual and/or legal restrictions on resale for a period of time after completion of the Global Offering. See “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertakings to the Hong Kong Stock Exchange pursuant to the Hong Kong Listing Rules.” After these restrictions lapse or if they are waived or breached, future sales, or perceived sales, of substantial amounts of our Shares, or the possibility of such sales, by us could negatively impact the market price of our H Shares and our ability to raise equity capital in the future.

Our Domestic Shares immediately after the Global Offering will amount to 2,967.2 million Shares, representing approximately 67.01% of our total issued share capital assuming the Over-allotment Option is not exercised (or approximately 2,947.3 million Shares, representing approximately 63.69% of our total issued share capital assuming the Over-allotment Option is exercised in full). The H Shares issued and sold under the Global Offering will amount to 1,328.0 million H Shares, representing approximately 29.99% of our total issued share capital assuming the Over-allotment Option is not exercised (or 1,527.2 million H Shares, representing approximately 33.01% of our total issued share capital assuming the Over-allotment Option is exercised in full). The H Shares to be converted from Domestic Shares and held by NSSF immediately after the Global Offering will amount to 132.8 million H Shares, representing approximately 3.00% of our total issued

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share capital assuming the Over-allotment Option is not exercised (or approximately 152.7 million H Shares, representing approximately 3.30% of our total issued share capital assuming the Over-allotment Option is exercised in full). NSSF has not entered into any undertaking restricting its disposal or resale of these H Shares. See “Share Capital.” Any transfer or disposal of these H Shares by NSSF will result in an increase of the number of H Shares available on the market and may affect the share price of our H Shares.

In addition, subject to the approval of the State Council securities regulatory authority, all of our Domestic Shares may be converted into H Shares, and such converted Shares may be listed or traded on an overseas stock exchange. Any listing or trading of the converted Shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such stock exchange. No class shareholder voting is required for the listing and trading of the converted Shares on an overseas stock exchange. However, the PRC Company Law provides that in relation to the public offering of a company, the shares of that company which are issued prior to the public offering shall not be transferred within one year from the date of the listing. Therefore, upon obtaining the requisite approval, shares currently held on our domestic share register may be traded, after the conversion, in the form of H Shares on the Hong Kong Stock Exchange after one year of the Global Offering, which could further increase the supply of our H Shares in the market and could negatively impact the market price of our H Shares.

***There can be no assurance if and when we will pay dividends in the future.***

Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Distribution of dividends shall be formulated by our Board at their discretion and will be subject to shareholder’s approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or IFRS (whichever is lower), our Articles of Association, the PRC Company Law and any other applicable PRC law and regulations, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, regulatory restrictions and any other factors determined by our Board of Directors from time to time to be relevant to the declaration or suspension of dividend payments. As a result, although we have paid dividends in the past, there can be no assurance whether, when and in what form we will pay dividends in the future. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy. See “Financial Information — Dividend Policy” for more details of our dividend policy.

***Because the initial public Offer Price per H Share is higher than the net tangible book value per H Share, purchasers of our H Shares in the Global Offering will experience immediate dilution.***

The Offer Price of our H Shares is higher than the net tangible book value per Share of our H Shares immediately prior to the Global Offering. Therefore, purchasers of our H Shares in the Global Offering will experience an immediate dilution in pro forma net tangible assets value of HK\$5.23 per H Share (assuming an Offer Price of HK\$11.45 per H Share, being the mid-point of our Offer Price

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range of HK\$9.80 to HK\$13.10 per H Share, and no exercise of the Over-allotment Option) and existing shareholders will receive an increase in the net tangible book value per share of their H Shares. If we issue additional H Shares in the future, purchasers of our H Shares may experience further dilution.

***Our H Shares may be subject to cancellation or disciplinary proceedings if there is a breach by us of the Hong Kong Listing Rules or any undertakings which may have been given in favor of the Hong Kong Stock Exchange.***

Upon the Listing, we will be required to comply with applicable laws and regulations in Hong Kong (including the Hong Kong Listing Rules) and any other undertakings which have been given in favor of the Hong Kong Stock Exchange from time to time. If the Listing Committee finds that there has been a breach by us of, or any circumstance which causes us to breach, the Hong Kong Listing Rules or such other undertakings which may have been given in favor of the Hong Kong Stock Exchange from time to time, the Listing Committee may instigate cancellation or disciplinary proceedings in accordance with the Hong Kong Listing Rules.

***Investors should not rely on any information contained in press articles or other media regarding us and the Global Offering.***

Prior to the publication of this prospectus, there has been press and media coverage regarding our Company and the Global Offering. Such press and media coverage may include references to certain events or information that do not appear in this prospectus, including certain operating and financial information and projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them.

Accordingly, prospective investors should not rely on any such information and should only rely on information included in this prospectus in making any decision as to whether to purchase our H Shares.

***The industry statistics and forward-looking information contained in this prospectus may not be accurate, reliable or fair.***

Statistical and other information relating to the PRC and our industry contained in the section headed “Industry Overview” in this prospectus have been compiled partly from various publicly available PRC official government publications as well as industry reports we commissioned from independent industry consultants. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, we cannot guarantee the quality of such source materials. Moreover, statistics derived from multiple sources may not be prepared on a comparable basis. Neither the Underwriters nor any of their affiliates or advisers, nor we or any of our affiliates or advisers have verified the accuracy of the information contained in

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such sources. We make no representation as to the accuracy of the information contained in such sources, which may not be consistent with other information compiled within or outside the PRC. Accordingly, the industry information and statistics contained herein may not be accurate and should not be unduly relied upon for your investment in our Company or otherwise.

This prospectus contains certain forward-looking statements and information relating to us and the subsidiaries comprising our Group that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words “anticipate,” “believe,” “could,” “estimate,” “expect,” “going forward”, “future”, “prospective”, “intend,” “may,” “ought to,” “plan,” “project,” “seek,” “should,” “will,” “would” and similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our Company’s management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known or unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- our future debt levels and capital needs;
- future developments, trends and conditions in the industries and markets in which we operate;
- our strategy, plans, objectives and goals;
- general economic conditions;
- changes to regulatory and operating conditions in the industries and markets in which we operate;
- our ability to reduce costs;
- our dividend policy;
- projects under construction or planning;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and

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- certain statements in the section headed “Financial Information” in this prospectus with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

Subject to the requirements of the Hong Kong Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

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### Connected Transactions

We have entered into certain transactions which will constitute non-exempt continuing connected transactions under the Hong Kong Listing Rules upon Listing. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the announcement and/or independent shareholders' approval requirements in respect of such non-exempt continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. Further details of such continuing connected transactions are set out in the section headed "Connected Transactions" in this prospectus.

### Management Presence

According to Rules 8.12 and 19A.15 of the Hong Kong Listing Rules, an applicant applying for a listing on the Hong Kong Stock Exchange must have sufficient management presence in Hong Kong, and this normally means that at least two of its executive directors must ordinarily reside in Hong Kong. Our operations are principally in the PRC and the Group's head office situates in and substantially all of the Directors currently reside in the PRC. We do not, and in the foreseeable future will not, have sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rules 8.12 and 19A.15 of the Hong Kong Listing Rules. As a result, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Hong Kong Listing Rules, on the following conditions to ensure that regular and effective communication is maintained between the Hong Kong Stock Exchange and us:

- 1. Authorized Representatives:** We have appointed Mr. YAN Shaochun (our executive Director and President) and Mr. SANG Jinghua (our Company Secretary) as our authorized representatives (the "Authorized Representatives") for the purpose of Rule 3.05 of the Hong Kong Listing Rules. They will act as our principal channel of communication with the Hong Kong Stock Exchange. The Authorized Representatives will provide their usual contact details to the Hong Kong Stock Exchange and will be readily contactable by the Hong Kong Stock Exchange, and will be available to meet with the Hong Kong Stock Exchange to discuss any matters within a reasonably short period of time;
- 2. Directors:** When the Hong Kong Stock Exchange wishes to contact the Directors on any matter, each of the Authorized Representatives will have all necessary means to contact all the Directors (including our independent non-executive Directors) promptly at all times. We will implement the following measures: (a) each Director must provide his/her mobile number, office number, e-mail address and facsimile number to the Authorized Representatives, and (b) in the event that a Director expects to travel and/or otherwise be out of office, he/she will provide the phone number of the place of his/her accommodation to the Authorized Representatives.

We have provided the mobile number, office number, e-mail address and facsimile number of each Director to the Hong Kong Stock Exchange.



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## WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

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We have one independent non-executive Director (namely Mr. HUI Chiu Chung, Stephen) who is ordinarily resident in Hong Kong and will act as additional channel of communication between the Hong Kong Stock Exchange and us.

Each of the Directors who does not ordinarily reside in Hong Kong possesses valid travel document and can apply for visa to visit Hong Kong within a reasonably short period of time. Accordingly, each of the Directors will be able to meet with the Hong Kong Stock Exchange within a reasonable period of time;

- 3. Compliance Advisor:** We have appointed CMB International Capital Limited as our compliance advisor (the “Compliance Advisor”) in compliance with Rule 3A.19 of the Hong Kong Listing Rules, who will act as our additional channel of communication with the Hong Kong Stock Exchange during the period from the Listing Date to the date on which we comply with Rule 13.46 of the Hong Kong Listing Rules in respect of our financial results for the first full financial year immediately after Listing. The Compliance Advisor will be available to answer enquiries from the Hong Kong Stock Exchange and will act as our principal channel of communication with the Hong Kong Stock Exchange when the Authorized Representatives are not available. We have provided the Hong Kong Stock Exchange with the names, home and office telephone numbers, facsimile numbers and e-mail addresses of at least two of the Compliance Advisor’s officers who will act as the Compliance Advisor’s contact persons between the Hong Kong Stock Exchange and the Company pursuant to Rule 19A.06(4) of the Hong Kong Listing Rules.

Pursuant to Rule 19A.05(2) of the Hong Kong Listing Rules, we shall ensure that the Compliance Advisor retained by us will have access at all times to our Authorized Representatives, Directors and other officers. We shall also procure that such persons will provide promptly such information and assistance as the Compliance Advisor may need or may reasonably request in connection with the performance of the Compliance Advisor’s duties as set forth in Chapter 3A and Rule 19A.06 of the Hong Kong Listing Rules. We shall ensure that there are adequate and efficient means of communication between our Company, our Authorized Representatives, Directors and other officers and the Compliance Advisor, and will keep the Compliance Advisor informed of all communications and dealings between us and the Hong Kong Stock Exchange; and

- 4. Legal Advisor:** We shall also retain a legal advisor after Listing (i) to inform us on a timely manner of any amendment or supplement to the Hong Kong Listing Rules and any new or amended laws, regulations or codes in Hong Kong applicable to us, (ii) to provide advice to us on the continuing requirements under the Hong Kong Listing Rules and applicable Hong Kong laws and regulations as required under Rule 19A.06(3), and (iii) to provide advice to us on the application of the Hong Kong Listing Rules and other applicable Hong Kong laws and regulations relating to securities after Listing.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

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### **Clawback Mechanism**

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules such that, in the event of over-subscription of the Offer Shares, the Underwriters, after consultation with us, shall apply an alternative clawback mechanism to the provisions under Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules, following the closing of the application lists. For further information of such alternative clawback mechanism, please refer to the section headed “Structure of the Global Offering — The Hong Kong Public Offering — Reallocation” in this prospectus.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars in detail given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong and the Hong Kong Listing Rules for the purpose of giving our information to the public with regard to the Group. Our Directors, having made all reasonable enquiries confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this prospectus or any statement herein misleading.

### **APPROVAL OF THE CSRC**

The CSRC issued an approval letter on March 21, 2013 for the submission of the application to list our H Shares on the Hong Kong Stock Exchange and for the Global Offering. In granting such approval, the CSRC accepts no responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this prospectus or on the Application Forms.

### **UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING**

This prospectus is published solely in connection with the Hong Kong Public Offering. For applications under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of 66,400,000 H Shares initially offered and the International Offering of 1,261,600,000 H Shares initially offered (subject, in each case, to reallocation on the basis under the section headed "Structure of the Global Offering" in this prospectus).

The listing of our H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions being that the Offer Price is agreed between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and us. The International Offering is managed by the Joint Bookrunners. The International Underwriting Agreement is expected to be entered into on or about May 16, 2013, subject to agreement on the Offer Price between the Joint Global Coordinators (on behalf of themselves and the Underwriters) and us. Further details of the Underwriters and the underwriting arrangements are set out in the section headed "Underwriting" in this prospectus.

The H Shares are offered solely on the basis of the information contained and representations made in this prospectus and on the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in this prospectus is correct as of any subsequent time.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus, and the procedures for applying for our H Shares are set out in the section headed “How to Apply for Hong Kong Public Offer Shares” of this prospectus and on the relevant Application Forms.

### **DETERMINATION OF THE OFFER PRICE**

The H Shares are being offered at the Offer Price which will be determined by the Joint Global Coordinators (on behalf of the Underwriters) and us on or around May 16, 2013 or such later date as may be agreed upon between the Joint Global Coordinators (on behalf of the Underwriters) and us, and in any event no later than May 20, 2013. If the Joint Global Coordinators (on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on such date, the Global Offering will not proceed.

### **RESTRICTIONS ON OFFER AND SALE OF THE H SHARES**

No action has been taken to permit a public offering of the H Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation for subscription in any jurisdiction or in any circumstances in which such an offer or invitation for subscription is not authorized or to any person to whom it is unlawful to make such an offer or invitation for subscription. The distribution of this prospectus and the offering and sales of the H Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. Each person acquiring the H Shares under the Hong Kong Public Offering will be required to confirm, or be deemed by his acquisition of the H Shares to confirm, that he is aware of the restrictions on offers and sales of the H Shares in this prospectus. In particular, the H Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

### **APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE**

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of listing of, and permission to deal in, our H Shares, including (i) any H Shares which may be issued by us pursuant to the Global Offering and upon the exercise of the Over-allotment Option; and (ii) any H Shares, converted from Domestic Shares, which are to be held by the NSSF (including such Domestic Shares converted to H Shares and transferred by Sinopec Group and SAMC to the NSSF in accordance with the relevant regulations in relation to the reduction of state-owned shares and such additional Domestic Shares converted to H Shares to be further transferred to the NSSF by Sinopec

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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Group and SAMC upon the exercise of the Over-allotment Option). Our Domestic Shares may be converted to H Shares after obtaining the approval of the CSRC or the authorized approval authorities of the State Council, details of which are set out in the section headed “Share Capital — Conversion of Our Unlisted Shares into H Shares” in this prospectus.

Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence at 9:00 a.m. on May 23, 2013. Except for our pending application to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the H Shares, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Hong Kong Stock Exchange.

### **COMPLIANCE WITH THE HONG KONG LISTING RULES**

We will comply with applicable laws and regulations in Hong Kong (including the Hong Kong Listing Rules) and any other undertakings which have been given in favor of the Hong Kong Stock Exchange from time to time. If the Listing Committee finds that there has been a breach by us of the Hong Kong Listing Rules or such other undertakings which may have been given in favor of the Hong Kong Stock Exchange from time to time, the Listing Committee may instigate cancellation or disciplinary proceedings in accordance with the Hong Kong Listing Rules.

### **REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES**

We have instructed the H Share Registrar, and the H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless the holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (a) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the Company Law, the Special Regulations and our Articles of Association;
- (b) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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- (c) agrees with us and each our Shareholders that our H Shares are freely transferable by the holders of our H Shares; and
- (d) authorizes us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the H Shares or exercising rights attached to them. It is emphasized that none of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, the H Shares or exercising any rights attached to them.

### **OVER-ALLOTMENT AND STABILIZATION**

Details of the arrangement relating to the Over-allotment Option and stabilization are set out under the section headed “Structure of the Global Offering” in this prospectus.

### **PROCEDURES FOR APPLICATION FOR THE H SHARES**

The procedures for applying for the H Shares are set out in the section headed “How to Apply for Hong Kong Public Offer Shares” in the prospectus and on the Application Forms.

### **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

### **H SHARE REGISTER AND STAMP DUTY**

All the H Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on the H Share register of members of our Company maintained in Hong Kong. We will maintain the Company’s principal register of members at our current registered place in the PRC.

Dealings in the H Shares registered in the H Share register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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Unless determined otherwise by the Company, dividends payable in Hong Kong dollars in respect of our H Shares will be paid to the Shareholders listed on the H Share register of members of our Company in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder of the Company.

### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and compliance with the stock admission requirements of HKSCC, our H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our H Shares on the Hong Kong Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

### EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made and none should be construed as being made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all on such date or any other date. Unless indicated otherwise, (i) the translations between Renminbi and Hong Kong dollars were made at the rate of RMB0.80 to HK\$1.00, being the PBOC rate prevailing on April 26, 2013, (ii) the translations between Renminbi and U.S. dollars were made at the rate of RMB6.16 to US\$1.00, being the exchange rate on April 26, 2013 set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States (the "Federal Reserve Board"), and (iii) the translations between U.S. dollars and Hong Kong dollars were made at the rate of HK\$7.76 to US\$1.00, being the exchange rate on April 26, 2013 set forth in the H.10 statistical release of the Federal Reserve Board. Further information on exchange rates is set forth in "Appendix IV — Taxation and Foreign Exchange" to this prospectus.

### LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. However, the translated English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations (including certain of our subsidiaries) and the like included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency, the Chinese name prevails.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### ROUNDING

Certain amounts and percentages figures included in this prospectus have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies between totals and sums of amounts listed in any table are due to rounding.



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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**DIRECTORS**

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
CAI Xiyou (蔡希有)	No. 1004, Building 2, District 3 8 Yuhui North Road Chaoyang District Beijing PRC	Chinese
ZHANG Kehua (張克華)	No. 502, Door 2, Building 218 Huixinli Chaoyang District Beijing PRC	Chinese
LEI Dianwu (雷典武)	No. 508, Building 6, District 6 Heping Lane Dongcheng District Beijing PRC	Chinese
LING Yiqun (凌逸群)	No. 1305, Building 6, District 6 Heping Lane Dongcheng District Beijing PRC	Chinese
CHANG Zhenyong (常振勇)	No. 1-1101, Community 10 Majiabao East Road Fengtai District Beijing PRC	Chinese
YAN Shaochun (閻少春)	No. 5, Door 4, 22/F District 2, Liupukang Xicheng District Beijing PRC	Chinese

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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***Independent Non-Executive Directors***

<b><u>Name</u></b>	<b><u>Residential Address</u></b>	<b><u>Nationality</u></b>
HUI Chiu Chung, Stephen (許照中)	1st and 2nd Floor Building B1 Lok Lam Garden 5-9 Lok Yuen Path Fo Tan, Sha Tin Hong Kong	Chinese
JIN Yong (金涌)	No. 3-201, Building 10 Lanqiying Community Chengfu Road Haidian District Beijing PRC	Chinese
YE Zheng (葉政)	17th Floor, Building A 46 Nassau Street Mei Foo Sun Chuen Hong Kong	Chinese

**SUPERVISORS**

<b><u>Name</u></b>	<b><u>Residential Address</u></b>	<b><u>Nationality</u></b>
GUAN Qingjie (官慶傑)	No. 505, Building 6, District 6 Heping Lane Dongcheng District Beijing PRC	Chinese
ZHANG Jixing (張吉星)	Building 8 Tuanjehubeili Chaoyang District Beijing PRC	Chinese
ZOU Huiping (鄒惠平)	No. 610, Building 6, District 6 Heping Lane Dongcheng District Beijing PRC	Chinese
GENG Limin (耿禮民)	No. 710, Building 6, District 6 Heping Lane Dongcheng District Beijing PRC	Chinese

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
ZHU Jinbao (朱金保)	No. 14-203, Xuri Jingcheng 55 Mufu East Road Xiaguan District Nanjing PRC	Chinese
WANG Renli (王忍利)	No. 202, Unit 1, Building 46 Jian'an Lane Yingbin Street Dagang District Tianjin PRC	Chinese
WANG Yuejie (王曰傑)	No. 204, Building 1, District 3 8 Yuhui North Road Chaoyang District Beijing PRC	Chinese

**PARTIES INVOLVED IN THE GLOBAL OFFERING**

<b>Party</b>	<b>Name and Address</b>
<b>Joint Sponsors</b>	<b>J.P. Morgan Securities (Far East) Limited</b> 28/F Chater House 8 Connaught Road Central, Hong Kong
	<b>CITIC Securities Corporate Finance (HK) Limited</b> 26/F CITIC Tower 1 Tim Mei Avenue Central, Hong Kong
	<b>UBS Securities Hong Kong Limited</b> 42/F, One Exchange Square 8 Connaught Place Central, Hong Kong
<b>Joint Global Coordinators</b>	<b>J.P. Morgan Securities (Asia Pacific) Limited</b> 28/F Chater House 8 Connaught Road Central, Hong Kong

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**CITIC Securities Corporate Finance (HK) Limited**

26/F CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

**UBS AG, Hong Kong Branch**

52/F Two International Finance Centre  
8 Finance Street  
Central, Hong Kong

**Goldman Sachs (Asia) L.L.C.**

68th Floor, Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

**Joint Bookrunners and Joint Lead Managers****J.P. Morgan Securities plc**

(in the capacities as a Joint Bookrunner and as a Joint Lead Manager in relation to the International Offering)  
25 Bank Street  
Canary Wharf  
London E14 5JP  
United Kingdom

**J.P. Morgan Securities (Asia Pacific) Limited**

(in the capacity as a Joint Lead Manager in relation to the Hong Kong Public Offering)  
28/F Chater House  
8 Connaught Road  
Central, Hong Kong

**CITIC Securities Corporate Finance (HK) Limited**

26/F CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

**UBS AG, Hong Kong Branch**

52/F Two International Finance Centre  
8 Finance Street  
Central, Hong Kong

**Goldman Sachs (Asia) L.L.C.**

68th Floor, Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**China International Capital Corporation Hong Kong Securities Limited**

29th Floor, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

**The Hongkong and Shanghai Banking Corporation Limited**

1 Queen's Road Central  
Hong Kong

**Haitong International Securities Company Limited**

22/F Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

**Citigroup Global Markets Limited**

(in the capacities as a Joint Bookrunner and as a Joint Lead Manager in relation to the International Offering)  
33 Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**Citigroup Global Markets Asia Limited**

(in the capacity as a Joint Lead Manager in relation to the Hong Kong Public Offering)  
50th Floor, Citibank Tower  
3 Garden Road  
Central  
Hong Kong

**Merrill Lynch International**

(in the capacities as a Joint Bookrunner and as a Joint Lead Manager in relation to the International Offering)  
2 King Edward Street  
London EC1A 1HQ  
United Kingdom

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**Merrill Lynch Far East Limited**

(in the capacity as a Joint Lead Manager in relation to the Hong Kong Public Offering)

15/F Citibank Tower  
3 Garden Road  
Central, Hong Kong

**Deutsche Bank AG, Hong Kong Branch**

Level 52, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

**CMB International Capital Limited**

Units 1803-4  
18/F, Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong

**BOCOM International Securities Limited**

9/F., Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

**BOCI Asia Limited**

26th Floor, Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

**Auditors and Reporting Accountants****Grant Thornton Hong Kong Limited**

Certified Public Accountants  
20th Floor, Sunning Plaza  
10 Hysan Avenue  
Causeway Bay  
Hong Kong

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## DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### Legal Advisors to the Company

*as to Hong Kong and U.S. laws:*

**Allen & Overy**

9th Floor  
Three Exchange Square  
Central  
Hong Kong

*as to PRC law:*

**King & Wood Mallesons**

20th Floor, East Tower,  
World Financial Center  
1 Dongsanhuan Zhonglu  
Chaoyang District  
Beijing  
PRC

### Legal Advisors to the Underwriters

*as to Hong Kong and U.S. laws:*

**Kirkland & Ellis**

26th Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

*as to PRC law:*

**Guantao Law Firm**

17th Floor, Tower 2, Yingtai Centre  
28 Finance Street, Xicheng District  
Beijing  
PRC

### Property Valuer and Consultant

**Jones Lang LaSalle Corporate Appraisal and Advisory Limited**

6/F, Three Pacific Place  
1 Queen's Road East  
Hong Kong

### Receiving Bank

**Bank of China (Hong Kong) Limited**

1 Garden Road  
Hong Kong

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**Industry Consultants**

**CBI (Shanghai) Co., Ltd.**  
**(“ICIS China” or “ICIS Consulting”)**  
4th Floor, Tower C  
999 Jin Zhong Road  
Shanghai  
PRC

**China International Chemical Consulting Corporation**  
**(“CICCC”)**  
Building No. 16, QIQU Hepingli  
Beijing  
PRC

**Internal Control Consultant**

**Beijing Jingdu Management Consultants Co., Ltd.**  
10th Floor, Scitech Place  
22 Jianguomen Wai Avenue  
Chaoyang District  
Beijing  
PRC



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## CORPORATE INFORMATION

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<b>Registered Address</b>	A6 Huixindong Street Chaoyang District Beijing PRC
<b>Headquarters / Principal Place of Business in the PRC</b>	No. 19, Anyuan, Anhuibeili Chaoyang District Beijing PRC
<b>Place of Business in Hong Kong</b>	9th Floor Three Exchange Square Central Hong Kong
<b>Company Website</b>	www.segroup.cn (contents of this website do not form part of this prospectus)
<b>Legal Representative</b>	Mr. CAI Xiyou (蔡希有)
<b>Board Secretary / Company Secretary</b>	Mr. SANG Jinghua (桑菁華)
<b>Authorized Representatives</b>	Mr. YAN Shaochun (閆少春) No. 5, Door 4, 22/F District 2, Liupukang Xicheng District Beijing, PRC  Mr. SANG Jinghua (桑菁華) No. 2208, Building 1 6 Zuo Jia Zhuang Middle Street Chaoyang District Beijing, PRC
<b>Members of the Audit Committee</b>	Mr. YE Zheng (葉政) (Chairman) Mr. HUI Chiu Chung, Stephen (許照中) Mr. JIN Yong (金涌)
<b>Members of the Remuneration Committee</b>	Mr. HUI Chiu Chung, Stephen (許照中) (Chairman) Mr. ZHANG Kehua (張克華) Mr. JIN Yong (金涌) Mr. YE Zheng (葉政)
<b>Members of the Nomination Committee</b>	Mr. CAI Xiyou (蔡希有) (Chairman) Mr. HUI Chiu Chung, Stephen (許照中) (Vice Chairman) Mr. YAN Shaochun (閆少春) Mr. JIN Yong (金涌) Mr. YE Zheng (葉政)

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## CORPORATE INFORMATION

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**Members of the Strategy and  
Development Committee**

Mr. ZHANG Kehua (張克華) (Chairman)  
Mr. JIN Yong (金涌) (Vice Chairman)  
Mr. YAN Shaochun (閔少春)  
Mr. LEI Dianwu (雷典武)  
Mr. LING Yiqun (凌逸群)  
Mr. CHANG Zhenyong (常振勇)

**H Share Registrar**

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

**Compliance Advisor**

CMB International Capital Limited  
Unit 1803-4, 18th Floor  
Bank of America Tower  
12 Harcourt Road  
Central, Hong Kong

**Principal Bankers**

Industrial and Commercial Bank of China Limited  
Sinopec Xiaoying Tower Sub-branch  
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A6 Huixindong Street  
Chaoyang District  
Beijing  
PRC

Bank of China Limited  
Beijing Branch  
Kaiheng Center Tower  
No. 2, Chaoyangmennei Street  
Dongcheng District  
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PRC

Bank of Communications Co., Ltd.  
Yayuncun Sub-branch, Beijing Branch  
No. 4, District 2, Anhuili  
Chaoyang District  
Beijing  
PRC

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## INDUSTRY OVERVIEW

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*Except as otherwise provided in this prospectus, the information and statistics set out in this section have been extracted from various official government publications and other publications as well as industry reports we commissioned from independent industry consultants, ICIS Consulting and CICCC. We believe that the sources of such information are appropriate sources for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted rendering such information false or misleading in any material respect. The information has not been independently verified by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, representatives, affiliates or other advisers or any other persons involved in the Global Offering, and no representation is given as to its accuracy. The Company has engaged ICIS Consulting and CICCC to prepare the reports for use in whole or in part in this prospectus. The Company paid ICIS Consulting a total of RMB600,000 and CICCC a total of RMB600,000 in fees for the preparation and update of their reports.*

### OVERVIEW OF THE GLOBAL ECONOMY AND PRC ECONOMY

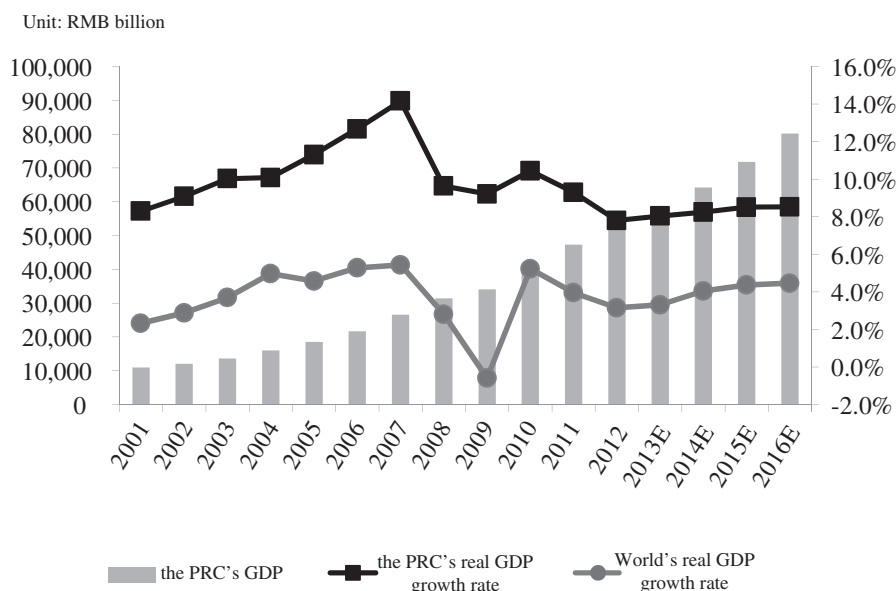
Following the global financial crisis in 2008, the global economy began to stabilize and recover in 2010. According to data provided by the International Monetary Fund (the “IMF”), the global GDP in 2012 was approximately US\$71,707.30 billion, and the CAGR of global GDP from 2001 to 2012 was approximately 3.8%. Further, the IMF forecasted that the global GDP would grow at a CAGR of approximately 4.0% from 2012 to 2016.

According to data provided by the IMF, the CAGR of the PRC’s GDP from 2001 to 2012 was greater than 10.0%. With a GDP of approximately RMB51,932.21 billion in 2012, the PRC is the second largest economy in the world. According to the target set out in the Twelfth Five-Year Plan, the PRC government expects to achieve an average annual GDP growth rate of 7.0% between 2011 and 2015. Based on the IMF forecast, the PRC will continue to be one of the fastest growing countries in the world in terms of GDP growth during the same period.

## INDUSTRY OVERVIEW

The following chart sets forth the PRC's GDP and the real GDP growth rates of the PRC and the world from 2001 to 2016 based on the IMF's data or forecast:

**Figure 1 GDP of the PRC and Real GDP Growth Rates of the PRC and the World**



Source: IMF

Note: World's GDP includes the PRC's GDP

### OVERVIEW OF THE OIL REFINING AND CHEMICAL INDUSTRIES

The oil refining and chemical industries consist of the oil refining industry and the chemical industry. The oil refining industry mainly involves the business of oil refining, a process by which crude oil is processed and refined into oil products. The chemical industry is subdivided into categories based on the type of material processed and mainly comprises the petrochemical industry, the natural gas chemical industry, the new coal chemical industry, the inorganic chemical industry and the pharmaceutical chemical industry.

The oil refining and chemical engineering industry involves the business of providing engineering and technical services throughout the entire course of projects in the oil refining and chemical industries and includes, among others, consulting, exploration, engineering, engineering technology management services, construction, construction supervision, EPC Contracting and equipment manufacturing. The participants in the PRC's oil refining and chemical engineering market include Exploration and Design Enterprises and Construction Enterprises. The business scope of Exploration and Design Enterprises mainly encompasses consulting, exploration, engineering, EPC Contracting, construction supervision and commissioning. The business scope of Construction Enterprises mainly encompasses construction, equipment installation, material erection and construction supervision.

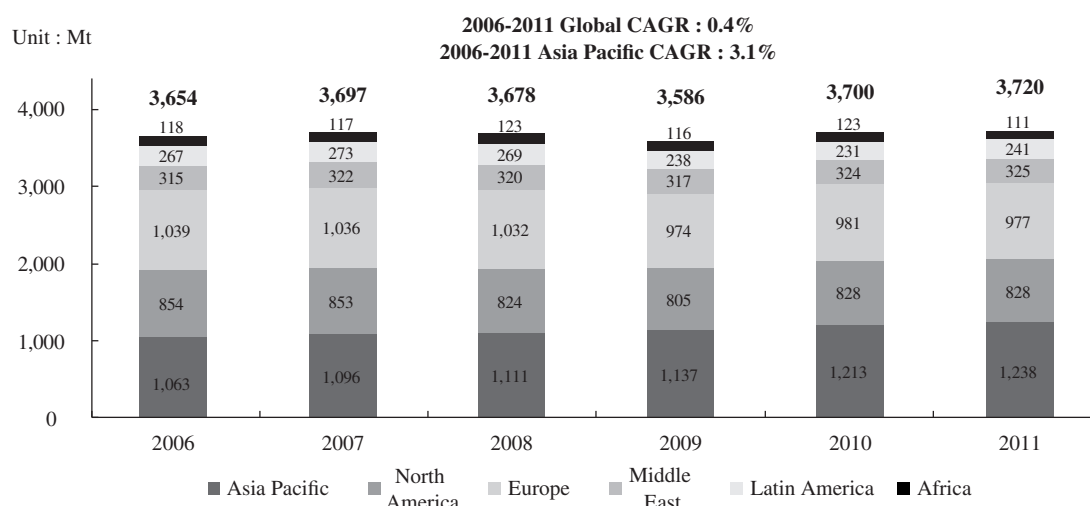


## INDUSTRY OVERVIEW

### GLOBAL DEMAND FOR OIL PRODUCTS

According to ICIS Consulting, from 2006 to 2011, the global demand for oil products increased from approximately 3,654 Mt to 3,720 Mt, representing a CAGR of approximately 0.4%. Growth in Asia Pacific and the Middle East was the main driver of this global growth, with demand for oil products increasing at a CAGR of approximately 3.1% and 0.7% from 2006 to 2011, respectively. By contrast, demand for oil products from developed markets, including Europe and North America, declined during the same period. The growth in demand from the oil refining industry of emerging markets and developing countries has been mainly driven by the development of transportation, industrialization and urbanization in such countries and regions. ICIS Consulting forecasts that, from 2011 to 2016, the global demand for oil products will grow at a CAGR of approximately 1.4%, reaching approximately 3,989 Mt by 2016.

**Figure 3 Global Demand for Oil Products**



Source: ICIS Consulting

*Note:* Crude oil throughput rather than consumption or trading volume is used to estimate the demand for oil products in each of these regions, taking into consideration that (1) using the actual consumption amounts to calculate demand may result in double-counting because some oil products are also used as raw materials for other oil products and because some oil products come from sources other than refineries; and (2) globally, total refining throughput generally approximates the total demand for oil products, whereas trading volumes in the regions presented above are small compared to actual local consumption.

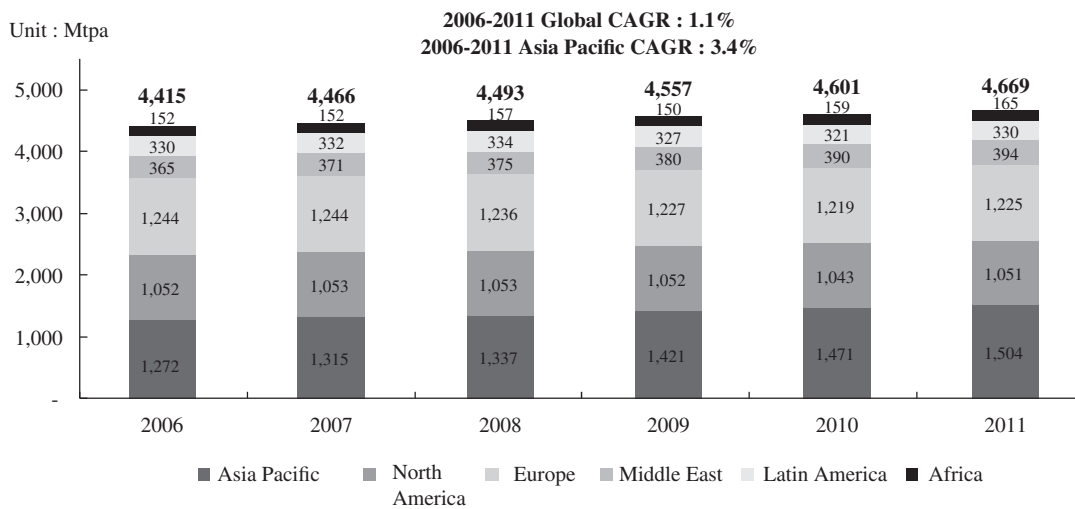
### SUPPLY IN THE GLOBAL OIL REFINING INDUSTRY

According to ICIS Consulting, from 2006 to 2011, the global oil refining capacity increased from approximately 4,415 Mtpa to 4,669 Mtpa, representing a CAGR of approximately 1.1%. The increase in global refining capacity was mainly from Asia Pacific and the Middle East, where refining capacity grew at a CAGR of approximately 3.4% and 1.5%, respectively, between 2006 and 2011. ICIS

## INDUSTRY OVERVIEW

Consulting forecasts that, driven by the increased demand for oil products from Asia Pacific, the Middle East and Latin America, the production capacity of the global oil refining industry will maintain a CAGR of approximately 1.8% from 2011 to 2016, reaching approximately 5,114 Mtpa by 2016. According to ICIS Consulting, due to factors such as overhaul and maintenance of production facilities, natural disasters and others, the operating rate of refineries around the world has remained at approximately 80.0% throughout the past five years. The operating rate is expected to remain stable in the foreseeable future.

**Figure 4 Global Oil Refining Capacity**



Source: ICIS Consulting

In Asia Pacific, the PRC is the largest contributor to the increase in oil refining capacity. ICIS Consulting forecasts that, from 2013 to 2016, approximately 151 Mtpa of additional oil refining capacity will be derived from the PRC, accounting for approximately 69.8% of the total increase in oil refining capacity in Asia Pacific forecasted for that period. In South Asia, India and Pakistan are forecasted to increase their total capacities by 23 Mtpa and 11 Mtpa, respectively. In the Middle East, Saudi Arabia is expected to be the greatest contributor of new oil refining capacity and is forecasted to increase oil refining capacity by approximately 40 Mtpa between 2013 and 2016, accounting for approximately 41.4% of the total new oil refining capacity in the Middle East forecasted for that period. The United Arab Emirates and Qatar are also expected to increase oil refining capacity by approximately 22 Mtpa and 6.3 Mtpa, respectively, between 2013 and 2016.

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## INDUSTRY OVERVIEW

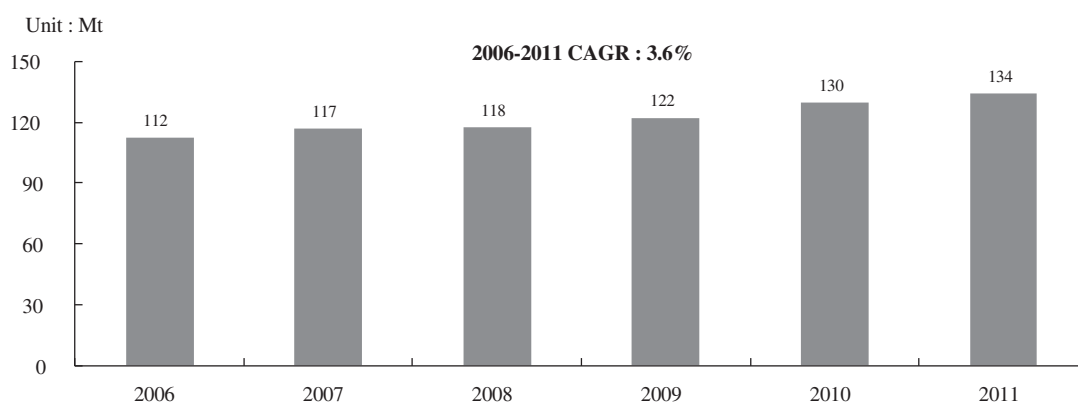
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### DEMAND IN THE GLOBAL PETROCHEMICAL INDUSTRY

Ethylene is one of the most basic raw materials used in the petrochemical industry. It is used to produce a wide variety of downstream petrochemical products, including, among others, polyethylene, polyvinyl chloride, polystyrene and ethylene glycol. Due to the importance of ethylene in the petrochemical industry, the growth of a country's ethylene industry is widely considered to be an important indicator of the development of the petrochemical industry.

According to ICIS Consulting, from 2006 to 2011, global demand for ethylene increased from approximately 112 Mt to 134 Mt, representing a CAGR of approximately 3.6%, which was mainly driven by the growth in emerging markets and developing countries as a result of urbanization, the extension and optimization of the industrial chain and improvement in the living standards in these regions. ICIS Consulting forecasts that the CAGR of the global demand for ethylene will be approximately 3.7% from 2011 to 2016, reaching approximately 160 Mt by 2016.

**Figure 5 Global Demand for Ethylene**



Source: ICIS Consulting

### SUPPLY IN THE GLOBAL PETROCHEMICAL INDUSTRY

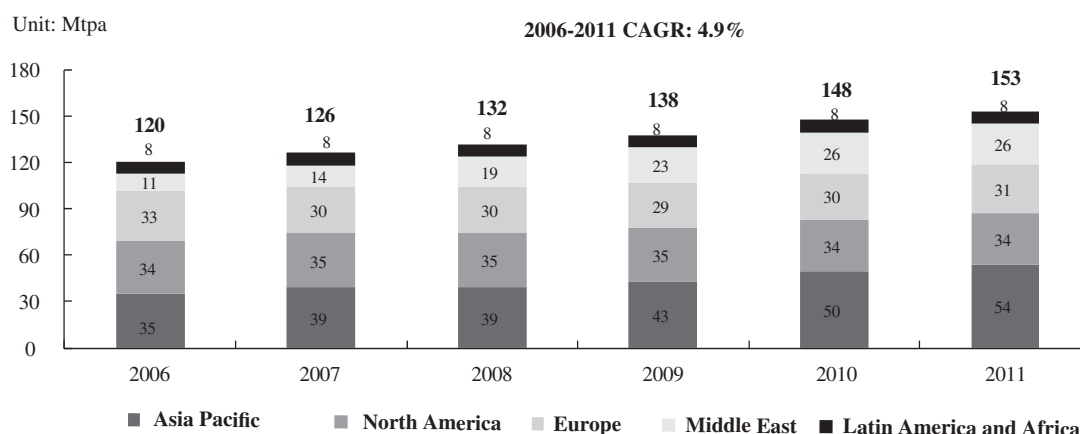
According to ICIS Consulting, from 2006 to 2011, global ethylene production capacity increased from approximately 120 Mtpa to 153 Mtpa, representing a CAGR of approximately 4.9%. The additions of production capacity was mainly from Asia Pacific, especially the PRC. ICIS Consulting forecasts that, between 2011 and 2016, the global ethylene production capacity will grow at a CAGR of approximately 3.7%, reaching approximately 184 Mtpa by 2016. This forecast is made on the basis of the announced ethylene expansion plans of various countries, as well as on the basis of the growing demand for petrochemical products in Asia Pacific, the expansion of the petrochemical industrial chain in the Middle East and the development of low-cost shale gas as feedstock in North America. The global ethylene operating rate decreased gradually from approximately 93.2% to 87.6% from 2006



## INDUSTRY OVERVIEW

to 2011 due to the expansion of production capacity in Asia Pacific and the Middle East. According to ICIS Consulting's forecast, the global ethylene operating rate may remain stable till 2016.

**Figure 6 Global Ethylene Production Capacity**



Source: ICIS Consulting

*Note:* Ethylene production capacities in the figure above and this section include only the capacity that can be sourced from the petrochemical industry (including ethylene production capacity associated with ethane associated production in oil and gas exploration, but excluding the coal-to-olefin based ethylene production capacity). Global coal-to-olefin based ethylene production capacity is mostly located in the PRC. From 2012 to 2016, increase of production capacity of the PRC's coal-to-olefin based ethylene is expected to be approximately 5.3 Mtpa.

According to ICIS Consulting, the global ethylene production capacity is expected to increase significantly from 2013 to 2016. In Asia Pacific, the increase of ethylene production capacity from the PRC and India during this period is expected to be approximately 4.2 Mtpa and 3.1 Mtpa, respectively, accounting for approximately 30.1% and 22.2%, respectively, of the total expected increase of ethylene production capacity in Asia Pacific. In Central Asia, Kazakhstan is planning to build an additional ethylene production capacity of approximately 0.8 Mtpa during the same period. In the Middle East, Saudi Arabia, the largest petrochemical engineering construction country in the region, is expected to increase its ethylene production capacity by approximately 1.8 Mtpa between 2013 and 2016, accounting for approximately 24.7% of the total expected increase of ethylene production capacity in the Middle East, while the United Arab Emirates and Qatar are planning to build additional ethylene production capacities of approximately 1.5 Mtpa and 0.4 Mtpa, respectively, by 2016.

### Investment in the Global Oil Refining and Chemical Industries

To a certain extent, the global oil refining and chemical market is cyclical, as economic cycles and conditions and fluctuations in demand in major countries and regions generally have a direct effect on the level of capital expenditures in downstream industries. Economic growth tends to drive demand for oil refining and chemical products, resulting in increased investment in these industries, while the opposite tends to occur in an economic downturn. In addition, fluctuations in international

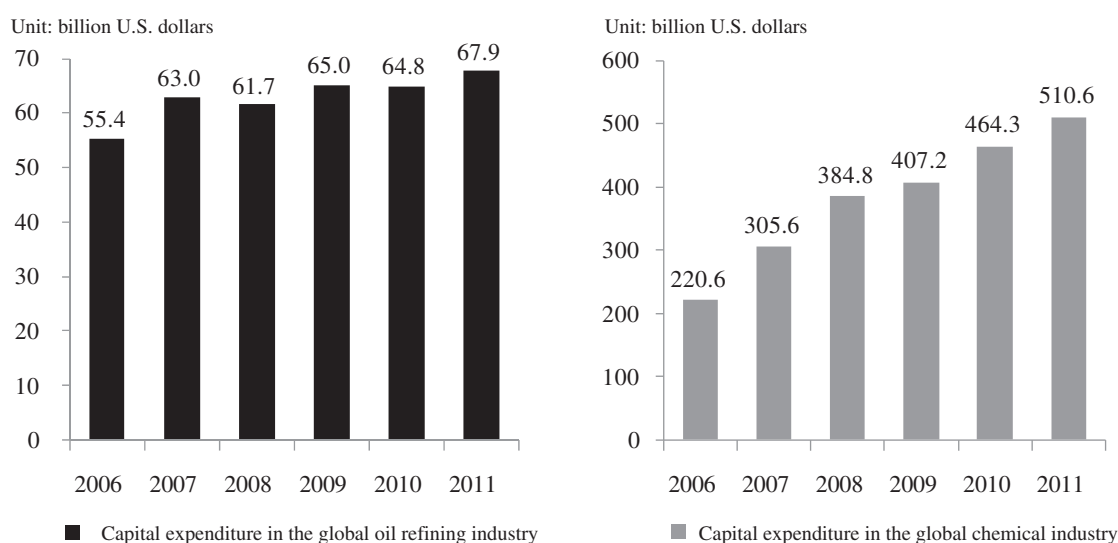
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## INDUSTRY OVERVIEW

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crude oil prices also affect the oil refining and chemical markets and result in changes to the level of capital expenditures of these industries. According to ICIS Consulting, new refineries are expected to be built in the Middle East and Asia Pacific as a result of an increase in market demand, improvements in technology, investments by new market players and implementation of policies related to energy conservation, emissions reduction and overhaul and maintenance of production facilities. From 2011 to 2016, capital expenditure of the global oil refining industry is expected to grow at a CAGR of approximately 3.6%, and capital expenditure of the global chemical industry is expected to grow at a CAGR of approximately 9.5%.

**Figure 7 Capital Expenditures of the Global Oil Refining and Chemical Industries**



Source: American Chemistry Council, ICIS Consulting

Note: In this figure, chemical industry covers all types of basic and fine chemicals, including pharmaceutical chemicals.

### THE OIL REFINING AND CHEMICAL INDUSTRIES IN THE PRC

The PRC's steady economic growth, urbanization and industrialization, as well as the rapid development of its emerging industries, have increased the demand for oil and chemical products and contributed to the growth in the scale and level of expertise in the oil refining and chemical industries in the PRC. In addition, as the development of the global chemical industry shifts towards emerging economies such as the PRC, the growth prospects of the oil refining and chemical markets in the PRC and the innovations in, and application of, new oil refining and chemical technologies are expected to further support the development of the PRC oil refining and chemical industries.

The oil refining and chemical industries play an important role in the PRC economy. In 2011, the total output of the PRC oil refining and chemical industries accounted for approximately 11.3% of the national industrial output and contributed approximately 5.0% of the GDP.

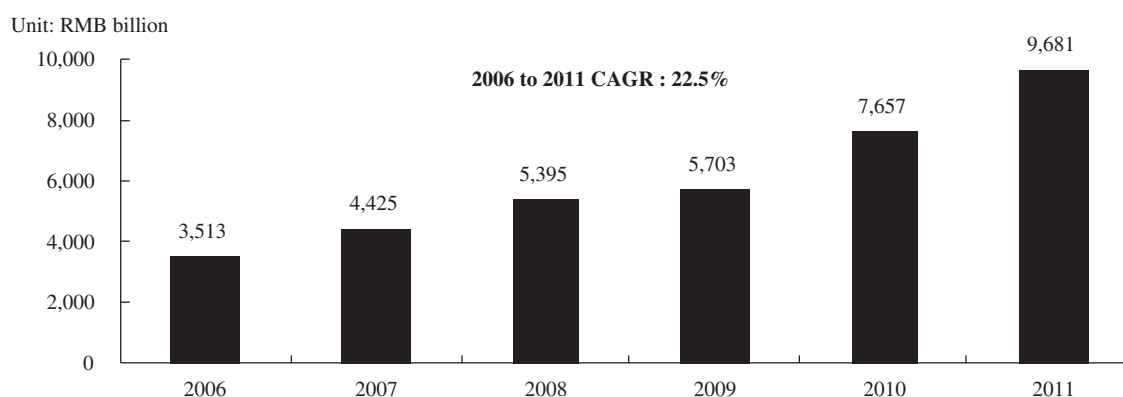
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## INDUSTRY OVERVIEW

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Since 2000, the PRC oil refining and chemical industries have been developing rapidly. The PRC is now one of the world's major producers and consumers of petrochemical products and ranks among the world's leading producers of high volume products such as oil products, ethylene and synthetic resin. In 2011, the total output of the PRC oil refining and chemical industries was approximately RMB9,680.97 billion, representing a CAGR of approximately 22.5% from 2006 to 2011. The Twelfth Five-Year Development Plan for Petrochemical and Chemical Industries (石化和化學工業「十二五」發展規劃) set the target annual growth rate of the total output of oil refining and chemical industries at approximately 13.0% for the period from 2010 to 2015.

**Figure 8 Total Output of the PRC Oil Refining and Chemical Industries**



Source: CICCC

Notes: Oil and gas extraction and chemical equipment manufacturing are excluded.

### THE OIL REFINING AND CHEMICAL ENGINEERING INDUSTRY IN THE PRC

In 2011, the market size of the PRC oil refining and chemical engineering industry reached approximately RMB348.52 billion, representing a CAGR of approximately 28.8% from 2006 to 2011. The market size of Exploration and Design Enterprises and Construction Enterprises reached approximately RMB129.50 billion and RMB219.02 billion, respectively, in 2011, representing a CAGR of approximately 32.8% and 26.7%, respectively, from 2006 to 2011.

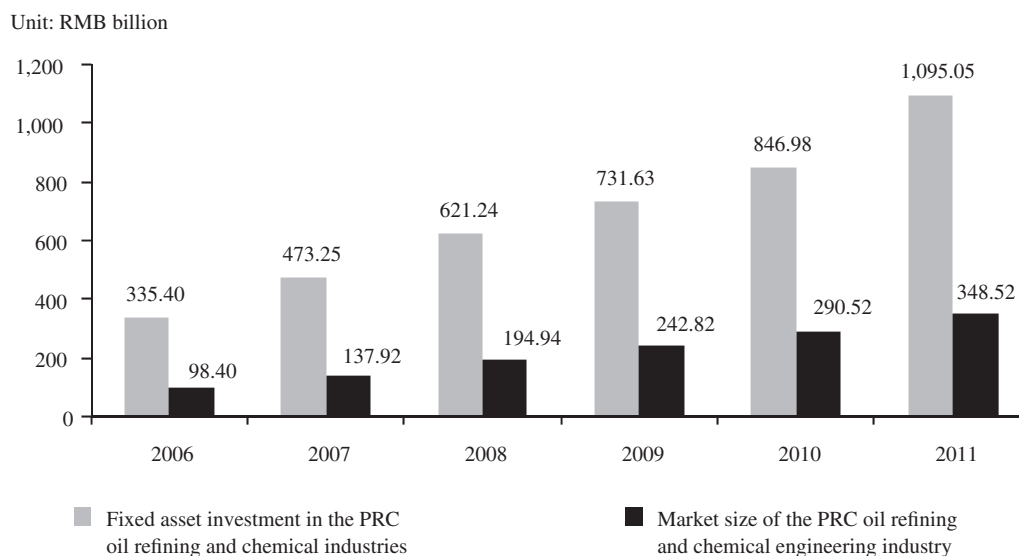
From 2007 to 2011, the aggregate value of fixed asset investment (comprising, among others, engineering and construction costs, equipment purchase costs, installation costs and other costs for construction works) in the PRC oil refining and chemical industries was approximately RMB3,768.15 billion, while the market size of the oil refining and chemical engineering industry reached approximately RMB1,214.72 billion, indicating that an average of approximately 32.2% of the fixed asset investment in the oil refining and chemical industries was reflected in the overall market size of the PRC oil refining and chemical engineering industry.

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## INDUSTRY OVERVIEW

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**Figure 9 Market Size of the PRC Oil Refining and Chemical Engineering Industry**



Source: China Petroleum and Chemical Industry Federation, CCCCC

Notes: Market size is based on the value of completed contracts in a given year, unless otherwise specified.

With respect to oil refining and chemical projects in the PRC, Exploration and Design Enterprises generally account for a smaller market share based on contract value than Construction Enterprises due to the smaller proportion of projects in the PRC adopting the EPC model (unlike internationally, where the EPC model is usually adopted). With the increasing popularity of the EPC Model in the PRC, the market share of Exploration and Design Enterprises is expected to increase.

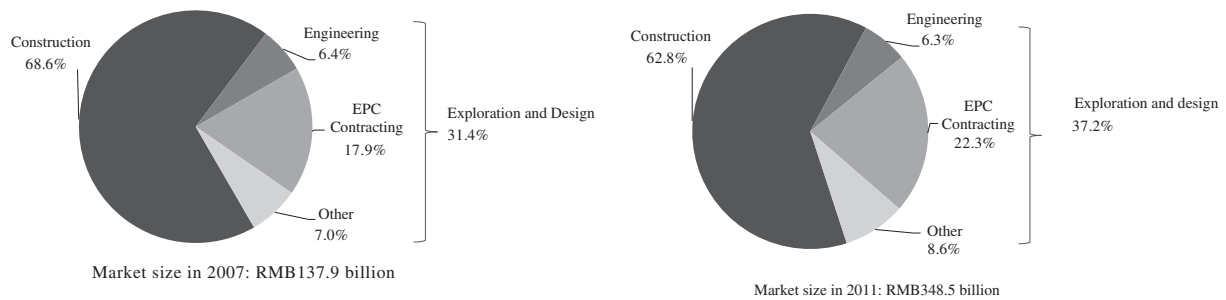
CICCC forecasts that fixed asset investment in the PRC oil refining and chemical industries will increase to approximately RMB2,245.40 billion by 2016, representing a CAGR of approximately 15.4% from 2011 to 2016. The portion of this fixed asset investment attributable to the oil refining and chemical engineering sector is expected to increase during this period. CICCC forecasts that the market size of the PRC oil refining and chemical engineering industry will increase to approximately RMB740.98 billion by 2016, representing a CAGR of approximately 16.3% from 2011 to 2016.

### Market Structure

In 2011, the market share of Exploration and Design Enterprises in the PRC oil refining and chemical engineering market was approximately 37.2%, of which EPC Contracting service accounted for approximately 60.0% and engineering service accounted for approximately 16.9%, while exploration, consulting, technology management and other services each accounted for relatively small proportions of the market share. Based on current development trends, the EPC model is expected to become more common in the PRC. In connection with the increasing use of the EPC model, Exploration and Design Enterprises are expected to gain part of the market share currently held by Construction Enterprises and procurement business traditionally undertaken by project owners. By 2016, CICCC forecasts that the market share of Exploration and Design Enterprises in the PRC oil refining and chemical engineering market is expected to increase to approximately 42.4%.

## INDUSTRY OVERVIEW

**Figure 10 Comparative Market Structure of the PRC Oil Refining and Chemical Engineering Market in 2007 and 2011**

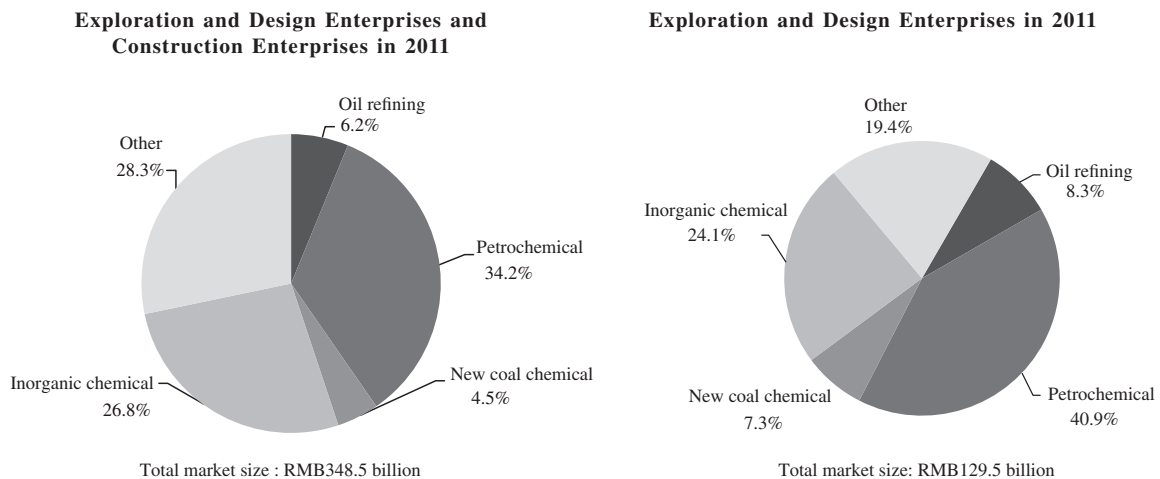


Source: CICCC

### Market Segments

Oil refining and chemical engineering projects are mainly commissioned by customers in the oil refining, petrochemical, new coal chemical, inorganic chemical and other chemical industries. Petrochemical industry accounts for the largest share in terms of its contribution to the PRC oil refining and chemical engineering market, while new coal chemical industry has experienced the fastest growth. CICCC forecasts that in the future, given the substantial investment in, and fast growth of, the new coal chemical industry, as well as the increasing popularity of the EPC model in new coal chemical engineering projects, the new coal chemical industry will be the largest contributor to the growth of the PRC oil refining and chemical engineering market, while the oil refining, petrochemical, inorganic chemical and other industries will maintain steady growth.

**Figure 11 Market Segments of the Oil Refining and Chemical Engineering Sector in 2011**



Source: CICCC

Note: "Other" mainly comprises organic pesticides, paint, ink and dye, specialty chemicals and rubber products.

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## INDUSTRY OVERVIEW

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### Industry Drivers

- Growth in demand for oil and chemical products. With increasing urbanization and domestic demand, there continues to be significant potential for development of the PRC's oil and major chemical products market. Consumption of oil products in the PRC was approximately 262.9 Mt in 2011, and CICC forecasts that the consumption of oil products in the PRC will increase by approximately 66.9 Mt to 329.8 Mt by 2016. The ethylene equivalent consumption in the PRC was approximately 31.3 Mt in 2011 and is forecasted to increase by approximately 8.4 Mt to 39.7 Mt by 2016. Driven by this growing market demand, the domestic production capacity for oil and chemical products is expected to continue to increase, which will drive the development of the oil refining and chemical engineering market.
- Growth in investments in the oil refining and chemical industries. Fixed asset investment in these industries reached approximately RMB1,095.05 billion in 2011, with a CAGR of over 20.0% from 2001 to 2011. The growth in investments in the oil refining and chemical industries in the PRC is forecasted by CICC to remain steady, and will directly drive the continued growth of the oil refining and chemical engineering industry.
- Acceleration of the rate of technological innovation. Technological innovation is an internal driver in the development of the oil refining and chemical industries and the growth of the oil refining and chemical engineering market. In recent years, raw material diversification technologies, such as new coal chemical and light hydrocarbon utilization, have attracted significant attention and gained government support, making them investment hotspots in the PRC oil refining and chemical industries. These new technologies are expected to create the fastest-growing market in the oil refining and chemical engineering industry, providing great business opportunities for well-positioned engineering companies.
- Diversified development by the major market players. In recent years, the rapidly developing oil refining and chemical industries have attracted and been stimulated by large amounts of foreign capital and private domestic capital. New entrants in the market have generated demand for more professional and systematic services from engineering companies, which belong to the Exploration and Design Enterprises. Moreover, the EPC model has become more common in the engineering market. Such factors have contributed to, and are expected to continue contributing to, the development of the oil refining and chemical engineering market.
- Effects of favorable government policies. For the duration of the Twelfth Five-Year Plan, the PRC will continue to focus on its commitment to energy conservation, emissions reduction and closure of obsolete production facilities. It has also announced that it will focus more on the structural adjustment of the oil refining and chemical industries requiring clean development and establishment of more industrial parks. These policies are expected to drive a number of engineering projects with the aim of upgrading facilities and aggregating developments, which will create new business opportunities in the oil refining and chemical engineering industry.

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## INDUSTRY OVERVIEW

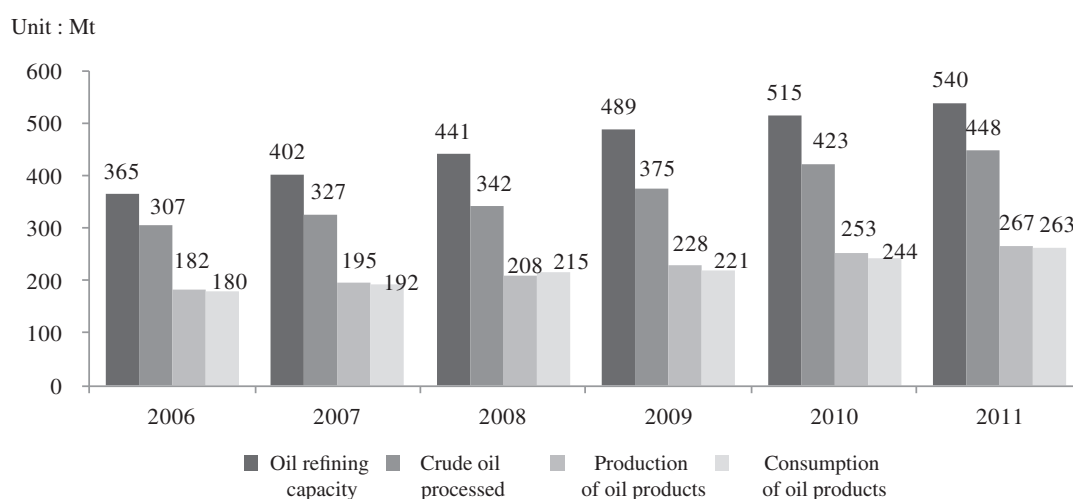
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### THE OIL REFINING INDUSTRY IN THE PRC

Between 2006 and 2011, the CAGR of oil products demand in the PRC was approximately 7.8%, while the CAGR of the production of oil products was approximately 8.0%, indicating a general balance between demand and supply in the market. According to CICCC, as of the end of 2011, oil refining processing capacity in the PRC was approximately 540.0 Mtpa, making the PRC the second largest in the world in terms of oil refining processing capacity. The annual crude oil processed in the PRC was approximately 447.7 Mt in 2011 and industry operating rate in the PRC was approximately 82.9%, which was relatively high compared to previous years. Production and consumption of oil products (including gasoline, diesel and kerosene) in 2011 in the PRC were approximately 267.0 Mt and 262.9 Mt, respectively. From 2006 to 2011, the CAGR of crude oil processed, the production and consumption of oil products in the PRC was approximately 7.9%, 8.0% and 7.8%, respectively.

CICCC forecasts that demand for energy products in the PRC will continue to increase in line with economic development and demand for oil products is forecasted to reach approximately 329.8 Mt by 2016, representing a CAGR of approximately 4.6% from 2011 to 2016.

**Figure 12 The Supply and Demand of the Oil Refining Industry in the PRC**



Source: NBSC, CICCC

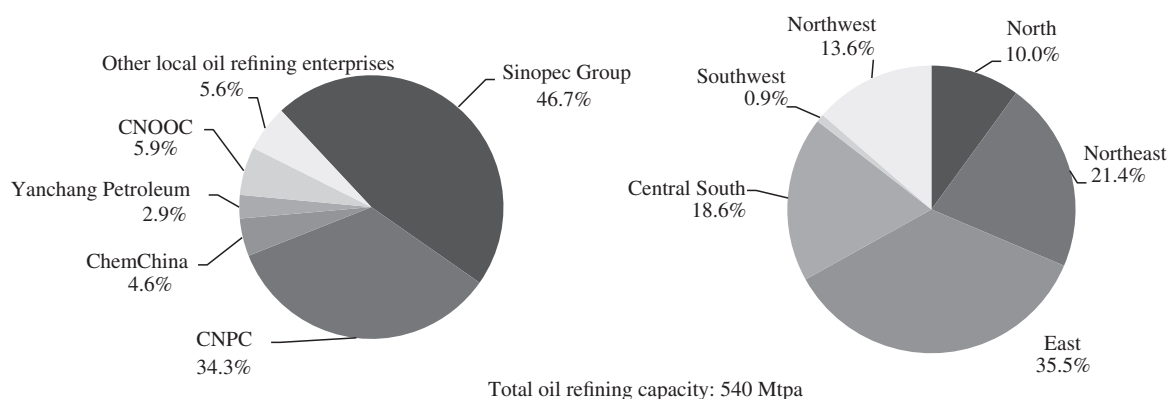
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## INDUSTRY OVERVIEW

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The oil refining capacity in the PRC as of the end of 2011 by company and by region is indicated in Figure 13.

**Figure 13 Oil Refining Capacity in the PRC in 2011 by Company and by Region**



Source: CICC

Note: “Sinopec Group” refers to China Petrochemical Corporation. “CNPC” refers to China National Petroleum Corporation. “CNOOC” refers to China National Offshore Oil Corporation. “ChemChina” refers to China National Chemical Corporation. “Yanchang Petroleum” refers to Shaanxi Yanchang Petroleum (Group) Corp. Ltd.

In recent years, a clear trend toward large-scale developments has emerged in the PRC oil refining industry, with twenty-three 10 Mtpa capacity oil refining units currently in operation with an aggregate oil refining processing capacity of approximately 288.8 Mtpa, representing approximately 53.5% of the total domestic capacity. Moreover, each of Sinopec Group, CNPC, CNOOC and SinoChem’s oil refinery projects that are newly constructed or under construction have or will have a capacity of 10 Mtpa or more.

Throughout the duration of the Twelfth Five-Year Plan, the PRC has planned to construct a number of large-scale oil refinery projects and implement several modification and expansion projects. CICC forecasts that, from 2012 to 2016, the oil refining processing capacity in the PRC will increase by approximately 188.0 Mtpa, including approximately 116.5 Mtpa of newly constructed capacity, for a total processing capacity of approximately 728.0 Mtpa by 2016.

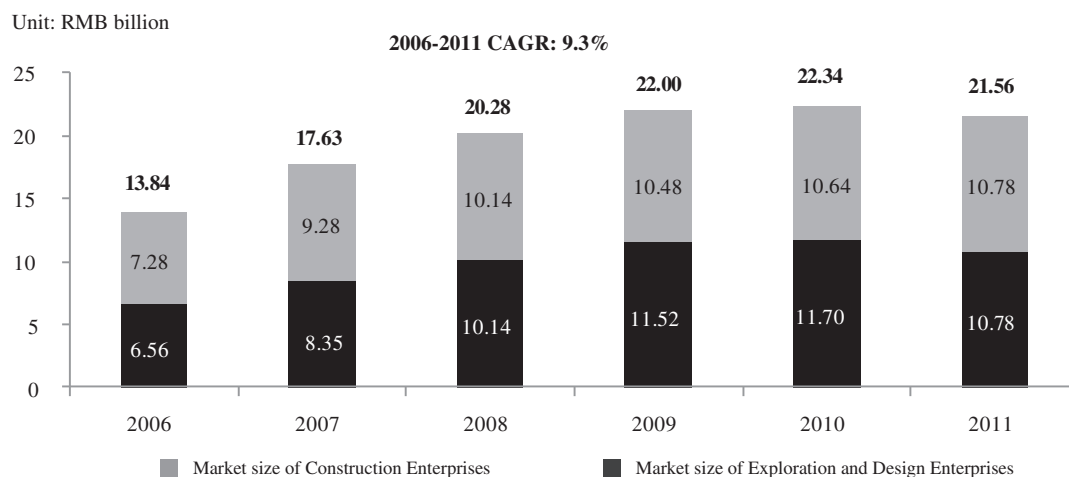


## INDUSTRY OVERVIEW

### The PRC Oil Refining Engineering Industry

According to CICC, in 2011, fixed asset investment in the PRC oil refining industry reached approximately RMB53.89 billion, representing a CAGR of approximately 8.1% from 2006 to 2011. In 2011, the oil refining engineering market size in the PRC reached approximately RMB21.56 billion, representing a CAGR of approximately 9.3% from 2006 to 2011.

**Figure 14 Market Size of the PRC Oil Refining Engineering Industry**



Source: CICC

CICC forecasts that, between 2011 and 2016, the CAGR of fixed asset investment in the PRC oil refining engineering industry will be approximately 5.1%. The average annual growth rate of the oil refining engineering industry is comparable to that of its fixed asset investment. By 2016, the market size of the PRC oil refining engineering industry is forecasted to reach approximately RMB27.64 billion, representing a CAGR of approximately 5.1% from 2011 to 2016.

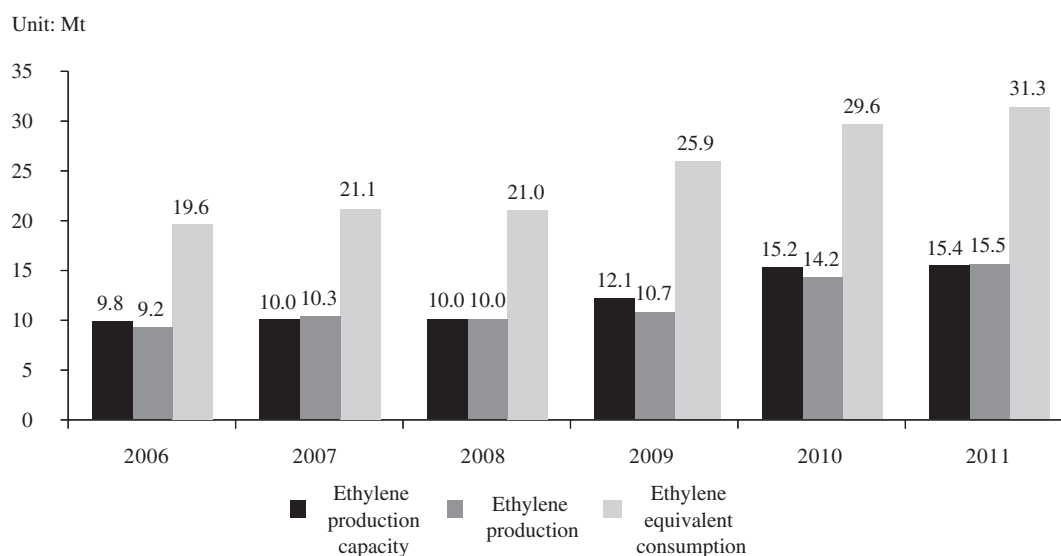
### THE PETROCHEMICAL INDUSTRY IN THE PRC

The rapid development of the PRC economy in recent years has led to a strong growth in the demand for ethylene, a basic petrochemical raw material. Between 2006 and 2011, the CAGR of ethylene equivalent demand in the PRC was approximately 9.8%. The strong growth in demand drove investment in the ethylene industry. During the same period, the CAGR of ethylene production capacity in the PRC was approximately 9.3%, which was slightly below the growth rate of demand. According to CICC, as of the end of 2011, ethylene production capacity in the PRC was approximately 15.4 Mtpa while production was approximately 15.5 Mt, indicating that production facilities were operating at full capacity. The PRC has become the world's second largest ethylene producer behind the United States. However, the PRC's ethylene equivalent self-sufficiency rate, which equals to domestic production divided by domestic ethylene equivalent consumption, is still low. In 2011, the domestic ethylene equivalent consumption in the PRC reached approximately 31.3 Mt, while the ethylene equivalent self-sufficiency rate was only approximately 49.5%. Hence, CICC believes that the petrochemical industry, especially ethylene production, possesses great growth potential in the long run.

## INDUSTRY OVERVIEW

CICCC forecasts that the PRC's economic development will continue to stimulate the demand for ethylene and downstream products. From 2011 to 2016, the CAGR of ethylene equivalent consumption is expected to be approximately 4.9%, reaching approximately 39.7 Mt by 2016.

**Figure 15 Supply and Demand in the PRC Ethylene Industry**

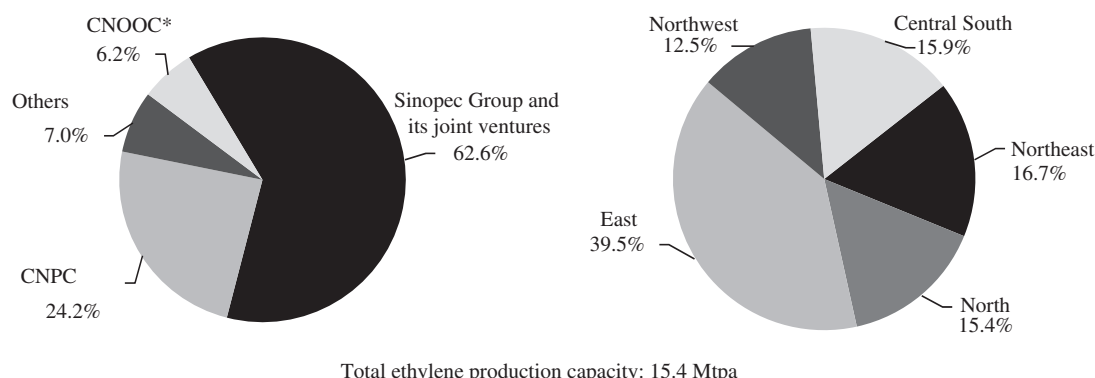


Source: CICCC

Note: Ethylene equivalent consumption is the sum of domestic ethylene demand, net ethylene imports and net imports of ethylene downstream derivatives as converted into net ethylene demands.

The distribution of the ethylene production capacity in the PRC as of the end of 2011 by company and by region is indicated in Figure 16.

**Figure 16 Ethylene Production Capacity in the PRC in 2011 by Company and by Region**



Source: CICCC

Notes: (1) CNOOC\* refers to CNOOC and Shell Petrochemicals Company Limited  
 (2) Other ethylene production companies include China National Chemical Corporation, China North Industries Group Corporation and Shenhua Group Corporation Limited.

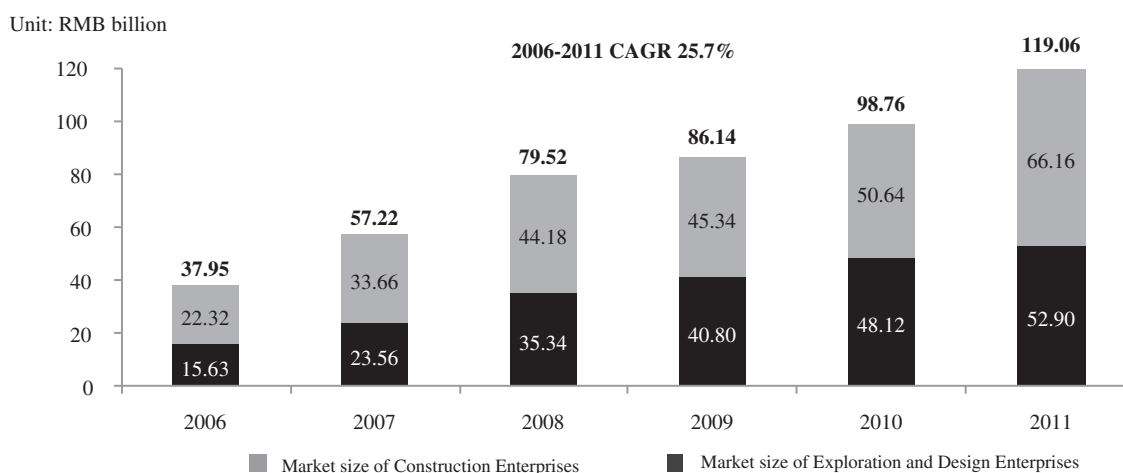
## INDUSTRY OVERVIEW

In line with the goal of increasing the domestic olefin production capacity and self-sufficiency rate set forth in the Twelfth Five-Year Plan for the Olefin Industry, the production capacity of the ethylene industry in the PRC is expected to grow at a faster rate than demand. CICC expects approximately seven new construction, modification or expansion of steam cracking ethylene projects to be completed between 2012 and 2016, providing additional ethylene production capacity of approximately 5.7 Mtpa in total. Taking into account the capacity growth derived from coal-to-olefins and other new development with respect to ethylene production, the ethylene production capacity in the PRC is forecasted to reach approximately 26.4 Mtpa by the end of 2016, an increase of approximately 11.0 Mt compared to the capacity in 2011.

### The PRC Petrochemical Engineering Industry Market

According to CICC, in 2011, fixed asset investment in the PRC petrochemical industry (which comprises olefins, aromatics, organic materials and synthetic materials in this case) was approximately RMB330.76 billion, representing a CAGR of approximately 24.3 % from 2006 to 2011. The market size of the PRC petrochemical engineering industry was approximately RMB119.06 billion in 2011, representing a CAGR of 25.7% from 2006 to 2011.

**Figure 17 Market Size of the PRC Petrochemical Engineering Industry**



Source: CICC

CICC forecasts that, from 2011 to 2016, the CAGR of fixed asset investment in the PRC petrochemical industry will be approximately 14.0%. During the same period, the CAGR of the PRC petrochemical engineering industry is forecasted to be approximately 15.2%, and the market size of the PRC petrochemical engineering industry is forecasted to reach approximately RMB241.24 billion by 2016.

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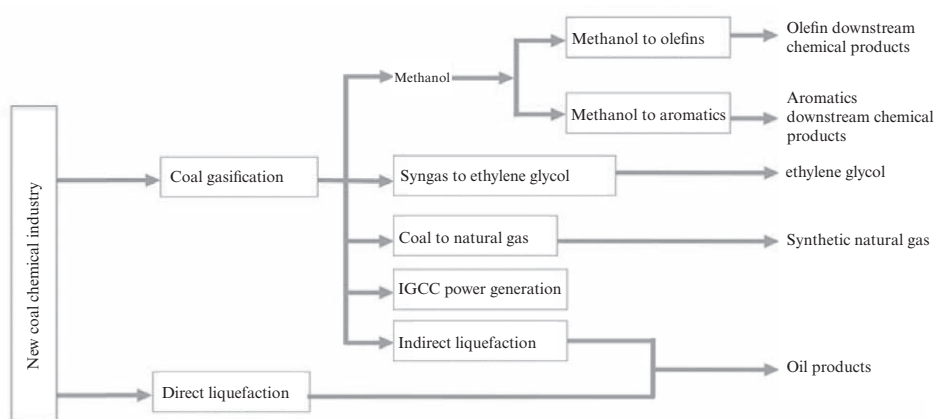
## INDUSTRY OVERVIEW

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### THE NEW COAL CHEMICAL INDUSTRY IN THE PRC

The coal chemical industry includes the conventional coal chemical industry and the new coal chemical industry. Conventional coal chemicals, which include coking, calcium carbide, synthetic ammonia and methanol, currently suffer from severe overcapacity. The focus of the new coal chemical industry is to convert coal directly to oil products, natural gas or oil alternatives for use as raw materials for the production of olefins and other basic organic materials. New coal chemicals include coal-to-olefins, coal-to-natural-gas, coal-to-ethylene-glycol and coal-to-liquids.

**Figure 18 Basic Categories of the New Coal Chemical Industry**



Source: CICCC

The primary policy directive for the coal chemical industry under the Twelfth Five-Year Plan is “appropriate setup and upgrade demonstration (適度佈局, 升級示範).” This policy places emphasis on various factors, such as resources, the environment, the regional economy and appropriateness when setting up in key coal-producing provinces and regions, and to combine upgrade demonstration with restructure of the conventional coal chemical industry; and adopting a development model that involves centralization, industry integration, development of industries of scale and accelerating the commercialization of advanced technologies. The main focus of the commercialization directive is on the coal-to-olefins, coal-to-natural gas, coal-to-ethylene-glycol and coal liquefaction sectors.

As of the end of 2011, the PRC has one megaton direct coal liquefaction unit, three indirect coal liquefaction units, three coal-to-olefins units and one coal-to-ethylene-glycol unit. The production capacities of the PRC coal liquefaction, coal-to-olefins and coal-to-ethylene-glycol sectors reached approximately 1.6 Mtpa, 1.3 Mtpa and 0.2 Mtpa, respectively, by the end of 2011. The vast majority of these established projects in the new coal chemical industry were located in the Inner Mongolia Autonomous Region, with others in Henan, Shanxi and Ningxia.

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## INDUSTRY OVERVIEW

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The PRC new coal chemical industry has developed quickly, with a focus on oil alternatives, and is on track for commercialization. Currently, a number of new coal chemical projects in the PRC are being implemented or are in preliminary stages. CICCC forecasts that the total planned investment in new coal chemical projects under construction and proposed to be constructed between 2012 and 2016 will exceed RMB1 trillion. Taking into account the stages of project implementation, completed investment is expected to reach approximately RMB617.9 billion in total. Projects under construction and proposed to be constructed in the new coal chemical industry in the PRC between 2012 and 2016 are in Table 1.

**Table 1 Projects Under Construction and Proposed Projects  
in the PRC New Coal Chemical Industry from 2012 to 2016**

Projects	Total additional annual capacity	Total expected investment amounts <i>(RMB billion)</i>
Coal-to-olefins .....	11.5 Mt	329.5
Coal-to-natural-gas .....	81.5 billion m <sup>3</sup>	534.0
Coal-to-ethylene-glycol .....	4.2 Mt	62.0
Coal-to-liquids .....	19.2 Mt	250.0

*Source: CICCC*

### **The PRC New Coal Chemical Engineering Industry Market**

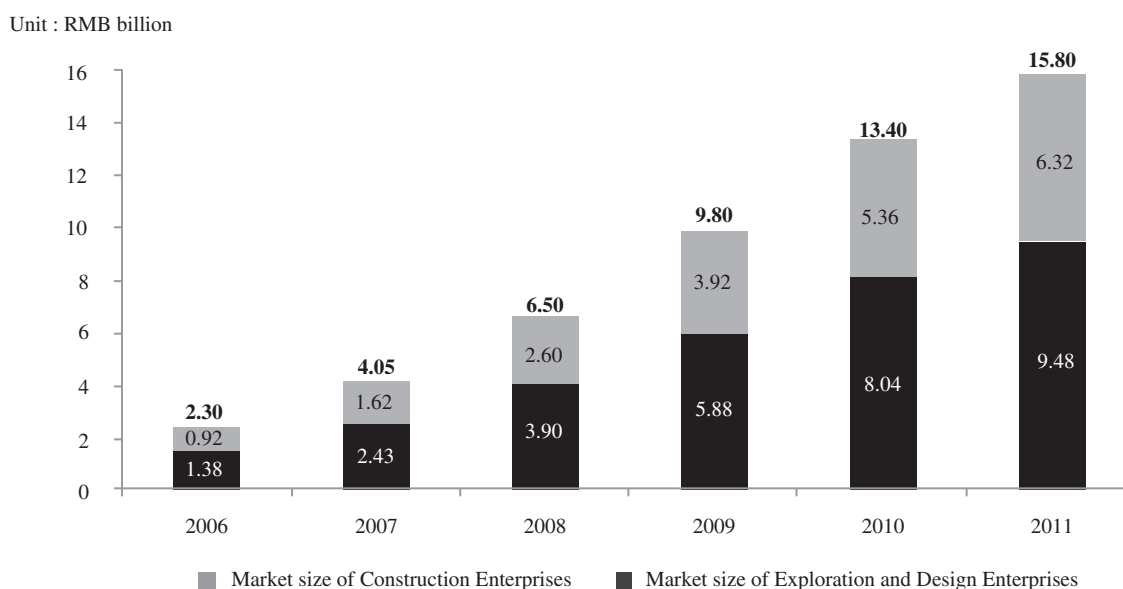
The construction of new coal chemical projects in the PRC began with the Shenhua Erdos Coal Liquefaction Project in 2006. Since then, more than ten coal-to-olefins, coal-to-natural-gas, coal-to-ethylene-glycol and coal-to-liquids projects have been constructed and commenced operation, driving the rapid development of the new coal chemical engineering industry in the PRC. According to CICCC, between 2007 and 2011, the fixed asset investment in the new coal chemical sector was approximately RMB100 billion, and the aggregate market size of the PRC new coal chemical engineering industry was approximately RMB50 billion, of which coal-to-olefins, coal-to-natural-gas, coal-to-ethylene-glycol and coal-to-liquids accounted for approximately RMB24 billion, RMB16 billion, RMB5 billion and RMB5 billion, respectively. According to CICCC, the new coal chemical engineering market size in the PRC reached approximately RMB15.80 billion in 2011, representing a CAGR of approximately 47.0% from 2006 to 2011.

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## INDUSTRY OVERVIEW

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**Figure 19 Market Size of the PRC New Coal Chemical Engineering Industry**



Source: CICCC

For the duration of the Twelfth Five-Year Plan, the new coal chemical industry will focus on developing “demonstration projects of deep coal processing” (select large-scale new coal chemical projects in areas with coal reserves) and “developing upgrade demonstration projects that integrate coal conversion, electric power and chemical engineering” in order to reform the methods of utilizing coal resources to achieve efficient and clean use of coal. CICCC forecasts that, from 2011 to 2016, fixed asset investment in the PRC new coal chemical industry will grow relatively quickly, at a CAGR of 41.6%. Meanwhile, the market size of the PRC new coal chemical engineering industry is forecasted to expand significantly to approximately RMB90 billion by 2016.

### THE INORGANIC CHEMICAL INDUSTRY IN THE PRC

Inorganic chemicals are an important component of the PRC chemical industry. Inorganic chemicals mainly include three types of acids (sulfuric acid, nitric acid and hydrochloric acid), two types of alkali (caustic soda and calcined soda) and fertilizers, among others. According to CICCC, the output of the inorganic chemical industry was RMB1,683.8 billion in 2011, representing a CAGR of approximately 22.9% from 2006 to 2011.

At present, there are different degrees of overcapacity in the production of certain main inorganic chemical products, such as caustic soda, calcium carbide and calcined soda, in the PRC. Meanwhile, the fertilizer sector, which is of great importance in supporting the PRC agricultural industry and of special significance in the chemical industry, has maintained steady growth in recent years. Within the inorganic chemical industry, the fertilizer sector is expected to maintain steady growth and has relatively better growth prospects.

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## INDUSTRY OVERVIEW

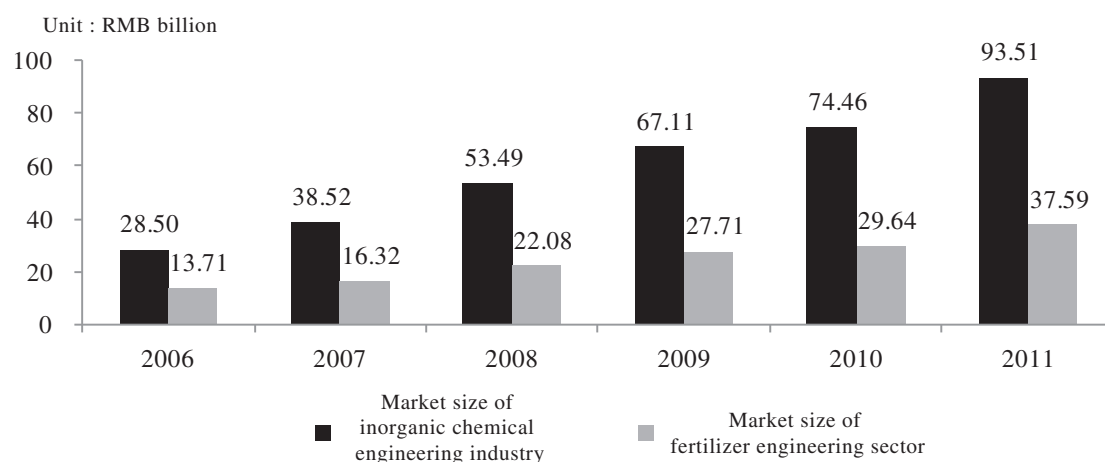
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The PRC is one of the largest fertilizer producers and consumers in the world. For the duration of the Eleventh Five-Year Plan, the average annual growth rate of fertilizer production in the PRC was approximately 5.0%. According to the NBSC, in 2011, the total production and apparent consumption of fertilizer in the PRC were approximately 60.3 Mt and 57.5 Mt, respectively. The PRC currently has a surplus production of nitrogen fertilizer and phosphorus fertilizer to satisfy domestic demand but has to import a large quantity of potash fertilizer due to a lack of domestic supply. CIGCC forecasts that the PRC domestic fertilizer demand will grow at a CAGR of approximately 2.6% from 2011 to 2016 and that total demand will reach approximately 65.5 Mt by 2016.

### The PRC Inorganic Chemical Engineering Industry Market

According to CIGCC, fixed asset investment in the PRC inorganic chemical industry was RMB311.70 billion in 2011, with a CAGR of approximately 26.8% from 2006 to 2011. Fixed asset investment in the fertilizer sector was approximately RMB125.30 billion in 2011, with a CAGR of approximately 22.4% from 2006 to 2011. The market sizes of the PRC inorganic chemical engineering industry and the PRC fertilizer engineering sector in 2011 were approximately RMB93.51 billion and RMB37.59 billion, respectively.

**Figure 20 Market Size of the PRC Inorganic Chemical (Fertilizer) Engineering Industry**



Source: CIGCC

CIGCC forecasts that, from 2011 to 2016, the CAGR of fixed asset investment in the PRC inorganic chemical industry will be approximately 14.0%, and the CAGR of fixed asset investment in the fertilizer sector will be approximately 13.2%. The market sizes of the PRC inorganic chemical industry and fertilizer sector are expected to reach approximately RMB179.87 billion and RMB69.84 billion, respectively, by 2016.

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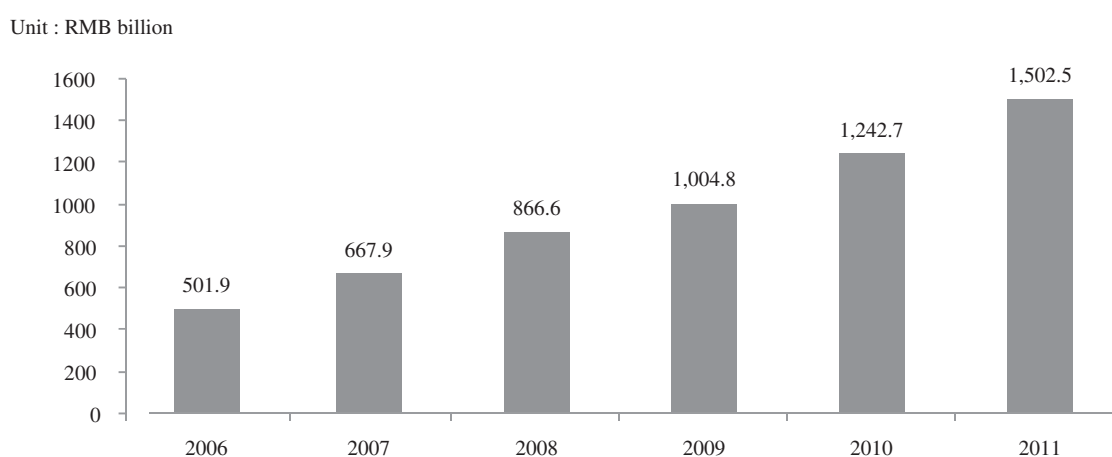
## INDUSTRY OVERVIEW

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### THE PHARMACEUTICALS INDUSTRY IN THE PRC

According to ICIS Consulting, the PRC pharmaceuticals industry experienced rapid development from 2006 to 2011. In 2011, the total output of the PRC pharmaceuticals industry based on sales amounted to approximately RMB1,502.5 billion, representing an increase of approximately 20.9% as compared to 2010. The sales income of all pharmaceutical enterprises in the PRC amounted to approximately RMB1,525.5 billion, representing an increase of approximately 28.8% as compared to 2010. The growth rate of the PRC pharmaceuticals industry has far-exceeded GDP growth rate of the PRC for several consecutive years.

**Figure 21 Total Output of the PRC Pharmaceuticals Industry by Sales**



Source: ICIS Consulting

In accordance with the Twelfth Five-Year Plan, the PRC pharmaceuticals industry is forecasted to maintain steady and rapid growth between 2011 and 2015, with total industrial output growing at an average annual rate of 20.0% and industrial added value growing at 16.0% per year.

According to the NBSC, from 2006 to 2011, fixed asset investment in the PRC pharmaceuticals manufacturing industry grew continuously with a CAGR of approximately 28.4%.

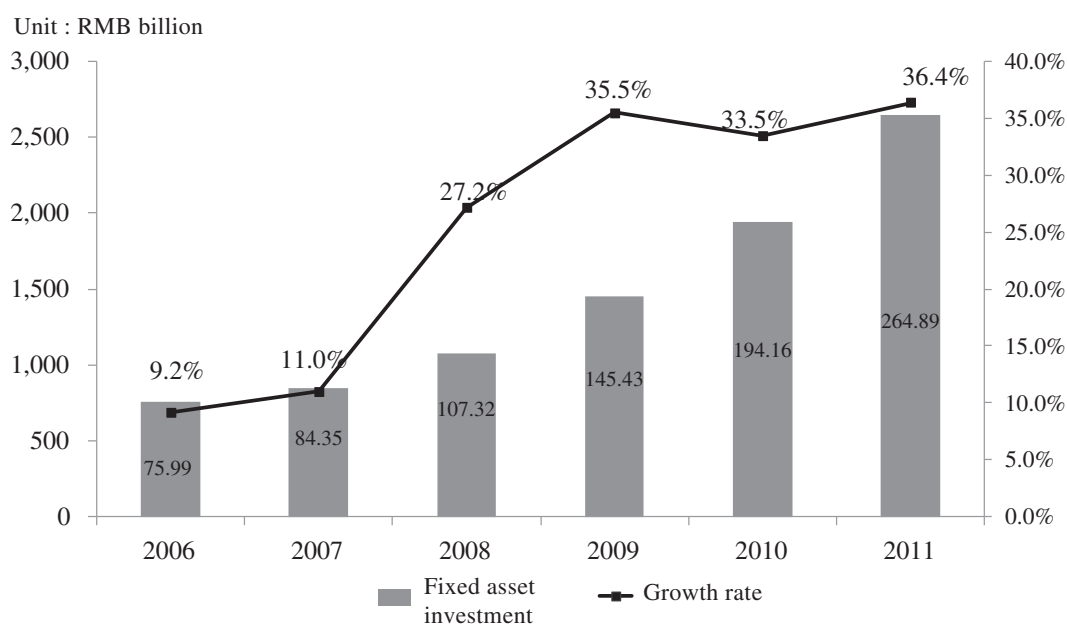


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## INDUSTRY OVERVIEW

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**Figure 22 Fixed Asset Investment in the PRC Pharmaceuticals Manufacturing Industry**



Source: NBSC

### GLOBAL OIL REFINING AND PETROCHEMICAL ENGINEERING COMPANIES

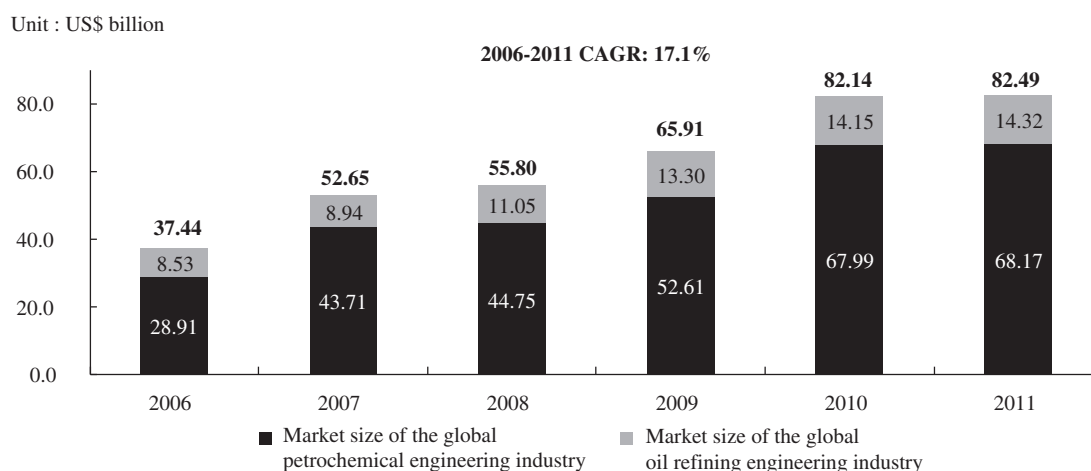
According to ICIS Consulting, as a result of new constructions and expansions in the global oil refining and petrochemical production capacity, the global oil refining and petrochemical engineering market grew quickly from 2006 to 2011, with a CAGR of approximately 17.1%. The size of this market reached approximately US\$82.5 billion in 2011, with Asia Pacific, the Middle East and North America accounting for the majority of the growth with market shares of approximately 57.0%, 19.4% and 15.2%, respectively. ICIS Consulting forecasts that the global oil refining and petrochemical engineering market will maintain growth between 2011 and 2016 at a CAGR of approximately 4.2%, reaching approximately US\$101.4 billion by 2016.

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## INDUSTRY OVERVIEW

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**Figure 23 Market Size of the Global Oil Refining and Petrochemical Engineering Industry**



Source: ICIS Consulting

According to ICIS Consulting, our Group ranked among the top 10 global contractors in 2011 based on revenue generated from services provided to oil refining and chemical industries.

According to ENR, SEI, a wholly-owned subsidiary of our Company, ranked 16th in 2011 among international contractors based on international revenue derived from services provided to oil refining and petrochemical industries, and ranked 12th in 2011 among international design firms based on international revenue derived from design services provided to oil refining and petrochemical industries. In both rankings, SEI ranked first among PRC engineering enterprises.

### Oil Refining and Chemical Engineering Companies in the PRC

Barriers to entry in the PRC oil refining and chemical engineering industry are high, not only because the industry is capital and technology intensive, but also due to the PRC government's certificating requirements. The main barriers to entry include, among others, (a) certification requirements, which entail undergoing a stringent government assessment of a company's capital, personnel, equipment and engineering achievements before receiving a permit that sets out limits to the scope of a company's exploration, engineering and/or construction business activities; (b) technology and expertise requirements, which make possession of proprietary technologies, advanced techniques and qualified technical personnel essential to the competitiveness of an engineering company; (c) capital requirements, which are especially significant in the EPC Contracting business which often involves large capital advances by the company and requires strong financing capabilities; and (d) experience requirements, as a strong track record of performance is important for establishing market dominance among oil refining and chemical engineering companies, especially with respect to securing contracts for large-scale projects.

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## INDUSTRY OVERVIEW

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In the 1990s, project owners generally coordinated the subcontracting of engineering, procurement and construction of their projects and managed the projects by themselves through “project construction headquarters.” In recent years, with the rapid development of the PRC engineering industry, the substantial increase in production capacity, the increase in market competition, more stringent requirements of project owners with respect to cost, schedule and quality, and the growing demand for specialized and systematic project management and implementation, the PRC oil refining and chemical engineering industry has displayed a clear trend of transition toward the EPC model. In particular, more new coal chemical projects, which tend to involve large investments, now adopt the EPC model, resulting in an increase in the market share of Exploration and Design Enterprises in the engineering industry. Moreover, in the past decade, private enterprises have begun to engage in oil refining and chemical projects alongside the large state-owned enterprises and their affiliates, such as the Sinopec Group, which has further increased the demand for specialized engineering, R&D, EPC Contracting and construction, as well as operation and management services. At the same time, the participation of private enterprises in the engineering and construction of petrochemical projects has broadened the supply in the engineering industry.

Based on data from the MOHURD, ICIS Consulting considers that the major market players in the PRC oil refining and chemical engineering industry currently include engineering subsidiaries of our Company (namely SEI, LPEC, SSEC, SNEC and SNEI), engineering subsidiaries of China National Chemical Engineering Co., Ltd., China Huanqiu Contracting & Engineering Corporation, China Petroleum Engineering Co., Ltd., China Petroleum Engineering & Construction Corporation and Wison Engineering Services Co., Ltd. which are engaged in the businesses of oil refining, petrochemicals, coal chemicals, inorganic chemicals and pharmaceutical chemicals.

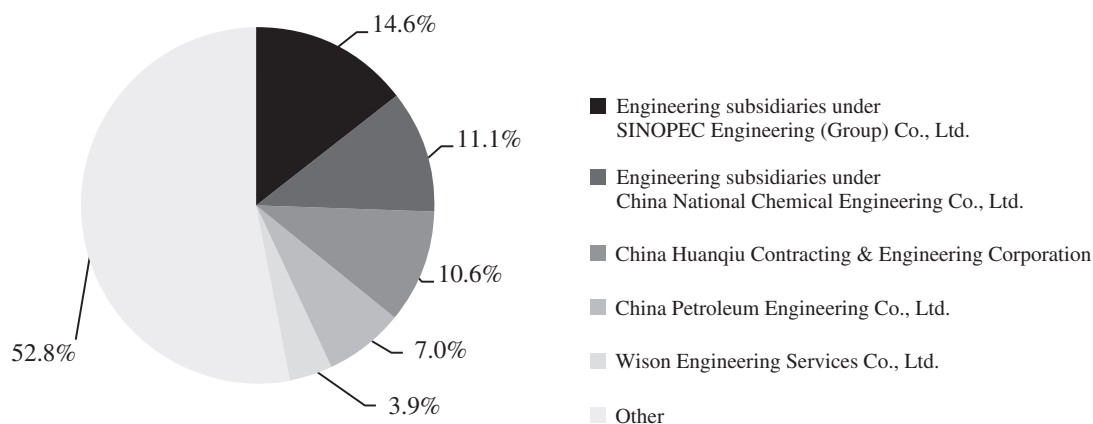
According to CICCC, the total revenue of Exploration and Design Enterprises generated from the PRC oil refining and chemical industries was approximately RMB129.50 billion. According to CICCC, in 2011, the total revenue of the aforementioned subsidiaries of our Company, subsidiaries of China National Chemical Engineering Co., Ltd., China Huanqiu Contracting & Engineering Corporation, China Petroleum Engineering Co., Ltd. and Wison Engineering Services Co., Ltd. was approximately RMB61.13 billion, accounting for approximately 47.2% of the total market size in terms of the revenues of Exploration and Design Enterprises serving the PRC oil refining and chemical industries. Among these major players, our Group ranked first, taking into account our engineering subsidiaries’ revenues generated from services provided to the oil refining and petrochemical industries, which was approximately RMB18.93 billion. Our Group had the largest market share of approximately 14.6% of the total market of Exploration and Design Enterprises serving the PRC oil refining and chemical industries in 2011. The market share of Exploration and Design Enterprises other than those mentioned above was relatively scattered.

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## INDUSTRY OVERVIEW

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**Figure 24 Market Share of Exploration and Design Enterprises Serving the PRC Oil Refining and Chemical Industries in 2011 Based on Revenue**



Total market : RMB129.5 billion

Source: MOHURD, ICIS Consulting

Note: Engineering subsidiaries under SINOPEC Engineering (Group) Co., Ltd. include SEI, LPEC, SSEC, SNEC and SNEI.

Engineering subsidiaries under China National Chemical Engineering Co., Ltd. include China Chengda Engineering Co., Ltd., Wuhuan Engineering Co., Ltd., China Tianchen Engineering Corporation, East China Engineering Science and Technology Co., Ltd., Sedin Engineering Co., Ltd. and Hualu Engineering & Technology Co., Ltd.

As of December 31, 2012, Wison Engineering Services Co., Ltd. is the substantial shareholder of Wison Engineering (China) Co., Ltd.

According to data from the MOHURD, our Group ranked first in both 2010 and 2011 among all PRC Exploration and Design Enterprises providing services to oil refining and chemical industries based on revenue.

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## INDUSTRY OVERVIEW

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**Table 2 Ranking of PRC Exploration and Design Enterprises Serving Oil Refining and Chemical Industries by Revenue in 2011 and 2010**

Ranking in 2011	Company name	Ranking in 2010	Company name
1	SINOPEC Engineering (Group) Co., Ltd.	1	SINOPEC Engineering (Group) Co., Ltd.
2	China National Chemical Engineering Co., Ltd.	2	China National Chemical Engineering Co., Ltd.
3	China Huanqiu Contracting & Engineering Corporation	3	China Huanqiu Contracting & Engineering Corporation
4	China Petroleum Engineering Co., Ltd.	4	China Petroleum Engineering Co., Ltd.
5	Wison Engineering (China) Co., Ltd.	5	Wison Engineering (China) Co., Ltd.
6	China Kunlun Contracting and Engineering Corporation	6	China Kunlun Contracting and Engineering Corporation
7	China Petroleum Pipeline Engineering Corporation	7	China Liaohe Petroleum Engineering Co., Ltd.
8	China Liaohe Petroleum Engineering Co., Ltd.	8	China Petroleum Pipeline Engineering Corporation
9	CNPC Northeast Refining & Chemical Engineering Company Limited	9	CNPC EastChina Design Institute
10	CNPC EastChina Design Institute	10	CNPC Northeast Refining & Chemical Engineering Company Limited

*Source: MOHURD, ICIS Consulting*

According to data from the MOHURD, our Group ranked first in both 2010 and 2011 among all PRC Exploration and Design Enterprises providing services to oil refining and chemical industries based on revenue generated from exploration and design activities, demonstrating our leading exploration and design capabilities in the PRC oil refining and chemical engineering industry.

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## INDUSTRY OVERVIEW

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**Table 3 Ranking of PRC Exploration and Design Enterprises Serving Oil Refining and Chemical Industries by Revenue Generated from Exploration and Design Activities in 2011 and 2010**

Ranking in 2011	Company name	Ranking in 2010	Company name
1	SINOPEC Engineering (Group) Co., Ltd.	1	SINOPEC Engineering (Group) Co., Ltd.
2	China Huanqiu Contracting & Engineering Corporation	2	China Huanqiu Contracting & Engineering Corporation
3	China Petroleum Pipeline Engineering Corporation	3	China Petroleum Pipeline Engineering Corporation
4	China Petroleum Engineering Co., Ltd.	4	China Petroleum Engineering Co., Ltd.
5	CNPC Northeast Refining & Chemical Engineering Company Limited	5	CNPC EastChina Design Institute
6	China Kunlun Contracting and Engineering Corporation	6	Daqing Oilfield Engineering Co., Ltd.

*Source: MOHURD, ICIS Consulting*

According to data from the CEDA, our Group ranked first in both 2010 and 2011 among all PRC Exploration and Design Enterprises providing services to oil refining and chemical industries based on completed contract value of EPC Contracting business, and was the largest contractor among all PRC Exploration and Design Enterprises serving such industries.

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## INDUSTRY OVERVIEW

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**Table 4 Ranking of PRC Exploration and Design Enterprises Serving Oil Refining and Chemical Industries by Completed Contract Value in 2011 and 2010**

Ranking in 2011	Company name	Ranking in 2010	Company name
1	SINOPEC Engineering (Group) Co., Ltd.	1	SINOPEC Engineering (Group) Co., Ltd.
2	China Huanqiu Contracting & Engineering Corporation	2	China Huanqiu Contracting & Engineering Corporation
3	China National Chemical Engineering Co., Ltd.	3	China Petroleum Engineering & Construction Corporation
4	China Petroleum Engineering & Construction Corporation	4	China National Chemical Engineering Co., Ltd.
5	China Petroleum Engineering Co., Ltd.	5	Wison Engineering (China) Co., Ltd.
6	Wison Engineering (China) Co., Ltd.	6	China Liaohe Petroleum Engineering Co., Ltd.
7	China Liaohe Petroleum Engineering Co., Ltd.	7	China Petroleum Engineering Co., Ltd.
8	China Textile Industry Engineering Institute	8	Daqing Oilfield Engineering Co., Ltd.
9	Jilin Design Institute of CNPC Northeast Refining & Chemical Engineering Company Limited	9	China Textile Industry Engineering Institute
10	Daqing Petrochemical Engineering Co., Ltd.	10	Jilin Design Institute of CNPC Northeast Refining & Chemical Engineering Company Limited

*Source: CEDA, ICIS Consulting*

According to data from the MOHURD, our Group ranked first in both 2010 and 2011 among all PRC Exploration and Design Enterprises based on revenue generated from services provided to overseas oil refining and chemical industries.

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## INDUSTRY OVERVIEW

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**Table 5 Rankings of PRC Exploration and Design Enterprises Serving Oil Refining and Chemical Industries by Overseas Revenue in 2011 and 2010**

Ranking in 2011	Company name	Ranking in 2010	Company name
1	SINOPEC Engineering (Group) Co., Ltd.	1	SINOPEC Engineering (Group) Co., Ltd.
2	China National Chemical Engineering Co., Ltd.	2	China National Chemical Engineering Co., Ltd.
3	China Petroleum Pipeline Engineering Corporation	3	China Huanqiu Contracting & Engineering Corporation
4	China Huanqiu Contracting & Engineering Corporation	4	China Petroleum Pipeline Engineering Corporation
5	China Petroleum Engineering Co., Ltd.	5	CNPC EastChina Design Institute
6	CNPC EastChina Design Institute	6	China Petroleum Engineering Co., Ltd.
7	China Kunlun Contracting and Engineering Corporation	7	Fluor (China) Engineering and Construction Co., Ltd.
8	China Textile Industry Engineering Institute		
9	Fluor (China) Engineering and Construction Co., Ltd.		

*Source: MOHURD, ICIS Consulting*

### REPORTS COMMISSIONED FROM ICIS CONSULTING AND CICCC

We commissioned ICIS Consulting and CICCC, independent advisors to oil refining and chemical industry participants in strategic and commercial planning, feasibility and financial studies, due diligence support and competitive and market analysis, to conduct an analysis of, and to report on, the oil refining, petrochemical, coal chemical, inorganic chemical and pharmaceutical chemical engineering markets in the PRC and in the world. ICIS Consulting is part of Reed Business Information. CICCC has a first class engineering consulting qualification in the PRC and has been a member company of the International Federation of Consulting Engineers (“FIDIC”) since 1997. The reports commissioned have been prepared by ICIS Consulting and CICCC, respectively, both independent of our influence. We have agreed to pay ICIS Consulting and CICCC RMB600,000 and RMB600,000, respectively, for the commissioned report, and we consider that such fees reflect market rates.



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## INDUSTRY OVERVIEW

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Investors should note that ICIS Consulting and CCCCC were engaged to prepare engineering market study reports, for use in whole or in part in this prospectus. ICIS Consulting and CCCCC prepared their reports based on their in-house databases, independent third party reports, publicly available data from government or industry publications and data provided by us. Where necessary, ICIS Consulting and CCCCC contacted companies operating in the industry and other industry experts to gather and synthesize information about markets, prices and other relevant information. The information contained in the ICIS Consulting Report and CCCCC Report has been obtained from sources believed by ICIS Consulting and CCCCC to be reliable, certain information from government or industry publications is unavoidably subject to assumptions and estimates made by third parties and such information has not been independently verified by ICIS Consulting or CCCCC. The information contained in the ICIS Consulting Report and CCCCC Report are also subject to assumptions that no significant economic depression or financial crisis, global political or environmental events or technical revolution in refinery and petrochemical construction industry would take place or be fulfilled in the next five years. The information extracted from the ICIS Consulting Report and CCCCC Report reflects an estimate of the market conditions based on ICIS Consulting's and CCCCC's research and analysis at the time of preparation of the ICIS Consulting Report and CCCCC Report. The information extracted from the ICIS Consulting Report and CCCCC Report should not be viewed as a basis for investments provided by ICIS Consulting and CCCCC and references to the ICIS Consulting Report and CCCCC Report should not be considered as their opinion as to the value of any security or the advisability of investing in our Company. In no event will ICIS Consulting or CCCCC be liable for indirect, special, punitive or consequential damages of any kind or nature whatsoever, suffered by the other party.

ICIS Consulting and CCCCC have provided part of the statistical and graphical information contained in this Industry Overview section. ICIS Consulting and CCCCC have advised that (i) some information in their databases is derived from estimates from industry sources or subjective judgments and (ii) the information in the database of other petrochemicals data collection agencies may differ from the information in ICIS Consulting's and CCCCC's databases.

Investors should also note that no independent verification has been carried out on any facts or statistics that are directly or indirectly derived from official government and non-official sources. We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any part has been omitted that would render such information false or misleading. We, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors and advisers or any other persons or parties involved in the Global Offering make no representation as to the accuracy of the information from official government and non-official sources, which may not be consistent with other information compiled within or outside the PRC. Accordingly, the official government and non-official sources contained herein may not be accurate and should not be unduly relied upon.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### HISTORY AND DEVELOPMENT

Our history dates back to the 1950s, when the predecessors of our six principal subsidiaries, SEI, LPEC, SSEC, SNEC, SNEI and SFCC, were initially established. The predecessors of the above principal subsidiaries were the earliest enterprises established in the PRC engaging in the oil refining and chemical engineering business.

Our predecessor, Sinopec Engineering (also known as SE), was established as a limited liability company in the PRC in July 2007. Upon the establishment of SE, Sinopec Group held 100% of its equity interest. SE was authorized by Sinopec Group to organize and integrate the resources and professional capabilities of Sinopec Group in oil refining and chemical engineering and to establish a business platform under Sinopec Group for providing engineering services for oil refining, petrochemicals and other related industries.

Through the Reorganization in 2012, Sinopec Group transferred its 100% equity interest in nine subsidiaries under its oil refining and chemical engineering business segment to SE at nil consideration. The businesses of these nine companies, their subsidiaries and three of our overseas subsidiaries constitute our current major business segments, namely the provision of a variety of services including licensing, engineering, consulting, EPC Contracting, construction and equipment manufacturing to clients in the industries including oil refining, petrochemicals, new coal chemicals, inorganic chemicals, pharmaceutical chemicals, clean energy, storage and transportation, environmental engineering and utilities. Sinopec Group subsequently transferred its 2% equity interest in SE to SAMC (a wholly-owned subsidiary of Sinopec Group) at nil consideration. On August 28, 2012, SE was wholly converted into a joint stock limited liability company, SINOPEC Engineering (Group) Co., Ltd., under the PRC Company Law, and Sinopec Group and SAMC held 98% and 2% equity interest in our Company, respectively. See “— The Reorganization.”

### Milestones of Development

The following are the significant milestones during our development process:

- 1950s
- Began to engage in the engineering, consulting and construction businesses, providing services to the oil refining and chemical industries in the PRC
  - Completed the construction of our first oil refinery project
  - Engineered the PRC’s first petrochemical project
  - Completed the construction of the PRC’s first penicillin production line

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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- 1960s
- Engineered and completed the construction of oil refining units such as the PRC's first fluid catalytic cracking unit, catalytic reforming unit and delayed coking unit
  - Engineered the PRC's first imported petrochemical unit and first self-engineered ethylene unit
- 1970s
- Engineered and completed the construction of the PRC's first long-distance refined oil pipeline in high altitude areas
  - Participated in a group of key large-scale ethylene, chemical fiber and chemical fertilizer projects, including Beijing Petrochemical Plant and Qilu Second Chemical Fertilizer Plant
- 1980s
- Began to engage in the equipment manufacturing business for oil refining and petrochemical industries in the PRC
  - Began to engage in the engineering business for the environmental sector in the PRC
  - Engineered and completed the construction of the then-largest single train oil refinery in the PRC
  - Engineered the PRC's first coaxial catalytic cracking unit
  - Undertook our first EPC Contracting project
  - Completed the construction of our first overseas project, the Gulasar fertilizer plant in Bangladesh
- 1990s
- Engineered the Huangdao Petroleum Reserve, one of the PRC's first state strategic petroleum reserves
  - Completed the Kuwait Mina AI Ahmad Ahmadi 30 Mtpa Refinery Restoration Project, an international petrochemical EPC Contracting project
- 2001
- Undertook the CNOOC-Shell Nanhai Petrochemical Complex, which was the PRC's first large-scale petrochemical project adopting the PMC model, together with two international contractors
- 2005
- Successfully commissioned the Shanghai SECCO 0.9 Mtpa Ethylene Complex, which was the then-largest ethylene plant in the PRC
- 2006
- Completed our first LNG cryogenic tank construction project, the installation project of three 160,000 cubic meters LNG cryogenic tanks for CNOOC Shell Petrochemicals in Guangdong, PRC
- 2007
- Began to engage in clean energy sector business on a large scale
  - Engineered the Sichuan Puguang Natural Gas Purification Plant, which was our first gas purification EPC Contracting project

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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- 2009
- Completed the Fujian Refining and Ethylene Complex, which was our first oil refining and petrochemical integrated EPC Contracting project
  - Completed the Huizhou 12 Mtpa Oil Refining Complex, which included the largest single-train oil refining complex in the PRC to date in terms of processing capacity
  - Completed the Tianjin Refining and Ethylene Complex (with an oil refining processing capacity of 10 Mtpa and an ethylene production capacity of 1 Mtpa), which was the largest 1 Mtpa class ethylene plant in the PRC at the time
  - Completed the 260 MW steam-electricity cogeneration IGCC unit for Fujian Refining & Petrochemical Company Limited, which was the PRC's first steam-electricity cogeneration IGCC unit
  - Completed the Saudi Yanbu 500 Ktpa Polyolefin Project, our first world-class EPC Contracting project in the Middle East
- 2010
- Official operation of the coal to olefin project of Shenhua Group, which was the world's first large-scale olefin production industrial unit that uses methanol produced from coal. The project was constructed by using the methanol to olefin technology jointly developed by Dalian Institute of Chemical Physics, Chinese Academy of Sciences, Shaanxi Xinxing Coal Chemicals Science and Technology Development Co., Ltd. and us
  - Engineered the Guangzhou Petrochemical 1 Mtpa heavy oil catalytic cracking regenerative flue gas dust removal and desulphurization unit using our proprietary technologies
  - Undertook the Kazakhstan Petrochemical Industry Inc. LLP's Integrated Petrochemical Complex and Infrastructure Project, which was the first large-scale integrated petrochemical project in the Republic of Kazakhstan
- 2011
- Completed the construction of the Shenhua Direct Coal Liquefaction Project (with a refined oil production capacity of 1.08 Mtpa), which is the largest coal-liquefaction project in the PRC to date and the first commercial project in the world to produce refined oil products with direct coal liquefaction units

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

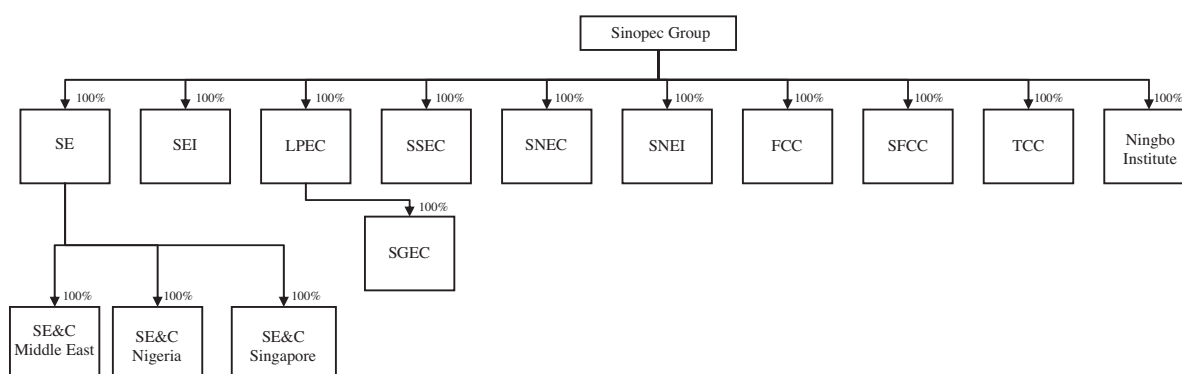
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### THE REORGANIZATION

In 2012, we underwent a reorganization in preparation for the Global Offering. Before the Reorganization, SE had three overseas subsidiaries, namely SE&C Middle East, SE&C Nigeria and SE&C Singapore. Pursuant to several nil-consideration equity transfer agreements entered into between Sinopec Group and SE in March and April 2012, Sinopec Group transferred its equity interests in the following companies to SE at nil consideration:

- the entire equity interest held by Sinopec Group in SEI;
- the entire equity interest held by Sinopec Group in LPEC, including the entire equity interest in SGEC held by LPEC;
- the entire equity interest held by Sinopec Group in SSEC;
- the entire equity interest held by Sinopec Group in SNEC;
- the entire equity interest held by Sinopec Group in SNEI;
- the entire equity interest held by Sinopec Group in FCC;
- the entire equity interest held by Sinopec Group in SFCC;
- the entire equity interest held by Sinopec Group in TCC; and
- the entire equity interest held by Sinopec Group in Ningbo Institute.

The following chart sets out the shareholding of the relevant subsidiaries of SE and Sinopec Group involved prior to the Reorganization <sup>(1)</sup>:



*Note:*

(1) See “— Corporate Structure” for details of our full corporate structure following the Reorganization.

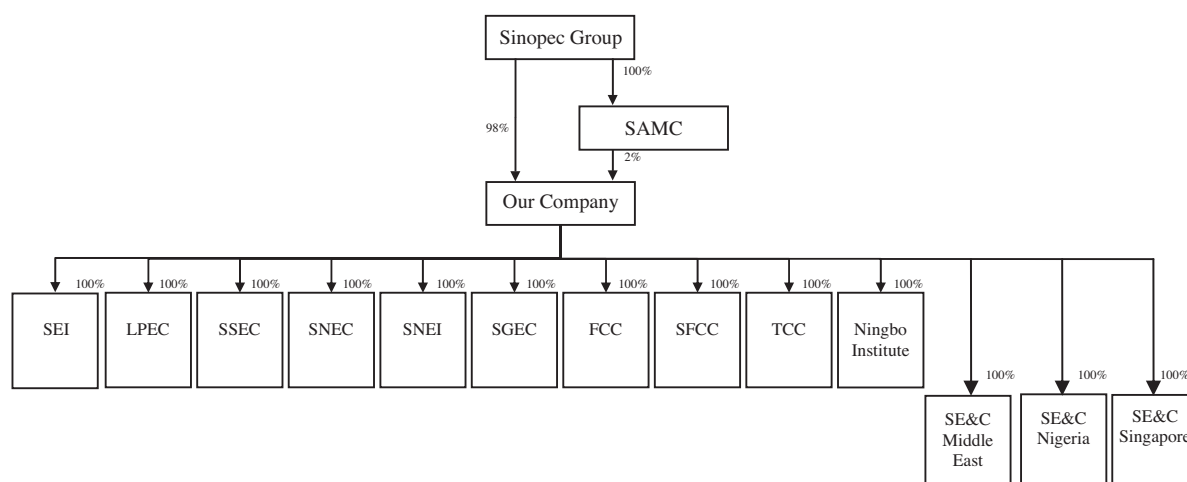
## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Pursuant to a nil-consideration equity transfer agreement entered into between Sinopec Group and SAMC on June 15, 2012, Sinopec Group transferred 2% of its equity interest in SE at nil consideration to SAMC, a wholly-owned subsidiary of Sinopec Group. Subsequent to this transfer, Sinopec Group and SAMC held 98% and 2% equity interest in SE, respectively.

On July 20, 2012, Sinopec Group and SAMC entered into a promoters agreement in respect of the overall conversion of SE into a joint stock limited liability company.

Pursuant to the Approval Reply on the Establishment of SINOPEC Engineering (Group) Co., Ltd. (關於設立中石化煉化工程(集團)股份有限公司的批覆) issued by SASAC on August 20, 2012 and as approved on the inaugural meeting of our Company, SE was converted into a joint stock limited liability company and was renamed as SINOPEC Engineering (Group) Co., Ltd. on August 28, 2012. Immediately after the conversion, our Company had a total of 3,100,000,000 issued Domestic Shares with a nominal value of RMB1.00 each. Sinopec Group held 3,038,000,000 Domestic Shares, representing 98% of our total issued shares, and SAMC held 62,000,000 Domestic Shares, representing 2% of our total issued shares.

The following chart sets out the shareholders and the relevant subsidiaries of our Company immediately after the completion of the Reorganization <sup>(1)</sup>:



*Note:*

(1) See “— Corporate Structure” for details of our full corporate structure following the Reorganization.

Subsequent to the Reorganization, SE America, a former subsidiary of SEI, became our wholly-owned subsidiary.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### Principal Subsidiaries

#### 1. SEI

The predecessors of SEI, Petroleum Design Bureau (石油設計局) (later became Beijing Designing Institute of Ministry of Petroleum Industry (石油工業部北京設計院) and further changed its name to Sinopec Beijing Designing Institute (中國石化北京設計院) (“BDI”)) and Chemical Industrial Designing Corporation of Chemical Industrial Administration Bureau of Ministry of Heavy Industry (重工業部化學工業管理局化學工業設計公司) (later became Sinopec Beijing Petrochemical Engineering Company (中國石化北京石油化工工程公司) (“BPEC”)), were established in 1953. BDI and BPEC were the oldest engineering enterprises established in the PRC in the oil refining and petrochemical engineering industries, respectively. SEI was one of the first 15 companies granted the comprehensive Class A certification in engineering (工程設計綜合甲級資質) by the MOHURD in 2008. The main business scope of SEI includes licensing, engineering, consulting, EPC Contracting and project management in the oil refining, petrochemical, new coal chemical, natural gas chemical as well as environmental and utilities industries. SEI was ranked 7th among the “2011 Top 100 Exploration and Design Enterprises in terms of Operating Revenue in the PRC” (2011年全國工程勘察設計企業營業收入前100名) published by CEDA in 2012. SEI is an executive member of the council of CEDA, an executive member of the council of China National Association of Engineering Consultants (中國工程諮詢協會) and vice-president of the council of China Petrochemical & Engineering Survey and Design Association (中國石油和化工勘察設計協會). As part of the Reorganization, SEI was integrated into our Company through an equity transfer at nil consideration and was converted into a limited liability company on April 10, 2012, with a registered capital of RMB500 million. SEI is currently our wholly-owned subsidiary.

#### 2. LPEC

The predecessor of LPEC, Fushun Petroleum Designing Institute of Ministry of Petroleum Industry (石油工業部撫順石油設計院), was established in 1956. The main business scope of LPEC includes licensing, engineering, consulting, EPC Contracting, technological research and development, project supervision and project management in the oil refining, petrochemicals, natural gas chemicals, new coal chemicals, pharmaceutical chemicals and other chemical industries. LPEC was one of the first enterprises authorized by the PRC government to engage in EPC Contracting business and was also one of the first enterprises granted the comprehensive Class A certification in engineering. LPEC was ranked 10th among the “2011 Top 100 Exploration and Design Enterprises in terms of Operating Revenue in the PRC” published by CEDA in 2012. As part of the Reorganization, LPEC was integrated into our Company through an equity transfer at nil consideration and was converted into a limited liability company on April 6, 2012, with a registered capital of RMB500 million. LPEC is currently our wholly-owned subsidiary.

#### 3. SSEC

The predecessor of SSEC, Northeastern Branch of Designing Corporation of Infrastructure Construction Bureau of Ministry of Light Industry of the PRC (中國輕工業部基本建設局設計公司東北分公司) (later became Shanghai Pharmaceutical Industry Designing Institute (上海醫藥工業設計院)), was established in 1953. SSEC is one of the oldest large-scale integrated engineering

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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enterprises in the petrochemical, pharmaceutical and chemical engineering industries. SSEC has the comprehensive Class A certification in engineering. The main business scope of SSEC includes licensing, engineering, consulting, EPC Contracting, project management and technological research and development in the petrochemical, pharmaceutical, electronic engineering, environmental and building construction industries. SSEC was ranked 40th among the “2011 Top 100 Exploration and Design Enterprises in terms of Operating Revenue in the PRC” published by CEDA in 2012. SSEC was recognized as a “Key High-tech Enterprise of the National Torch Plan” (國家火炬計劃重點高新技術企業) by the Torch High Technology Industry Development Center of the Ministry of Science and Technology (科技部火炬高技術產業開發中心) in 2010. SSEC was converted into a limited liability company with a registered capital of RMB200 million in 2003. As part of the Reorganization, SSEC was integrated into our Company through an equity transfer at nil consideration, and is currently our wholly-owned subsidiary.

### 4. SNEC

The predecessors of SNEC, Branch Institute of Northwestern Chemical Industrial Designing Institute of Ministry of Chemical Industry (化工部西北化工設計院分院) (later became Sinopec Group Lanzhou Designing Institute (中國石化集團蘭州設計院)) and Third Engineering Company of Ministry of Petroleum Industry (石油工業部第三工程公司) (later became Sinopec Group Third Construction Company (中國石化集團第三建設公司)), were established in 1958 and 1978, respectively. SNEC has the comprehensive Class A certification in engineering. The main business scope of SNEC includes licensing, engineering, consulting, EPC Contracting, construction, equipment and components manufacturing, repairing and maintenance in the oil refining, petrochemicals, new coal chemicals, natural gas chemicals and other chemical industries as well as technological research and development in environmental protection and petroleum-alternative energy sectors. SNEC was ranked 41st the “2011 Top 100 Exploration and Design Enterprise in terms of Operating Revenue in the PRC” published by CEDA in 2012. SNEC was converted into a limited liability company with registered capital of RMB300 million on September 30, 2003. As part of the Reorganization, SNEC was integrated into our Company through an equity transfer at nil consideration, and is currently our wholly-owned subsidiary.

### 5. SNEI

The predecessors of SNEI, First Engineering Company of First Engineering Bureau of Ministry of Petroleum Industry (石油工業部第一工程局第一工程公司) (later became Sinopec Group Second Construction Company (中國石化集團第二建設公司)) and Nanjing Designing Branch Institute of Nitrogen Fertilizer Industrial Designing Institute of Ministry of Chemical Industry (化學工業部氮肥工業設計院南京設計分院) (later became Sinopec Group Nanjing Designing Institute (中國石化集團南京設計院)), were established in 1954 and 1958, respectively. SNEI has the Class A certification in chemical, petrochemical and pharmaceutical engineering. The main business scope of SNEI includes licensing, engineering, consulting, EPC Contracting, project management, construction, construction management and project supervision in the oil refining, petrochemical, new coal chemical, petroleum-alternative energy and environmental protection industries. SNEI was ranked 35th among the “2011 Top 100 Exploration and Design Enterprises in terms of Operating Revenue in the PRC” published by CEDA in 2012. SENEI was cited by the Construction Enterprise Management Association of China (中國施工企業管理協會) (“CEMAC”) as a “National Outstanding Construction Enterprise”



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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(全國優秀施工企業) in 2012 and by China Construction Industry Association (中國建築業協會) (“CCIA”) as a “China Top 100 Growing Construction Enterprise” (中國建築業最具成長性百強企業) and a “National Leading Construction Enterprise” (全國建築業先進企業) in 2011. SNEI was converted into a limited liability company with a registered capital of RMB556,005,000 on December 21, 2009. As part of the Reorganization, SNEI was integrated into our Company through an equity transfer at nil consideration, and is currently our wholly-owned subsidiary.

### 6. SGEC

The predecessor of SGEC, Guangzhou Zhongyuan Petrochemical Engineering Co., Ltd. (廣州中元石油化工工程有限公司) (“Guangzhou Zhongyuan”), was established as a limited liability company in 1998. Guangzhou Zhongyuan became a wholly-owned subsidiary of LPEC in 2003, and was converted into SGEC in April, 2012 with a registered capital of RMB50 million. The main business scope of SGEC includes engineering, consulting, EPC Contracting, technological research and development, project supervision and project management in the oil refining, petrochemicals, natural gas chemicals, new coal chemicals, pharmaceutical chemicals and other chemical industries. As part of the Reorganization, SGEC was integrated into our Company through an equity transfer at nil consideration, and is currently our wholly-owned subsidiary.

### 7. FCC

The predecessor of FCC, Command Division for Construction of Daqing Refinery Plant (大慶煉廠建設工程指揮部), was established in 1962. FCC has the national Class A certification in construction contracting for chemical and petroleum projects (化工石油工程施工總承包一級資質). The main business scope of FCC includes construction, project management, project supervision and pipeline and storage tank installment in the oil refining, petrochemical and new coal chemical industries. FCC was cited as a “National Outstanding Construction Enterprise” in 2012 by CEMAC and cited as a “2010 China Top 100 Growing Construction Enterprise” and a “National Leading Construction Enterprise” in 2011 by CCIA. As part of the Reorganization, FCC was integrated into our Company through an equity transfer at nil consideration and was converted into a limited liability company on April 6, 2012, with a registered capital of RMB350 million. FCC is currently our wholly-owned subsidiary.

### 8. SFCC

The predecessor of SFCC, Dalian Engineering Company of Ministry of Heavy Industry (重工業部大連工程公司) (later changed its name to Fifth Construction Company of Ministry of Chemical Industry (化學工業部第五建設公司)), was established in 1953. SFCC has the national Class A certification in construction contracting for chemical and petroleum projects. The main business scope of SFCC includes EPC Contracting and construction contracting of projects in the petrochemical and new coal chemical industries. SFCC was cited by CEMAC as a “National Outstanding Construction Enterprise” in 2005, 2007, 2010 and 2011, and was cited by CCIA as a “National Leading Construction Enterprise” in 2009. As part of the Reorganization, SFCC was integrated into our Company through an equity transfer at nil consideration and was converted into a limited liability company on April 11, 2012, with a registered capital of RMB350 million. SFCC is currently our wholly-owned subsidiary.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### 9. TCC

The predecessor of TCC, Shandong Chemical and Petroleum Construction Company (later changed its name to Tenth Chemical Engineering Construction Company of Ministry of Chemical Industry (化學工業部第十化工建設公司)), was established in 1970. TCC has the national Class A certification in construction contracting for chemical and petroleum projects. The main business scope of TCC includes construction, loading and unloading of heavy items, project management and project supervision of projects in the oil refinery, petrochemical, new coal chemical, chemical fiber, chemical fertilizer, oil & gas storage and transportation, pharmaceutical and food, papermaking and environmental protection industries. TCC was cited by CEMAC as a “National Outstanding Construction Enterprise” in 2011 and cited by CCIA as a “China Top 100 Growing Construction Enterprise” and a “National Leading Construction Enterprise” in 2011 and 2009, respectively. As part of the Reorganization, TCC was integrated into our Company through an equity transfer at nil consideration and was converted into a limited liability company on April 9, 2012, with a registered capital of RMB350 million. TCC is currently our wholly-owned subsidiary.

### 10. Ningbo Institute

Ningbo Institute was established in October 2006. The main business scope of Ningbo Institute includes technological research and development in the petrochemical, new coal chemical, natural gas chemical as well as environmental protection and petroleum-alternative energy industries. As part of the Reorganization, Ningbo Institute was integrated into our Company through an equity transfer at nil consideration and was converted into a limited liability company on April 24, 2012, with a registered capital of RMB10 million. Ningbo Institute is currently our wholly-owned subsidiary.

### 11. SE&C Middle East

SE&C Middle East was established in Saudi Arabia on April 17, 2009 with a registered capital of 18,000,000 Saudi riyal, and has been our wholly-owned subsidiary since its establishment. Its main business scope includes the execution of construction and maintenance contracts, supervision of road and bridge engineering projects, industrial and civil engineering projects as well as installation and maintenance of equipment, etc.

Through the Reorganization in 2012, all of our subsidiaries which are enterprises owned by the whole people in the PRC have been converted into limited liability companies and have obtained the relevant enterprise business licenses in the PRC.

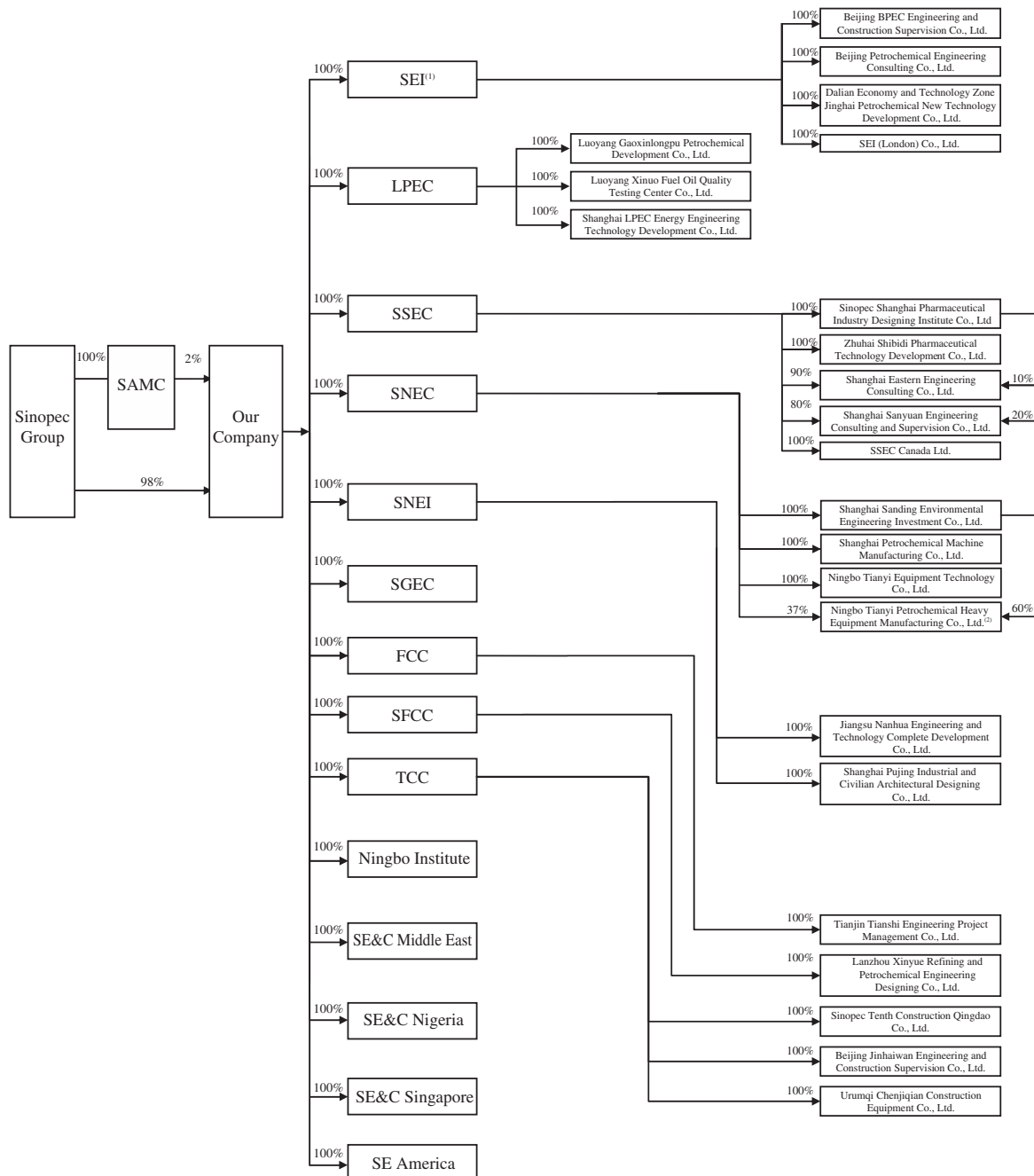
### Approvals

The Reorganization was legally and properly completed and was approved by the relevant PRC governmental authorities. Our PRC legal advisor confirmed that the Reorganization was legally and properly completed and that we have obtained all the necessary approvals from the relevant PRC governmental authorities with respect to the Reorganization.

# HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

## CORPORATE STRUCTURE

The following chart sets out our corporate structure as at the Latest Practicable Date:



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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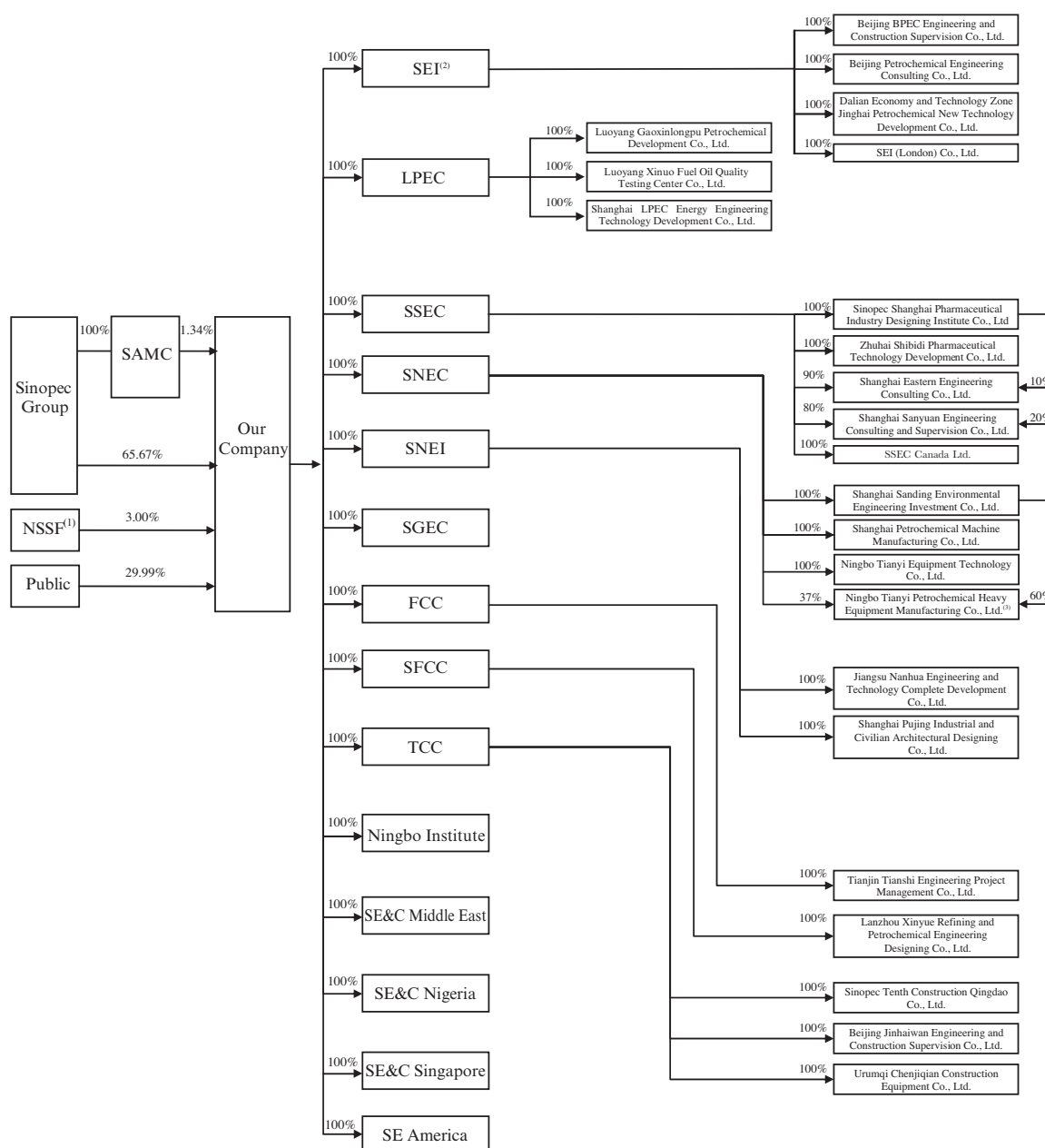
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*Notes:*

- (1) SEI has three jointly controlled entities, namely, Hualu (SINO-LUMMUS) Engineering Co., Ltd. (華魯工程有限公司), Hainan Great Wall Machinery Engineering Co., Ltd (海南長城機械工程有限公司) and Lanzhou Great Wall Touping Machinery Technology Complete Set Development Co., Ltd (蘭州長城透平機械技術開發成套有限公司). SEI holds a 50% equity interest in each of these three jointly controlled entities, whilst the remaining 50% equity interest is held by ABB Lummus Global Incorporation, Lanzhou Refining and Chemical Engineering Machine Factory (蘭州煉油化工機械廠) and PetroChina Group Bohai Petroleum Equipment Manufacturing Co., Ltd. (中國石油集團渤海石油裝備製造有限公司), respectively, all of which are Independent Third Parties.
- (2) The remaining 3% equity interest is held by Ningbo Zhenhai Jiaochuan Investment Co., Ltd. (寧波市鎮海蛟川投資有限公司), an Independent Third Party.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The following chart sets out our corporate structure immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised):



Notes:

- (1) Pursuant to relevant PRC regulations regarding the disposal of state-owned shares, each of Sinopec Group and SAMC is required to transfer to the NSSF such number of Domestic Shares in an aggregate equivalent to 10% of the number of the Offer Shares (i.e. 132,800,000 H Shares assuming the Over-allotment Option is not exercised, and 152,720,000 H Shares assuming the Over-allotment Option is exercised in full). At the time of Listing, such Domestic Shares will be converted into H Shares on an one-for-one basis.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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- (2) SEI has three jointly controlled entities, namely, Hualu (SINO-LUMMUS) Engineering Co., Ltd. (華魯工程有限公司), Hainan Great Wall Machinery Engineering Co., Ltd (海南長城機械工程有限公司) and Lanzhou Great Wall Touping Machinery Technology Complete Set Development Co., Ltd (蘭州長城透平機械技術開發成套有限公司). SEI holds a 50% equity interest in each of these three jointly controlled entities, whilst the remaining 50% equity interest is held by ABB Lummus Global Incorporation, Lanzhou Refining and Chemical Engineering Machine Factory (蘭州煉油化工機械廠) and PetroChina Group Bohai Petroleum Equipment Manufacturing Co., Ltd. (中國石油集團渤海石油裝備製造有限公司), respectively, all of which are Independent Third Parties.
- (3) The remaining 3% equity interest is held by Ningbo Zhenhai Jiaochuan Investment Co., Ltd. (寧波市鎮海蛟川投資有限公司), an Independent Third Party.

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## OUR CORNERSTONE INVESTORS

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### THE CORPORATE PLACING

We have entered into cornerstone investment agreements with seven cornerstone investors (the “Cornerstone Investors”) who have agreed to subscribe for such number of our Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) at the Offer Price which may be purchased with an aggregate amount of approximately US\$350,000,000 (the “Cornerstone Placing”). Assuming an Offer Price of HK\$9.80 (being the low end of the Offer Price range set out in this prospectus), the total number of H Shares subscribed by the Cornerstone Investors would be approximately 277,141,000, representing approximately (i) 20.87% of the Offer Shares, assuming that the Over-allotment Option is not exercised, (ii) 6.26% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised, and (iii) 5.99% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is fully exercised. Assuming an Offer Price of HK\$11.45 (being the mid-point of the Offer Price range set out in this prospectus), the total number of H Shares subscribed by the Cornerstone Investors would be approximately 237,202,500, representing approximately (i) 17.86% of the Offer Shares, assuming that the Over-allotment Option is not exercised, (ii) 5.36% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised, and (iii) 5.13% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is fully exercised.

### OUR CORNERSTONE INVESTORS

We set out below a brief description of our Cornerstone Investors:

#### *China Shipping (Hong Kong) Holdings Co., Limited*

China Shipping (Hong Kong) Holdings Co., Limited (“China Shipping HK”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$100,000,000 at the Offer Price, subject to obtaining relevant regulatory approval(s). Assuming the Offer Price of HK\$9.80, being the low end of the Offer Price range set out in this prospectus, the total number of H Shares that China Shipping HK would subscribe for would be 79,183,500, representing approximately 1.79% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$11.45, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that China Shipping HK would subscribe for would be 67,772,500, representing approximately 1.53% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$13.10, being the high end of the Offer Price range set out in this prospectus, the total number of H Shares that China Shipping HK would subscribe for would be 59,236,500, representing approximately 1.34% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised.

China Shipping HK is a company incorporated with limited liability in Hong Kong. China Shipping HK is a wholly-owned subsidiary of China Shipping (Group) Company (“China Shipping”), and is China Shipping’s planning, investment and financing, operation, management and service center in Hong Kong, South Korea, Japan, Australia. China Shipping is one of the state-owned

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## OUR CORNERSTONE INVESTORS

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enterprises under the direct administration of SASAC and is a shipping conglomerate that operates across different regions, sectors and countries. China Shipping also operates a fleet of special cargo vessels, a fleet of passenger vessels and the businesses of integrated logistics, terminal management, finance and investment, engineering and labor services, supply and trading, and information technology.

### *China Aerospace Investment Holdings Ltd.*

China Aerospace Investment Holdings Ltd. (“Aerospace Investment”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$60,000,000 at the Offer Price. Assuming the Offer Price of HK\$9.80, being the low end of the Offer Price range set out in this prospectus, the total number of H Shares that Aerospace Investment would subscribe for would be 47,510,000, representing approximately 1.07% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$11.45, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Aerospace Investment would subscribe for would be 40,663,500, representing approximately 0.92% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$13.10, being the high end of the Offer Price range set out in this prospectus, the total number of H Shares that Aerospace Investment would subscribe for would be 35,541,500, representing approximately 0.80% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised.

Aerospace Investment is a company incorporated in the PRC whose businesses include investment and asset management, the provision of corporate management advisory services, implementation of aerospace technology and the provision of technical consultancy and related services. Aerospace Investment is controlled by China Aerospace Science and Technology Corporation, which is a large state-owned enterprise engaged in the research and development, manufacturing and sales of aerospace related products as well as provision of technical research services.

Aerospace Investment may obtain external financing from one or more lenders (which may include affiliates of CMB International Capital Limited) to finance its subscription of H Shares and all H Shares subscribed by Aerospace Investment may be charged to such lenders as security for such loan. The loan, if obtained, will be on normal commercial terms after arm’s length negotiations. Under the financing arrangement, Aerospace Investment may be required to repay the loan before its maturity following the occurrence of certain customary events of default. The lenders may therefore have the right to enforce their security in the H Shares subject to such charge at any time from and including the Listing Date upon the occurrence of certain customary events of default, except that these lenders who are affiliates of CMB International Capital Limited will undertake to Aerospace Investment not to enforce such security until after the date falling six months after the Listing Date.



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## OUR CORNERSTONE INVESTORS

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### *Aerospace Science & Technology Finance Co., Ltd.*

Aerospace Science & Technology Finance Co., Ltd. (“Aerospace Finance”) has agreed to subscribe, through a qualified domestic institutional investment fund, for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$50,000,000 at the Offer Price. Assuming the Offer Price of HK\$9.80, being the low end of the Offer Price range set out in this prospectus, the total number of H Shares that Aerospace Finance would subscribe for would be 39,591,500, representing approximately 0.89% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$11.45, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Aerospace Finance would subscribe for would be 33,886,000, representing approximately 0.77% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$13.10, being the high end of the Offer Price range set out in this prospectus, the total number of H Shares that Aerospace Finance would subscribe for would be 29,618,000, representing approximately 0.67% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised.

Aerospace Finance was established in 2001, which was approved by the China Banking Regulatory Commission. Aerospace Finance is a non-bank financial institution and co-founded by China Aerospace Science and Technology Corporation (“China Aerospace”) and its subsidiaries. The main businesses of Aerospace Finance include cash centralization management for China Aerospace and its subsidiaries, the industry financing services, investment management and etc. Aerospace Finance is controlled by China Aerospace, which is a large state-owned enterprise engaged in the research and development, manufacturing and sales of aerospace related products as well as provision of technical research services.

### *China Export & Credit Insurance Corporation*

China Export & Credit Insurance Corporation (“SINOSURE”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$50,000,000 at the Offer Price. Assuming the Offer Price of HK\$9.80, being the low end of the Offer Price range set out in this prospectus, the total number of H Shares that China Export & Credit would subscribe for would be 39,591,500, representing approximately 0.89% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$11.45, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that China Export & Credit would subscribe for would be 33,886,000, representing approximately 0.77% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$13.10, being the high end of the Offer Price range set out in this prospectus, the total number of H Shares that China Export & Credit would subscribe for would be 29,618,000, representing approximately 0.67% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised.

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SINOSURE is a state-funded policy-oriented insurance company with independent status of legal person, established for promoting China's foreign trade and economic cooperation. It began operations on December 18, 2001. SINOSURE has presently formed a nationwide service network. Its business guideline is "by means of insurance service for foreign trade and investment, fully supporting the development of foreign trade and economic cooperation and promoting the economic growth, the employment and the equilibrium of international balance of payment." SINOSURE is mandated, in accordance with the Chinese government's diplomatic, international trade, industrial, fiscal and financial policies, to promote Chinese exports of goods, technologies and service, especially high-tech and high value-added capital goods like electromechanical products, and national enterprises' overseas investment, by means of export credit insurance against non-payment risks.

### *Zhongrong International Trust Co., Ltd.*

Zhongrong International Trust Co., Ltd. ("Zhongrong Trust") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$50,000,000 at the Offer Price. Assuming the Offer Price of HK\$9.80, being the low end of the Offer Price range set out in this prospectus, the total number of H Shares that Zhongrong Trust would subscribe for would be 39,591,500, representing approximately 0.89% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$11.45, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Zhongrong Trust would subscribe for would be 33,886,000, representing approximately 0.77% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$13.10, being the high end of the Offer Price range set out in this prospectus, the total number of H Shares that Zhongrong Trust would subscribe for would be 29,618,000, representing approximately 0.67% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised.

Zhongrong Trust, formerly known as Harbin International Trust and Investment Corporation, was established in 1987. The company's main shareholders include Jingwei Textile Machinery Co., Ltd., Zhongzhi Enterprise Group and Harbin Investment Group Co., Ltd. Its principal engagements include real estate trust, bank-trust cooperation, securities investment trust, equity income trust, infrastructure investment and financing trusts, private equity investment trusts, mining and energy trusts and alternative innovative businesses.

### *Albertson Capital Limited*

Albertson Capital Limited ("Albertson") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$30,000,000 at the Offer Price. Assuming the Offer Price of HK\$9.80, being the low end of the Offer Price range set out in this prospectus, the total number of H Shares that Albertson would subscribe for would be 23,755,000, representing approximately 0.54% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$11.45, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Albertson would subscribe for would

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be 20,331,500, representing approximately 0.46% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$13.10, being the high end of the Offer Price range set out in this prospectus, the total number of H Shares that Albertson would subscribe for would be 17,770,500, representing approximately 0.40% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised.

Established in 2006, Albertson primarily focuses on investing in PRC companies on the Hong Kong Stock Exchange and acted as anchor investors in certain initial public offerings of PRC companies. It has also partnered with a financial institution to manage its portfolio in the China A-share market. Currently, the value of the securities portfolio of Albertson is more than US\$500 million.

### *China CAMC Engineering CO., Ltd.*

China CAMC Engineering CO., Ltd. (“CAMCE”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$10,000,000 at the Offer Price. Assuming the Offer Price of HK\$9.80, being the low end of the Offer Price range set out in this prospectus, the total number of H Shares that CAMCE would subscribe for would be 7,918,000, representing approximately 0.18% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$11.45, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that CAMCE would subscribe for would be 6,777,000, representing approximately 0.15% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$13.10, being the high end of the Offer Price range set out in this prospectus, the total number of H Shares that CAMCE would subscribe for would be 5,923,500, representing approximately 0.13% of the Shares in issue immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised.

CAMCE, affiliated to China National Machinery Industry Corporation (“SINOMACH”), is a company jointly founded by domestic famous foreign trade companies, design institutes, machinery manufacturers and construction companies with the approval of the MOFCOM. CAMCE was listed in Shenzhen Stock Exchange in June 2006 (Stock Code: 002051). CAMCE’s core business includes international project contracting, trading and domestic and overseas project investments. Its business covers Asia, Africa, the Americas and Eastern Europe region, and includes fields such as industrials projects, agricultural projects, power projects, waterworks and communication projects. CAMCE is controlled by SINOMACH. SINOMACH, established in January 1997, is a large state-owned enterprise approved by the State Council and administered by the SASAC. SINOMACH is a Global 500 enterprise. SINOMACH is devoted to two major industry areas, namely machinery manufacturing and manufacturing service industries, and focuses on developing three primary businesses including R&D and manufacturing of machinery, project contracting, and trade and services.

In addition, on April 30, 2013, we entered into a strategic cooperation agreement with CAMCE which sets out the parties’ mutual intentions with respect to the establishment of a long term and mutually beneficial cooperation relationship.

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Each of the Cornerstone Investors is an Independent Third Party and is not our connected person. The Cornerstone Placing forms part of the International Offering and the Offer Shares to be subscribed for by the Cornerstone Investors will rank pari passu in all respects with the other fully paid H Shares in issue and will be counted towards the public float of our Company. Each of the Cornerstone Investors will not have any representation on the Board or be a substantial shareholder of the Company and will not subscribe for any Offer Shares under the Global Offering other than pursuant to the cornerstone investment agreements referred to above. The Offer Shares to be subscribed by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in “Underwriting — Hong Kong Public Offering” of this prospectus nor by any exercise of the Over-allotment Option. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by us on or around May 22, 2013.

### CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become unconditional by no later than the time and date as specified in such agreements (in accordance with their respective original terms or as subsequently varied by agreement of the parties thereto) and not having been terminated; and
- (ii) the Listing Committee having granted the Listing of, and permission to deal in, the H Shares and that such approval or permission not having been revoked.

### RESTRICTIONS ON DISPOSAL OF H SHARES BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that without the prior written consent of the Company and the relevant Joint Bookrunners, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the “Lock-up Period”), dispose of any of the H Shares they have purchased pursuant to the relevant cornerstone investment agreement, save for transfers to any of its wholly-owned subsidiaries who will be bound by the same obligations of such Cornerstone Investor, including the Lock-up Period restriction.

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### OVERVIEW

We are the leading oil refining, petrochemical and new coal chemical engineering company in the PRC. According to ICIS Consulting, we ranked first both in 2010 and 2011 among all PRC Exploration and Design Enterprises providing services to oil refining and chemical industries based on total revenue, and we ranked among the top 10 global contractors in 2011 based on revenue generated from services provided to oil refining and chemical industries. Leveraging 60 years of industry experience and continual innovation in specialized technologies, we have developed the strongest execution capabilities in the PRC with respect to engineering and constructing large-scale oil refining, petrochemical and new coal chemical complexes, and are highly competitive in the international engineering market.

With a team of high-caliber professionals, comprehensive technologies and extensive experience in oil refining and chemical engineering, we provide a variety of services including licensing, engineering, consulting, EPC Contracting, construction and equipment manufacturing to clients in a broad range of industries including oil refining, petrochemicals, new coal chemicals, inorganic chemicals, pharmaceutical chemicals, clean energy, storage and transportation, environmental engineering and utilities. Since the beginning of the 21st century, we have participated in the engineering and construction of key national energy and chemical industry bases across the PRC, including the Yangtze River Delta, the Pearl River Delta, the Bohai Bay, the Beibu Bay and the central and western regions. We have also completed numerous landmark projects, including the PRC's first single-train oil refining complex with an annual processing capacity of ten million tons, first ethylene complex with an annual production capacity of one million tons and first direct coal liquefaction facility, as well as the world's first commercial olefin production project that uses methanol produced from coal. We have also undertaken a number of notable projects overseas. Leveraging our proprietary technologies and strong performance record, we have established an extensive and stable client base.

We conduct the following four key businesses:

- **Engineering, consulting and licensing:** The engineering, consulting and licensing segment is the central part of our business. According to data from the MOHURD and a survey conducted by ICIS Consulting, we ranked first in both 2010 and 2011 among all PRC Exploration and Design Enterprises providing services to oil refining and chemical industries based on revenue generated from exploration and design activities. Our engineering and consulting services include services provided in the preparatory work phase, project definition phase and project implementation phase, as well as project management contracting. We have strong technical capabilities in all aspects of engineering and consulting, and have formulated a vast majority of national and industrial standards and codes in oil refining and petrochemical engineering and the majority of national and industrial standards and codes in pharmaceutical chemical engineering in the PRC. We hold the requisite PRC certifications for carrying out our engineering and consulting businesses, with four of our subsidiaries holding comprehensive Class A certification in engineering (工程設計綜合甲級資質), which represents the highest level of certification for providing engineering services in the PRC, and one subsidiary holding Class A certification in chemical and petroleum industrial engineering (化工石油行業工程設計甲級資質). Our subsidiary, SEI, has the strongest engineering capabilities in the PRC with respect to oil

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refining and petrochemical integrated engineering projects for 10 Mtpa capacity oil refineries and 1 Mtpa capacity ethylene plants. According to ENR, SEI ranked 12th in 2011 among international design firms based on international revenue derived from design services provided to oil refining and petrochemical industries. Our business covers a comprehensive range of over 30 disciplines, including process, piping, equipment, instrument, electrical, architecture, civil, general arrangement, environmental, storage and utility, information engineering and cost estimation, among others. We have over 4,000 qualified and skilled professionals specializing in engineering and consulting.

We have technological strength in process technologies. For example, we possess process technologies needed by modern refineries and large scale ethylene plants, including process technologies with respect to crude and vacuum distillation, fluid catalytic cracking and continuous catalytic reforming, ethylene and polyolefin related and other complete series of production process technologies, as well as methanol to olefins and other new coal chemical technologies. We license our solely- or jointly-owned process technologies to our clients through process design packages or other deliverables. Our licensing business has benefited our engineering and consulting and subsequent EPC Contracting businesses. Our technological strength in process technologies has enhanced our ability to obtain business, our pricing power, our project execution capabilities and our ability to expand markets.

- ***EPC Contracting:*** We provide engineering, procurement and construction (“EPC”) services, as well as other types of EPC Contracting services. According to data from the CEDA and a survey conducted by ICIS Consulting, we ranked first in both 2010 and 2011 among all PRC Exploration and Design Enterprises providing services to oil refining and chemical industries based on completed contract value of EPC Contracting business. We are capable of providing a full range of services throughout the entire course of engineering and construction projects, ranging from process design packages to commissioning and start-up, for large and complex engineering and construction projects including 10 Mtpa capacity oil refineries and 1 Mtpa capacity ethylene plants. We have constructed a number of large oil refineries and petrochemical plants in the PRC and overseas as a general contractor. We are also undertaking an increasing number of EPC Contracting projects in sectors including new coal chemical, pharmaceutical chemical, clean energy and environmental engineering sectors. According to ICIS Consulting, we ranked among the top 10 global contractors in 2011 based on revenue generated from services provided to oil refining and chemical industries.
- ***Construction:*** We are one of the largest service providers of construction contracting and specialized construction in the oil refining and chemical industries in the PRC. We provide construction services for new construction, modification and expansion projects, and overhaul and maintenance projects in various industries, including oil refining, petrochemicals, new coal chemicals, pharmaceutical chemicals, clean energy, environmental engineering, power generation, and storage and transportation in the PRC and overseas. We possess the national Class A certification in construction contracting (施工總承包企業一級資質), the highest level of certification granted in the PRC for providing construction contracting service, as well as other professional certifications. We have led or participated in the formulation of national and industrial standards for

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construction techniques, and have established complete sets of construction methods. In addition, we own specialized large equipment required for construction and have a professional construction team. With respect to specialized construction services, we have expertise in the lifting and transportation of large equipment, installation of large rotating equipment (such as compressor units), installation of large storage tanks, installation and commissioning of complex distributed control systems and welding of special materials.

- ***Equipment manufacturing:*** We are one of the major manufacturers and suppliers of large static equipment used in oil refineries and chemical plants in the PRC. We manufacture various types of large static equipment which are used in our EPC Contracting and construction projects as well as for sales to our clients. Our principal products include pressure vessels and related equipment such as towers, reactors, vessels and heat exchangers, as well as components such as steel structures, spool pipes and industrial furnace modules. In addition, we also provide related services including technical consultation, installation and inspection, and overhaul and maintenance with respect to equipment.

For the years ended December 31, 2010, 2011 and 2012, our total revenue was RMB29.90 billion, RMB30.60 billion and RMB38.53 billion, respectively. Our profit attributable to shareholders for the same periods was RMB2.89 billion, RMB3.38 billion and RMB3.32 billion, respectively. For the years ended December 31, 2010, 2011 and 2012, the value of our new contracts (which represents the aggregate value of the contracts we entered into during a specified period) was RMB41.21 billion, RMB50.30 billion and RMB40.14 billion, respectively. As of December 31, 2012, our backlog (which represents the total estimated contract value of work that remains to be completed pursuant to outstanding contracts as of a certain date, net of estimated value added tax and assuming performance in accordance with the terms of the contract) was RMB76.05 billion.

### COMPETITIVE STRENGTHS

***We are the largest and most seasoned oil refining, petrochemical and new coal chemical engineering company in the PRC with the strongest execution capabilities, and are highly competitive in the international engineering market.***

We are the leading oil refining, petrochemical and new coal chemical engineering company in the PRC. We were established in the 1950s as the PRC's first oil refining and petrochemical engineering enterprise. We were the PRC's largest engineering company providing services to oil refining and chemical industries in both 2010 and 2011 in terms of revenue. Leveraging our long operating history and extensive industry experience, we have also developed the strongest execution capabilities in the PRC with respect to engineering and constructing large-scale oil refining, petrochemical and new coal chemical complex, which typically includes a series of units and projects,

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and are highly competitive in the international engineering market. Our competitive strengths mainly include:

- *Largest operation scale:* According to ICIS Consulting, we ranked first both in 2010 and 2011 among all PRC Exploration and Design Enterprises providing services to oil refining and chemical industries in terms of revenue. Additionally, according to data from the MOHURD and a survey conducted by ICIS Consulting, our domestic market share in 2011 in terms of revenue among all PRC Exploration and Design Enterprises providing services to oil refining and chemical industries was 14.6%.
- *Strongest execution capabilities:* We have the strongest execution capabilities in the PRC with respect to engineering and constructing large-scale oil refining, petrochemical and new coal chemical complexes. In particular, we engineered and constructed the PRC's first single-train oil refining complex with a processing capacity of 10 Mtpa, first ethylene complex with a production capacity of 1 Mtpa and first direct coal liquefaction facility, as well as the world's first commercial olefin production project that uses methanol produced from coal. In addition, four of our nine major operating subsidiaries possess comprehensive Class A certification in engineering, the highest level of certification for providing engineering services in the PRC, and one subsidiary possesses Class A certification in chemical and petroleum industrial engineering. SEI has the strongest engineering capabilities in the PRC with respect to oil refining and petrochemical integrated engineering for 10 Mtpa capacity oil refineries and 1 Mtpa capacity ethylene plants. We have received numerous awards in the engineering field as a result of our performance. Between 1990 and 2012, we received 58 National Premium Project Awards (國家優質工程獎), including two gold medals and 56 silver medals; eight National Luban Awards (魯班獎); 81 National Outstanding Engineering Awards (國家優秀設計獎), including 23 gold medals; 24 National Outstanding EPC Contracting Awards (國家優秀工程總承包獎); 232 Provincial and Ministerial Premium Project Awards (省部級優質工程獎); and 301 Provincial and Ministerial Outstanding Engineering Awards (省部級優秀設計獎), including 102 first prizes.
- *Excellent management team and technology team:* Having a high-caliber management team and an innovative core technology team is key to our success. Members of our senior management possess a wealth of managerial, technological and industrial expertise, with an average of more than 25 years of experience in the oil refining and chemical industries or the engineering industry. With respect to our technology team, as of December 31, 2012, we employed exceptional technology talents including one academician of the Chinese Academy of Sciences, two academicians of the Chinese Academy of Engineering, 11 Engineering Design Masters of the PRC, two winners of the National Award for Special Contribution, 32 experts entitled to receive special allowances from the State Council and 219 professor-level senior technology experts.
- *Advanced and commercialized technologies:* We are the only engineering company in the PRC capable of engineering and constructing large-scale modern oil refineries and petrochemical plants using primarily our complete set of production process technologies. Since the beginning of the 21st century, we have completed a number of projects using



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primarily our solely- or jointly-owned patents and proprietary technologies, including large-scale modern oil refinery projects, such as the Hainan Oil Refining Complex and the Qingdao Oil Refining Complex; large-scale modern ethylene projects, such as the Tianjin Ethylene Complex, the Zhenhai Ethylene Complex, the Maoming Ethylene Expansion Complex and the Shanghai SECCO Ethylene Complex; and new coal chemical projects, such as the Shenhua Baotou DMT0 Project. As of December 31, 2012, we owned 771 patents in the PRC, as well as 267 proprietary technologies and 336 construction methods, covering oil refining, petrochemicals, new coal chemicals, pharmaceutical chemicals, clean energy, environmental engineering and other industries we serve. Between 1990 and 2012, we received 69 National Invention Awards and National Science & Technology Progress Awards (國家發明獎、科技進步獎), including one first prize in the National Invention Awards, two grand prizes and 10 first prizes in the National Science & Technology Progress Awards, and 653 Provincial and Ministerial Invention Awards and Science & Technology Progress Awards (省部發明獎、科技進步獎), including three first prizes in Invention Awards, four grand prizes (特等獎) in Science & Technology Progress Awards and 106 first prizes in Science & Technology Progress Awards.

- *Comprehensive management systems:* We have comprehensive management systems for technology management, operational management, risk management and project management, as well as health, safety and environment (“HSE”) management, which serve to enhance our project execution capabilities, operational efficiency, economic returns and our ability to sustain growth. In 2011, SEI received ISO 9001, OHSAS 18001 and ISO 14001 certifications with respect to quality and HSE management from Lloyd’s Register Quality Assurance Limited (“Lloyd RQA”). These certifications were reaffirmed in 2012. All of our other major operating subsidiaries have also obtained ISO 9001, OHSAS 18001 and ISO 14001 certifications or their PRC equivalents. In addition, we have an effective standardization system for maintaining, among others, uniform project management standards and technical industrial standards.
- *Advanced software and facilities:* We own and utilize a variety of advanced software and facilities in our operations serving oil refining, chemical, energy, environmental and other industries. With respect to our engineering, consulting and licensing and EPC Contracting businesses, we own and employ the internationally widely used process technology software, advanced international computer-aided engineering software and project management software. We also possess an integrated smart information system that aids our senior management’s decision-making, operational management and project management. In addition, with respect to our construction business, we are equipped with many different facilities, including a 3,600-ton class crawler crane, specialized equipment for construction of oil refining and petrochemical projects, equipment for prefabrication and automatic welding machines for large equipment. With respect to our equipment manufacturing business, we utilize calculation and stress analysis software required for the manufacturing of American Society of Mechanical Engineers (“ASME”) boiler pressure vessels in compliance with international standards, as well as other equipment required for manufacturing equipment, steel structures and prefabricated pipes for oil refineries and chemical plants.

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- *International competitiveness:* We are highly competitive internationally in providing engineering and construction services to the oil refining, petrochemical and new coal chemical industries. We entered the international market in the 1990s and have successfully established a business platform covering regions with relatively high levels of development in the oil refining and petrochemical industries, including the Middle East, Central Asia, Asia Pacific, Africa and South America. We have undertaken a number of oil refining and petrochemical engineering projects in countries including Kuwait, Saudi Arabia, the United Arab Emirates, Kazakhstan, Algeria, Singapore and Bangladesh and have established our presence and reputation in the international market and a stable client base. Since 2000, we have completed various overseas projects with an aggregate contract value of more than US\$10 billion. According to ENR, SEI ranked 16th in 2011 among international contractors based on international revenue derived from services provided to oil refining and petrochemical industries, which placed SEI first among PRC engineering enterprises in the same ranking. According to ICIS Consulting, we were among the top 10 global contractors in 2011 based on revenue generated from services provided to oil refining and chemical industries.

The abovementioned strengths have enabled us to become a leader among oil refining, petrochemical and new coal chemical engineering companies in the PRC, and to enhance our competitiveness in the rapidly growing engineering markets both in the PRC and overseas.

***We possess great strengths in technologies, capabilities for continual innovation and a strong R&D platform, which serve as a solid foundation for the expansion of our business.***

We have patents and proprietary technologies spanning many sectors, including the oil refining, petrochemical, new coal chemical, inorganic chemical, pharmaceutical chemical, clean energy, storage and transportation and environmental sectors. In the past decade, these patents and proprietary technologies have been promoted and widely applied in our engineering, consulting and licensing projects and have driven the growth of our engineering and consulting, and our EPC Contracting businesses.

- *In the oil refining sector:* Primarily employing our own technologies, we have successfully completed the new construction, modification, expansion and optimization of a number of 10 Mtpa capacity modern oil refineries (including oil refineries that process high-sulfur crude oil, crude oil with high acidity and heavy crude oil). Our complete series of production process technologies for large oil refineries have also been promoted and widely applied.
- *In the petrochemical sector:* Through engineering and construction of the 1 Mtpa capacity ethylene plants in Wuhan, Tianjin and Zhenhai with our licensed technologies, we managed to enhance and promote the application of our process technologies relating to 1 Mtpa capacity ethylene plants and other related technologies in the petrochemical industry. In addition, we have technical expertise with respect to providing technologies for the engineering and construction of 1 Mtpa PTA complexes.

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- *In the petroleum-alternative sector:* Our technologies in this sector follow the trend of specific to comprehensive development and application. Our technologies with respect to coal gasification, coal to syngas, methanol to olefins (“MTO”), using coal as substitution for oil in chemicals production, natural gas purification, natural gas to liquid fuel, bio-jet fuels and bio-diesels have all been applied in large-scale commercial operation. Some of our technologies for the production of glycol and succinic acid are also undergoing trials in pilot projects. In particular, we developed or participated in developing all of the MTO process technologies that are currently applied in the PRC, have licensed our MTO technologies to our clients and promoted their wide application by undertaking two MTO projects that are currently in operation in the PRC.
- *In the pharmaceutical chemical sector:* We possess specialized bio-fermentation and chemical synthesis technologies, natural medicine extraction technologies and clean pharmaceutical chemical engineering technologies, which technologies have been promoted and applied in various projects. We also have an R&D platform for developing new pharmaceuticals.
- *In the inorganic chemicals sector:* We have advanced technologies with respect to the production of sulfuric acid, phosphate fertilizer and phosphate compound fertilizer, and advanced technologies for low-level heat recovery to improve energy efficiency in sulfuric acid complex. Such technologies have been applied in various projects, including the phosphate compound fertilizer base project in Yunnan, and the low-level heat recovery project of a sulfuric acid plant in Guizhou.

Furthermore, with respect to our construction and equipment manufacturing businesses, we have expertise in the lifting and transport of large equipment, installation of large rotating equipment (such as compressor units), installation of large storage tanks, installation and commissioning of complex distributed control systems, which consist of component sub-systems controlled by one or more control systems, and welding of special materials. We also employ techniques such as fabrication and modularized installation. Employing such expertise and techniques has helped us to improve efficiency, ensure safety, shorten construction periods, lower costs and enhance profitability.

As the leading oil refining, petrochemical and new coal chemical engineering company in the PRC, we have played a leading role in formulating and revising national and industrial construction standards and codes and engineering specifications. Leveraging our strong R&D capabilities and advanced engineering technologies, we have completed numerous landmark projects and received many awards in areas including engineering and consulting, EPC Contracting, construction and R&D. We have established an advanced R&D platform to support our technological innovation and engineering applications of new technologies and techniques. In addition, we have established various research institutions, postdoctoral workstations and provincial- and ministerial-level technology centers. Furthermore, we have established close cooperative relationships with research institutions, renowned academic institutions and some of our clients, such as large-scale petroleum enterprises and coal enterprises, to jointly develop new technologies and facilitate the engineering application of such technologies.

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Our technological strength, through our engineering, consulting and licensing business, has been converted into one of our operational advantages. We currently license our solely- or jointly-owned process technologies to our clients through process design packages, which are technological solutions tailored for each project and consist of the process technologies needed, or other deliverables. Our technology licensing has not only provided us with a source of income, but, more importantly, has also enhanced our ability to obtain business, our pricing power and our ability to expand the markets in our engineering and consulting and subsequent EPC Contracting businesses. For example, in the Wuhan Ethylene Complex, we licensed the technologies employed by eight of the ten process units of the complex and undertook all engineering work; in the Shenhua Baotou DMTO Project, we licensed our MTO technology and successfully obtained and completed engineering work for the project.

*We have completed numerous landmark projects, accumulated extensive engineering and construction experience and developed strong project execution capabilities during our 60 years of operation.*

We have been in operation since the 1950s and have completed numerous landmark projects in our 60 years of operation. Since the beginning of the 21st century, we have played a significant role in the engineering and construction of key national energy and chemical industry bases across the PRC, including the Yangtze River Delta, the Pearl River Delta, the Bohai Bay, the Beibu Bay and the central and western regions, and have also completed the PRC's first single-train oil refining complex with a processing capacity of 10 Mtpa, first ethylene complex with a production capacity of 1 Mtpa, first direct coal liquefaction facility which produces liquid fuels from coal, first coal gasification project with a daily processing capacity of 2,000 tons of coal, first IGCC plant and first large high-sulfur natural gas purification plant, as well as the world's first commercial olefin production project that uses methanol produced from coal.

We have provided engineering and construction services to a wide range of industries, including oil refining, petrochemicals, new coal chemicals, inorganic chemicals, pharmaceutical chemicals, clean energy, storage and transportation, environmental engineering and utilities. Participating in projects in these industries has enabled us to gain extensive engineering and construction experience, trained our teams of skilled professionals and helped us develop strong project execution capabilities. Some representative projects in these industries that we undertook include:

- in the oil refining industry, the Huizhou 12 Mtpa Oil Refining Complex and the Qingdao 10 Mtpa Oil Refining Complex;
- in the petrochemical industry, the Shanghai SECCO 0.9 Mtpa Ethylene Complex, the Tianjin 1 Mtpa Ethylene Complex and the Zhenhai 1 Mtpa Ethylene Complex;
- in the new coal chemical industry, the Shenhua Erdos Direct Coal Liquefaction Project, the Shenhua Erdos Indirect Coal Liquefaction Project, the Shenhua Baotou DMTO Project and the Zhongyuan Petrochemical SMTTO Project;
- in the pharmaceutical chemical industry, the PRC's first kiloton per annum class Vitamin C production unit, and the PRC's first penicillin project, which is also recognized as the PRC's pioneer antibiotics plant;

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- in the clean energy industry, the Sichuan Puguang Natural Gas Purification Project; and
- in the storage and transportation industry, the Huangdao and Zhenhai state petroleum reserve projects.

In addition, we participated in the engineering and construction of many major oil refining and ethylene projects in the PRC over the past decade, including participating in all 16 of the 10 Mtpa capacity oil refinery projects, and undertaking six of the seven 1 Mtpa capacity ethylene projects (including both new construction projects and expansion projects) in the PRC. We also undertook two MTO projects in the PRC that are currently in operation.

In the overseas market, we have undertaken a number of notable projects, such as the Kazakhstan Atyrau Refinery Aromatics EPC Project, the Kuwait Mina Al Ahmadi 30 Mtpa Refinery Restoration Project, the Saudi YANSAB 500 Ktpa Polyethylene Project and 500 Ktpa Polypropylene Project, the Saudi Kayan 700 Ktpa Ethylene Oxide/Ethylene Glycol Project, the Saudi Rabigh 13 Mtpa CDU/VDU Project, the SABIC IBN RUSHD 420 Ktpa PET Project, the Saudi Kayan NDA Project and the Saudi Yanbu 20 Mtpa Export Oil Refining Complex.

We have achieved client satisfaction by completing large-scale projects in an efficient and timely manner, which has enabled us to win the trust and support of notable domestic and overseas clients and regulatory authorities and successfully establish our reputation and brand in the engineering industry. We believe our extensive experience and the good relationships with our clients, together with our reputation and brand in the industry, will provide a solid foundation for us to pursue future growth opportunities in relevant markets.

***We have established an extensive and stable client base, as well as a strong domestic and overseas marketing network and resource platform.***

Our principal clients include well-known domestic and overseas companies in the oil refining, chemical, coal, pharmaceutical and other industries with whom we have established cooperative business relationships, which we believe will facilitate the development of our future businesses, both domestically and abroad.

Our services have been recognized by large- and mega-size petroleum enterprises and coal enterprises in the PRC. We have been one of the main contractors for oil refining and chemical engineering projects of these enterprises. Over the past decade, in the oil refining industry, we undertook or participated in all of the new construction complexes and some of the modification and expansion of oil refineries of Sinopec Group, CNPC, CNOOC, Shaanxi Yanchang Petroleum (Group) Co., Ltd. and Sinochem Group; in the petrochemical industry, we undertook all 14 of the new construction, modification or expansion of ethylene complexes of Sinopec Group and the only new construction ethylene complex of CNOOC, and participated in two of the seven new construction, modification or expansion of ethylene complexes of CNPC; and in the new coal chemical industry, we undertook three of the four large new coal chemical projects of Shenhua Group, as well as almost all of the coal gasification projects of Sinopec Group.

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We have established business relationships with overseas companies including Exxon Mobil Corporation, BP, Shell, Saudi Aramco, SABIC, BASF, KMG, Bayer AG, among others, and have provided the following services to these companies:

- engineering and consulting, EPC and construction services to BP's joint venture with Sinopec Corp. in connection with various units in the Sinopec-BP Shanghai SECCO 0.9 Mtpa Ethylene Complex;
- engineering and consulting, construction and project management contracting services to Shell's joint venture with CNOOC in connection with various units in the CNOOC-Shell Nanhai Petrochemical Complex;
- engineering and consulting, construction and project management contracting services to Exxon Mobil Corporation and Saudi Aramco's joint venture with Sinopec Corp. in connection with various units in the Fujian Refining and Ethylene Complex and to Saudi Aramco in the Yanbu 20 Mtpa Export Oil Refining Complex, and construction contracting services to Saudi Aramco in connection with the PetroRabigh Oil 13 Mtpa Oil Refinery Project;
- engineering and consulting, EPC and construction services to SABIC's joint venture with Sinopec Corp. in connection with various units in the SABIC Sino-Saudi Tianjin 1 Mtpa Ethylene Complex;
- engineering and consulting, EPC and construction services to BASF's joint venture with Sinopec Corp. in connection with various units in the YPC-BASF Ethylene Complex; and
- EPCC services to KMG in connection with the Kazakhstan Atyrau Refinery Aromatics EPC Project.

The quality of our engineering and construction services has been well recognized by our clients, enabling us to establish good relationships with these clients based on mutual cooperation and generate recurring business. We believe the business relationships we have established with our overseas clients could serve as a solid foundation for us to pursue future growth opportunities and develop abroad.

We have established extensive marketing networks in domestic and overseas markets in order to better understand market conditions, maintain and strengthen our client relationships and pursue new business opportunities. We develop our marketing network based on the distribution of our clients' production bases, which in the PRC includes key oil refining and chemical industry bases in areas such as the Yangtze River Delta, the Pearl River Delta, the Bohai Bay, the Beibu Bay and the central and western regions. With respect to the overseas market, we have established overseas marketing networks including subsidiaries in Saudi Arabia, Nigeria, Singapore and United States, as well as branches or representative offices in the United Kingdom, Russia, Kazakhstan, the United Arab Emirates and Kuwait, which contributed to increasing revenues from our overseas business during the Track Record Period. We believe that our marketing network enables us to sustain and develop our domestic and overseas business.

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We have maintained long-term cooperative relationships with financial institutions, subcontractors and suppliers, which creates an extensive platform of resources for our operations. We leverage our resource platform to ensure the quality and timely completion of our services and provide additional value-added services to our clients. In particular, our cooperation with financial institutions helps us provide value-added services such as financing assistance to our clients. We have stringent management and qualification systems in place for our subcontractors and suppliers. These have helped us to ensure the supply and quality of equipment, materials and labor and to effectively control equipment, material and labor costs and thus enhancing our profitability.

*We are able to provide total solutions and a full range of services to clients.*

With our extensive experience, team of skilled professionals, complete set of production process technologies and proprietary technologies in the oil refining and chemical engineering industry, we are able to provide technology-driven total solutions to our clients, including technology consulting services, consultation, engineering, procurement, construction and project management contracting, which is crucial to maintaining our competitive advantage. Our total solutions serve to optimize our clients' plans for project engineering, construction and operation, and reduce their construction and operation costs and project risks. This in turn could enhance our ability to capture high-end business opportunities and to undertake large and complex projects, thereby enhancing our long-term profitability. In addition, through the Reorganization, our nine major operating subsidiaries have achieved internal vertical integration of their businesses, including R&D, licensing, engineering, consulting, EPC contracting, construction and manufacturing. This has created positive synergies in many aspects of our subsidiaries' operations, including provision of services, marketing, R&D and project execution.

Furthermore, we provide a full range of services to our clients, which extend to financing assistance and commissioning/start-up assistance. For example, we provided such services in the Kazakhstan Atyrau Refinery Aromatics EPC Project. Our financing assistance services help our clients to obtain the required project funding on buyer's credit from third-party financial institutions that we have business relationship with. Our financing assistance mainly consists of facilitating communications between our clients and such financial institutions and providing our services such as feasibility studies with respect to such clients' projects. We would not be a party to any loan or guarantee arrangement and are not required to provide any form of financial guarantees in the financing assistance we provide to our clients. In addition, our commissioning/start-up assistance services may accelerate the commencement of the operation of our clients' projects, which in turn could enable them to realize investment returns more quickly. Our ability to provide a full range of services has enhanced our market competitiveness.

*We have an experienced management team, a talented technology team and a corporate culture of pursuing excellence.*

Members of our senior management have extensive technological, managerial and industrial expertise, and are especially experienced with operations involving the engineering, EPC Contracting and construction of large and complex projects. Under the leadership of our management team, we have been able to maintain our industry leading position in the PRC through 60 years of successful operations. Our senior management team has an average of more than 25 years of experience in the

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oil refining and chemical industries or the engineering and construction industry. Our chairman, Mr. CAI Xiyou, has extensive industry and management experience in the PRC oil refining and petrochemical industries and provides leadership and vision to our Group. Our executive Director and President, Mr. YAN Shaochun, has been with our Group since 1986 and has extensive experience in engineering, engineering management, project management and corporate management in oil refining and chemical engineering industry.

Our senior management is supported by our mid-level management team, particularly our project management team, with respect to business operation and project management. With strong backgrounds in the engineering and construction industry, extensive project management experience and comprehensive professional qualifications, our project managers are able to identify and respond to clients' needs and provide effective solutions in challenging situations. Our mid-level management team has played an important role in improving our profitability, expanding our business operations and increasing our global market share. Our mid-level management team also receives training on an on-going basis from external institutions including the Institute of Management Development ("IMD") and European Institute of Business Administration ("INSEAD") to acquire the latest management expertise.

We are a technology-focused enterprise and believe that our innovative core technology team is key to our success. As of December 31, 2012, we employed one academician of the Chinese Academy of Sciences, two academicians of the Chinese Academy of Engineering, 11 Engineering Design Masters of the PRC, two winners of the National Award for Special Contribution, 32 experts entitled to receive special allowances from the State Council and 219 professor-level senior technology experts. As of December 31, 2012, we also employed approximately 1,100 operational management personnel and nearly 13,200 professional technicians, including approximately 3,500 senior or higher level personnel and nearly 2,000 registered engineers, registered construction engineers and certified public accountants with professional qualifications. As of December 31, 2012, among our employees, 9,008 or 46.0% of them hold at least a bachelor's degree, including 1,232 employees who also hold master or doctorate degrees.

We pursue a corporate culture of excellence and encourage innovation and problem-solving. In the course of our corporate development, we have established a corporate culture that encompasses vision, mission, philosophy, character and motto. Particularly, we have adopted "integrity, diversity, dedication and innovation" as our core values. We believe in operating our business with the highest level of integrity, by making our clients our top priority, producing the best work product, creating opportunities for our employees, maximizing returns for our shareholders and creating value for the society. We value diversity and promote cooperation internally and externally. We believe in dedication, especially in devotion to our work, creating friendly working environment for our employees and encouraging our employees to take initiative. We promote innovation, thereby maintaining our technological strength and advancing toward more high-end business. We believe our corporate culture, as embodied in our core values, has encouraged our employees to work as a team, execute projects efficiently and use new and innovative technologies and construction methods to complete complex and landmark projects. We believe that our corporate culture is one of the factors that has distinguished ourselves from our competitors in the past and will continue to serve as a foundation for our future development.



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### BUSINESS STRATEGIES

We strive to become a first-tier global energy and chemical engineering company through integration, globalization, differentiation, innovation and low-carbon development. To achieve this goal, we intend to pursue the following strategies:

*Continually expand in the domestic market to strengthen our leading position among the PRC's oil refining, petrochemical and new coal chemical engineering companies.*

We expect the PRC to remain one of the major growth markets in the global oil refining, petrochemical and new coal chemical industries. According to CICC's forecast, from 2011 to 2016, the PRC oil refining engineering market is expected to grow at a CAGR of approximately 5.1%, reaching approximately RMB27.64 billion by 2016; the PRC petrochemical engineering market is expected to grow at a CAGR of approximately 15.2%, reaching approximately RMB241.24 billion by 2016; and the PRC new coal chemical engineering market is expected to grow at a CAGR of approximately 41.6%, reaching approximately RMB90 billion by 2016. We have grown into a leading oil refining, petrochemical and new coal chemical engineering company in the PRC and believe that our business exhibits promising growth potential as a result of the continuing growth of the relevant industries in the PRC.

We will continue to strengthen and develop the PRC market by adopting the following measures:

- increase investment in R&D, promote the use of our technologies and apply such technologies in an increasing number of new construction, modification and expansion projects in accordance with PRC industrial policy guidelines and heightened requirements for environmental protection in order to reinforce our market position;
- invest more resources in key projects, improve project management, produce high-quality results and further enhance our corporate brand;
- continue to provide consultancy services and total solutions to, and increase our strategic cooperation with, PRC clients;
- optimize the system of “standardized engineering, standardized procurement and modularized construction” and continue to improve our engineering, procurement and construction capabilities;
- continue to supplement and upgrade our process technology, engineering and management software and improve the efficiency of our engineering and project management;
- enhance our overall lifting capacity by purchasing large heavy lifting machinery, and increase efficiency and reduce project costs by increasing the use of the “fabrication and modularized hoisting” in large-scale projects, thereby enhancing our competitiveness in construction services;

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- under appropriate conditions, expand into new businesses by means of strategic investments, mergers and acquisitions; and
- provide career development opportunities to our employees and create and maintain a merit-based work environment that promotes accountability and open communications to better attract and retain top experts and technical specialists.

Through these and other measures, we intend to take advantage of the expected continued growth in the PRC oil refining, petrochemical and new coal chemical industries to strengthen our leading position and expand our operations in such markets.

*Actively expand our presence in the overseas market and advance our position in the international market.*

In recent years, we have begun to establish our reputation internationally by actively participating in various oil refining and chemical engineering projects abroad, including projects in the Middle East, Central Asia, Asia Pacific, Africa, South America and North America. According to ICIS Consulting, from 2011 to 2016, capital expenditure of the global oil refining industry is forecasted to grow at a CAGR of approximately 3.6% and capital expenditure of the global petrochemical industry is forecasted to grow at a CAGR of approximately 9.5%, providing opportunities for our overseas expansion. We will fully leverage our extensive experience and existing business relationships to actively and effectively capture new overseas development opportunities while maintaining prudent risk management controls.

We intend to strengthen our overseas presence through the following measures:

- establish or improve marketing networks, operation centers or maintenance centers in various regions, including the Middle East, Central Asia, Southeast Asia, the Americas and Africa, among others, to further expand our presence in these markets, coordinate the implementation of projects, support project execution and gradually achieve localization;
- provide high quality services in existing overseas projects, strengthen relationships with overseas clients, enhance customer loyalty and our brand awareness internationally and secure recurring business from existing overseas clients;
- enhance the training of our overseas marketing staff to build up their expertise in overseas markets and improve their marketing capabilities;
- increase localization of our overseas marketing team by recruiting more local hires with suitable industry and marketing experience in our target overseas markets;
- achieve more positive synergies among our engineering and construction subsidiaries, minimize costs and improve competitiveness of our EPC Contracting business, thereby enabling us to make more competitive bids for new projects;

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- increase our strategic cooperation with international licensors, contractors and suppliers through activities such as forming consortiums, engaging in joint biddings, and establishing and improving information sharing mechanisms with strategic partners, and thereby improve our efficiency and effectiveness in market development and enable us to compete effectively;
- strengthen our cooperation with financial institutions and utilize their network and resources to provide financing for, and facilitate our undertaking of, more international projects;
- enhance our services and project execution capabilities in overseas markets through investments, mergers, acquisitions or other means; and
- develop collaborative overseas growth strategies with our strategic clients to expand our presence in the international market.

***Further improve our R&D capability and ability to convert research achievements into engineering capabilities, thereby maintaining our leading edge in industry technologies.***

Leveraging our existing technological edge, we will continue to increase our investment in R&D activities and improve our ability to convert our research achievements into engineering capabilities to meet the new governmental policy requirements relating to industry transformation, alternative energy development, energy saving and emissions reduction. We believe that our R&D activities will not only provide us with an advantage in acquiring new technologies, but will also help to improve execution quality, construction efficiency and market competitiveness, which could ultimately enhance our profitability.

We plan to rely on our existing resources and systems, including the R&D staff and platform, to promote core technology development activities. The measures we plan to take include continuing to invest in R&D, train our employees, recruit talented staff, incentivize innovation, improve technology management and engage in collaborative R&D. We also plan to enhance our technologies relating to clean production, energy saving, emissions reduction as well as other green technologies used in the various sectors we serve. In addition, we intend to improve existing, and establish new, R&D centers and laboratories to accelerate conversion of new technologies and R&D achievements into engineering capabilities, with a focus on the following areas:

- *oil refining technologies*: focusing on plant-wide total solutions, process technologies for heavy crude oil and non-conventional crude oil, refinery energy-saving technologies and refinery process scheme optimization technologies;
- *petrochemical technologies*: focusing on process and engineering technologies with respect to optimization of petrochemical product mix, petrochemical plants' scale-up and optimization, deep processing and reuse of resources;

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- *new coal chemical and natural gas chemical technologies*: focusing on complete series of production process technologies relating to coal gasification, syngas chemical engineering and natural gas chemical engineering (such as production of high value-added products from natural gas);
- *fine chemical technologies*: improving R&D in conventional pharmaceutical chemical technologies; exploring new areas in fine chemical technologies and green chemical technologies; and integrating our technologies with respect to pharmaceutical chemical with fine chemical;
- *petroleum-alternative energy technologies*: researching and developing core processing technologies and complete series of production process technologies for gaseous hydrocarbons including shale gas, coal seam gas and coke oven gas, as well as biomass energy engineering technologies; and
- *environmental engineering technologies*: improving energy conservation and emissions reduction, focusing on desulfurization, denitration and heavy metals-removal technologies for unit tail gas; energy efficiency optimization technologies for industrial furnaces and industrial boilers; low-level heat recovery technologies; IGCC technologies, power generation and transmission technologies; and new technologies for energy-saving equipment.

We also plan to further improve technologies used in our construction and manufacturing businesses and further enhance our fabrication and modularized construction techniques, which include, among others, modularized factory manufacturing and lifting of large equipment, modularized manufacturing and installation of large industrial furnaces, steel structures and pipes, and welding technologies for new and special materials.

In addition, focusing on intellectual property, we intend to enhance our ability of acquiring new technologies by continuing to collaborate with third parties. The specific measures include:

- increasing our collaboration with domestic and overseas research institutions and top universities, monitoring international trends in technology development, conducting research of cutting-edge technologies and more quickly converting our research achievements into engineering capabilities;
- working closely with clients to further understand their various technical requirements and to tailor our R&D activities accordingly; and
- increasing our collaboration with suppliers and manufacturers to improve the performance of our proprietary equipment and patented equipment.

Our investment in enhancing R&D capabilities and technological innovation could improve our ability to convert new technologies into engineering capabilities and could allow us to reinforce our technological advantage in our industry, anticipate and respond quickly to our clients' various needs and improve the quality, safety and efficiency of our work. In addition, building on our solid

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foundation of technological strength and innovation abilities, we will continue to license our technologies, thereby converting our technological strength into operational advantage. Furthermore, we will continue to actively participate in the formulation of national and industrial standards and codes, which will enhance our influence in the industry.

*Further expand into new business areas and broaden the scope of our services.*

As we consolidate our oil refining, petrochemical and new coal chemical engineering and construction business, we expect to develop new markets by continuing to expand our new coal chemical engineering and construction businesses and diversifying into services for natural gas chemical (including both conventional and alternative natural gas such as shale gas and coal seam gas) industries. We intend to capitalize on our strong technical capabilities and leading market position, gradually expand into new businesses, meet our clients' expanding and diversifying demands and mitigate our exposure to fluctuations in demand.

While highly dependent on oil importation, the PRC has rich coal resources, which are its dominant source of energy. The energy and chemical industries relating to coal and natural gas play a significant role in the national energy strategy in the PRC and have promising growth prospects, particularly new coal chemical and natural gas chemical industries such as coal to oil, coal to olefin, coal to natural gas, IGCC, coal-based clean energy production, natural gas to olefin and natural gas to oxygen compounds. There have been significant investments in new coal chemical projects in recent years, with the EPC model accounting for a substantial portion of the new projects, which has greatly contributed to growth in the engineering market. We are in a strong market position with respect to new coal chemical engineering as a result of our technological advantages, project implementation capabilities and extensive experience in large projects. Examples of large new coal chemical engineering projects we have completed include the Zhongyuan Petrochemical SMTO Project, the Shenhua Baotou DMTO Project, the Shenhua Erdos Direct Coal Liquefaction Project and the Shenhua Erdos Indirect Coal Liquefaction Project. Through these projects, we have established a strong market reputation and accumulated technological know-how at an early stage in the development of the new coal chemical industry.

To further develop our new coal chemical and natural gas chemical engineering and construction business, we plan to take the following measures:

- continue to conduct R&D in new coal chemical and natural gas chemical technologies, and develop core technologies and integrated engineering technologies to maintain our competitive advantage;
- increase our collaboration with coal enterprises to promote the use of our existing technologies and further expand our market share and client base; and
- collaborate with major PRC and overseas licensors of new coal chemical and natural gas chemical technologies to jointly develop more competitive total solutions and be well-positioned in the emerging markets.

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In addition, we plan to enter into other petroleum-alternative engineering, environmental engineering and similar businesses to expand the scope of our business.

***Enhance our current business structure, explore new business models and improve our profitability and competitiveness.***

Within the industry chain, we plan to enhance our current business structure, explore new business models and expand our value-added services through the following measures:

- focus on further developing our technology licensing and related services, front-end consulting and engineering and project management contracting, both in the PRC and overseas, and expand our high-end and high value-added businesses;
- expand our EPC Contracting business, particularly with respect to large-scale and complex projects, and increase the revenue contribution from our EPC Contracting business to enhance our profitability;
- while maintaining stringent risk control, (i) strengthen collaboration with financial institutions to continue providing financing assistance service to our clients; (ii) secure EPC Contracting business opportunities through minority investments in selected projects; (iii) selectively provide “build and transfer” (“BT”) and “build, operate and transfer” (“BOT”) services to clients for certain projects; and (iv) acquire business overseas by utilizing the financing support of export credit agency, or ECA, and investing in overseas projects; and
- provide commissioning/start-up assistance and extend our consulting services to establishment of management systems, operation, optimization and maintenance of plants that are already in operation.

Through these measures, we intend to expand our business operations and enhance our profitability and competitiveness.

***Optimize resource allocation, further improve project management and increase operational efficiency.***

We will adopt the following measures to optimize resource allocation, further improve project management and increase our operational efficiency:

- improve the quality of management, optimize management’s decision-making process and improve risk assessment and other internal controls processes;
- enhance the overall coordination between engineering and construction businesses, conduct construction feasibility studies and enhance design optimization at the preparatory work phase, and further leverage our competitive advantage in offering total solutions and a full range of services;

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- establish a centralized procurement system to optimize procurement procedures and the selection process for suppliers and subcontractors;
- enhance the centralized management of our large-scale equipment in order to improve the efficiency of their utilization, thereby reducing our operating costs;
- improve the finance management system and strengthen the control of capital management, profitability, cash flows and other aspects of our financial management; and
- establish a market information database to be shared with our clients and, in accordance with each of our subsidiaries' specialties and particular geographic market and customer base, design an overall plan for market development and achieve localization, differentiation and specialization in order to improve our overall operational efficiency.

Through these measures, we intend to optimize resource allocation and increase overall operational efficiency.

***Improve information system to enhance our overall engineering capabilities and quality of corporate management.***

To improve our overall operational efficiency, resource allocation and core competitiveness, as well as to ensure the efficient, stable and safe operation, we will integrate and upgrade our existing information system by establishing an integrated smart information system that is effective, comprehensive and could enhance integration of the businesses of our major operating subsidiaries. Our integrated smart information system will include:

- an aided decision support platform to provide support to our management's decision-making process by analyzing complex operational information;
- an operation platform centered on Enterprise Resource Planning, a system that integrates internal and external management information, which could enable unified management of resources and integration of logistics, cash flow and information flow;
- a contemporary platform with office automation capability to standardize work flow, streamline communications and improve efficiency; and
- a multi-discipline engineering platform centered around smart plant engineering to enhance our smart design systems for process technology design, engineering design and 3D plant design, to facilitate cooperation among multiple locations and to improve our overall engineering capabilities and quality.

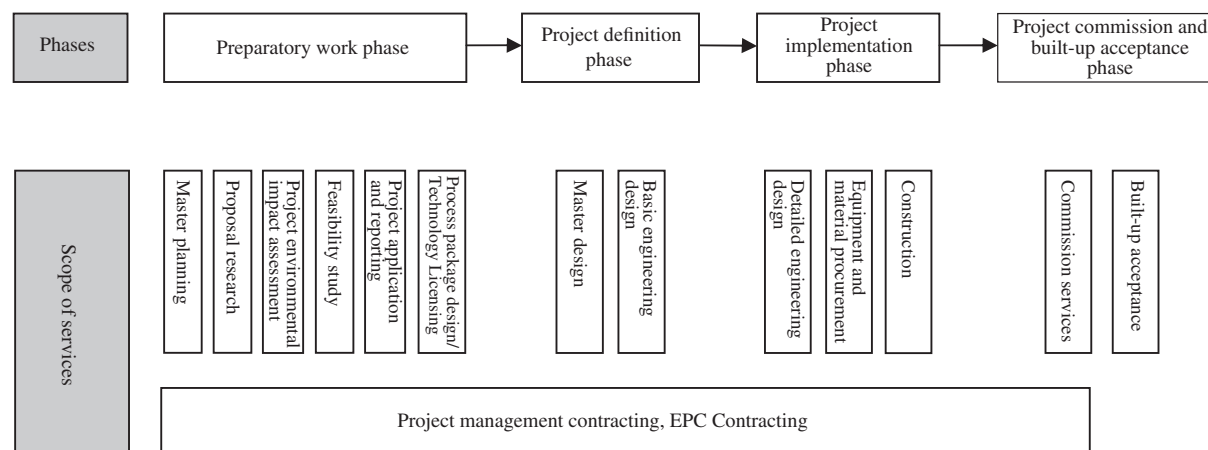
Through improved integrated smart information systems, we expect to strengthen our operational management and enhance our engineering capabilities, profitability and competitiveness.

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### OUR BUSINESS

We conduct four key businesses, namely (1) engineering, consulting and licensing, (2) EPC Contracting, (3) construction and (4) equipment manufacturing.

There are usually several key phases involved in an engineering and construction project, including the preparatory work phase, project definition phase, project implementation phase, and project commission and built-up acceptance phase. The following diagram presents the scope of services we normally provide at each phase.



The following table sets forth the revenue generated by each of our business segments before and after inter-segment elimination and their respective contribution to our total revenue before inter-segment elimination during the periods indicated:

	Year ended December 31,					
	2010		2011		2012	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Engineering, consulting and licensing .....	3,233,316	10.3	3,418,709	10.2	4,121,829	10.1
EPC Contracting .....	16,327,804	51.5	15,005,581	45.0	20,082,442	48.8
Construction .....	11,355,150	35.8	14,118,461	42.4	16,296,826	39.6
Equipment manufacturing.....	760,431	2.4	787,299	2.4	624,960	1.5
Sub-total.....	<u>31,676,701</u>	100.0	<u>33,330,050</u>	100.0	<u>41,126,057</u>	100.0
Inter-segment elimination.....	<u>(1,779,212)</u>		<u>(2,729,373)</u>		<u>(2,599,568)</u>	
Total <sup>(1)</sup> .....	<u><u>29,897,489</u></u>		<u><u>30,600,677</u></u>		<u><u>38,526,489</u></u>	

(1) Total refers to 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 inter-segment sales made by the construction and equipment manufacturing segments.



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We operate our business in the PRC and overseas. The following table sets forth our revenue from the PRC and overseas during the periods indicated:

	Year ended December 31,					
	2010		2011		2012	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
PRC .....	26,364,550	88.2	26,359,631	86.1	32,011,159	83.1
Overseas <sup>(1)</sup> .....	3,532,939	11.8	4,241,046	13.9	6,515,330	16.9
Middle East .....	3,428,952	11.5	3,954,254	12.9	4,294,486	11.1
Central Asia .....	61,987	0.2	200,836	0.7	1,985,842	5.2
Asia Pacific .....	25,383	0.1	65,690	0.2	227,809	0.6
Africa .....	16,165	0.0	—	—	—	—
Americas .....	452	0.0	20,266	0.1	6,690	0.0
Other regions .....	—	—	—	—	503	0.0
<b>Total .....</b>	<b><u>29,897,489</u></b>	<b><u>100.0</u></b>	<b><u>30,600,677</u></b>	<b><u>100.0</u></b>	<b><u>38,526,489</u></b>	<b><u>100.0</u></b>

(1) During the periods indicated, our revenue from overseas was generated primarily from Saudi Arabia, the United Arab Emirates and Iran in the Middle East, Kazakhstan in Central Asia, Singapore, India, Bangladesh, Myanmar, Australia, New Zealand and Malaysia in Asia Pacific, Algeria and Chad in Africa, Cuba in the Americas and the United Kingdom and other countries which were categorized as other regions.

### ENGINEERING, CONSULTING AND LICENSING

#### Overview

Engineering, consulting and licensing segment is the central part of our business. We provide a variety of engineering and consulting services during a project's preparatory work phase, definition phase and implementation phase, including master planning, scheme study, project environmental impact assessment, feasibility study, project application report, process package design, general engineering design, basic engineering design, detailed engineering design and project management contracting. Our engineering and consulting services are provided to clients in the oil refining, petrochemical, new coal chemical, pharmaceutical chemical and other industries. We also license our solely- or jointly-owned process technologies to our clients through process design packages or other deliverables. In 2010, 2011 and 2012, our new contract value for licensing business was RMB154.4 million, RMB165.2 million and RMB304.0 million, respectively. Our technology licensing has also benefited our engineering, consulting and our subsequent EPC Contracting businesses. According to data from the MOHURD and a survey conducted by ICIS Consulting, we ranked first in both 2010 and 2011 among all PRC Exploration and Design Enterprises providing services to oil refining and chemical industries based on revenue generated from exploration and design activities.

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We have strong technical capacities in the engineering and consulting business and have formulated the vast majority of national and industrial standards and codes in oil refining and petrochemical engineering and the majority of national and industrial standards and codes in pharmaceutical chemical engineering in the PRC. We have 60 years of experience in innovation, as well as the integrated technologies, expertise and advanced software that could help us excel in the engineering and consulting business. We hold the requisite certifications for providing engineering and consulting services, with four of our subsidiaries holding comprehensive Class A certification in engineering, which represents the highest level of certification in the PRC enabling us to undertake engineering projects in all industries in the PRC. In addition, one of our subsidiaries holds Class A certification in chemical and petroleum industrial engineering, seven of our subsidiaries hold Class A certification in engineering consulting (工程諮詢單位甲級資質), four of our subsidiaries hold Class A certification in engineering cost consulting (工程造價諮詢企業甲級資質), and a number of our subsidiaries hold certifications in project environmental impact assessment and specialty equipment design for pressure vessels and spool pipes. Our business covers a comprehensive range of over 30 disciplines, including process, piping, equipment, instrument, electrical, architecture, civil, general arrangement, environmental protection, storage and utility, information engineering and cost estimation, among others. Our team of professionals comprises over 4,000 skilled and qualified professionals specializing in engineering and consulting, including one academician of the Chinese Academy of Sciences, two academicians of the Chinese Academy of Engineering, 11 Engineering Design Masters of the PRC, two winners of the National Award for Special Contribution and 32 experts entitled to receive special allowances from the State Council. As of December 31, 2012, our team of professional technicians included nearly 1,500 registered consulting engineers, registered chemical engineers, registered architects, registered civil engineers, registered cost estimators, registered environmental impact assessment engineers, registered electrical engineers, registered public facility engineers, registered mechanical engineers and registered petroleum and natural gas engineers and registered safety engineers.

We conduct our engineering, consulting and licensing business mainly through our subsidiaries, SEI, LPEC, SSEC, SNEC and SNEI. SEI has the strongest engineering capabilities in the PRC with respect to oil refining and petrochemical integrated engineering for 10 Mtpa capacity oil refineries and 1 Mtpa capacity ethylene complex. LPEC is a high-tech enterprise with integrated engineering and research capabilities. According to ENR, SEI ranked 12th in 2011 among international design firms based on international revenue derived from design services provided to the oil refining and petrochemical industries. According to the MOHURD, both SEI and LPEC were among the top ten Exploration and Design Enterprises in 2011 based on revenue generated from exploration and design activities in the PRC.

For the years ended December 31, 2010, 2011 and 2012, revenue generated from our engineering, consulting and licensing business was RMB3.23 billion, RMB3.42 billion and RMB4.12 billion, respectively, before inter-segment elimination, and RMB3.23 billion, RMB3.38 billion and RMB4.12 billion, respectively, after inter-segment elimination.

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### Representative Projects

We have provided engineering, consulting and licensing services for many representative projects in various industries:

- *Oil refining:* Our representative projects include the Huizhou 12 Mtpa Oil Refinery Complex (for processing crude oil with high acidity), the Qingdao 10 Mtpa Oil Refinery Complex (for processing high-sulfur crude oil), the Tahe 5 Mtpa Oil Refinery Project (for processing heavy crude oil), the Zhenhai 10 Mtpa Oil Refinery Complex and the Hainan 8 Mtpa Oil Refinery Complex. The Qingdao 10 Mtpa Oil Refinery Complex was the first single-train oil refining unit with a processing capacity of 10 Mtpa in the PRC, and the Huizhou 12 Mtpa Oil Refinery Complex included the largest crude and vacuum distillation unit in the PRC to date based on single-train production capacity. These projects helped us establish our leading position in the engineering and construction of large-scale single-train projects.
- *Petrochemical:* Our representative projects include the Tianjin 1 Mtpa Ethylene Complex, the Zhenhai 1 Mtpa Ethylene Complex, the Maoming 1 Mtpa Ethylene Expansion Complex, the Fujian 0.8 Mtpa Integrated Ethylene Complex and the Shanghai SECCO 0.9 Mtpa Ethylene Complex. In addition, the Wuhan Ethylene Complex, which includes eight installations primarily utilizing our self-developed technologies (namely 0.8 Mtpa ethylene project, 300 Ktpa linear low-density polyethylene project, 200 Ktpa polypropylene project, 130 Ktpa butadiene project, 550 Ktpa pyrolysis gasoline hydrotreating project, 150 Ktpa C5 removal project, 350 Ktpa aromatics extraction and 80 Ktpa MTBE/butene-1), will soon be put into operation. We have also designed a single-train 1 Mtpa p-Xylene and aromatics combination unit, which was the largest in the world at the time of commissioning, and have designed a 300 Ktpa single-train vinyl acetate unit, which at the time was the largest in the PRC, and twelve 20-to-260 Ktpa acrylonitrile units in the PRC that are currently in operation.
- *New coal chemicals:* Our representative projects include the Shenhua Baotou 600 Ktpa DMTO Project, the Shenhua Erdos Coal Liquefaction Project (with direct coal liquefaction capacity of 1.08 Mtpa and indirect coal liquefaction capacity of 180 Ktpa), the Zhongyuan Petrochemical 200 Ktpa SMTO Project, the 2,000 t/d fine coal gasification projects in Yueyang, Hubei and Anqing, coal-generated hydrogen resources optimization projects in Qilu and Nanjing, and the Yangzi Petrochemical 1.68 million normal cubic meters per day coal-generated hydrogen project.
- *Pharmaceutical chemicals:* Our representative projects include the Suzhou Novartis Pharmaceutical Intermediates and R&D Project, the National Center for Drug Screening and National Shanghai Center for New Drug Safety Evaluation and Research, the North China Pharmaceutical Group 1,500 t/d penicillin production line, the Jiangsu Hengrui Medicine Co., Ltd. Industry Park Project, and the Zhengda Tianqing Haizhou production

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facility engineering project. We also engineered the PRC's first kiloton annual capacity vitamin C production unit, the PRC's first penicillin project, which is recognized as the PRC's pioneer antibiotics plant, as well as a monoclonal antibodies production project with an annual production capacity of 30,000 liter.

- *Inorganic chemicals:* Our representative projects include the Yunnan Phosphate Compound Base Co., Ltd.'s 800 Ktpa sulfuric acid project, the Jiangxi Copper Company Limited Guixi Smelting Plants' 400 Ktpa troilite-based sulfuric acid project, the Guizhou Kailin (Group) Co., Ltd.'s 600 Ktpa phosphoric acid project, the Yunnan Phosphate Compound Base Co., Ltd.'s 600 Ktpa diammonium phosphate project, the Hubei Yichang Spur Chemical Co., Ltd.'s 400 Ktpa high concentration phosphate compound fertilizer project, the Guizhou Kailin Group Xifeng Double Superphosphate Plant's 500 Ktpa sulfuric acid low-level heat recovery project and the 65 Ktpa potassium hydroxide project of Unid Jiangsu Chemical Co., Ltd. in Zhenjiang.
- *Clean energy:* Our representative project in this sector, the Sichuan Puguang Natural Gas Purification Plant, is the first large high-sulfur natural gas purification plant in the PRC and an integral part of the Sichuan-to-Eastern-China Natural Gas Transmission Project. It is the largest natural gas purification plant in Asia and was the second largest in the world at the time it commenced operations. It has a total of 12 natural gas processing and production lines, each with a processing capability of 3 million normal cubic meters per day, totaling 12 billion normal cubic meters of natural gas per year and 2.4 Mtpa sulfur.
- *Storage and transportation:* Our representative storage projects include Zhenhai Petroleum Reserve with total storage capacity of 5 million cubic meters, Huangdao Petroleum Reserve with total storage capacity of 3.2 million cubic meters, Yizheng Petroleum Reserve with total storage capacity of 300 kilo cubic meters and Fujian Qianglanshan Petroleum Reserve with total storage capacity of 450 kilo cubic meters. Our representative oil product pipeline projects include Phase Two of the Pearl River Delta Oil Product Pipeline Project and the Southwest Oil Product Pipeline Project.

We also provide engineering and consulting services in a number of representative projects overseas, including front-end engineering design for the Algeria 5 Mtpa condensate oil project, the CNPC International N'Djamena Refinery Ltd. 800 Ktpa residue fluid catalytic cracking unit, the UAE Fujairah refinery front-end engineering design sub-contracting project and the OBE, or open book estimate, phase of Kazakhstan Petrochemical Industry Inc. LLP's Integrated Petrochemical Complex and Infrastructure Project ("Kazakhstan KPI IPCI Project"), the first large-scale integrated petrochemical project in the Republic of Kazakhstan.

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We have won several awards for our engineering and consulting projects. For example, in connection with our consulting services, we received the Outstanding Engineering Management Award (工程項目管理優秀獎), jointly granted by the CEDA and the China National Association of Engineering Consultants, for the Nanhai Petrochemical Complex, which was one of the first projects in the PRC to adopt international best practices, namely the PMC model. We have also received the first prize for National Outstanding Engineering Consulting Award (全國優秀工程諮詢成果一等獎) granted by the China National Association of Engineering Consultants for the feasibility study report we prepared for the Singapore 80 Ktpa Lubricant Grease Project. In connection with our engineering services, we received the Gold Medal of National Outstanding Engineering (國家優秀工程設計金獎) in 2000 for the Maoming 300 Ktpa Ethylene Project; in 2002, we received the same prize for each of the Shanghai Petrochemical 1 Mtpa Delayed Coking Project, the North China Pharmaceutical Group 1.5 Ktpa penicillin production line and the Qilu Petrochemical Acrylonitrile Plant new technology application and expansion project; we received the same prize in 2002 for the Maoming 2 Mtpa residue hydrotreating and desulfurization unit and in 2004 for the Zhenhai 3 Mtpa diesel hydro-purification and 1.8 Mtpa paraffin oil hydro-purification composite. In 2009 we received the Gold Medal of National Outstanding Exploration and Design Award (國家優秀工程勘察設計金獎) for the Luoyang 700 Ktpa continuous catalytic reforming unit.

### Business Scope

We provide a wide range of engineering, consulting, licensing and related services, including but not limited to:

- *Master planning*, which refers to formulating the general description of objectives, goals and overall guidelines of a project;
- *Scheme study*, which is conducted after master planning and mainly analyzes the merits of investment in the proposed projects and defines the basic scope, parameters and economic impacts of the proposed project;
- *Environmental impact assessment*, which involves the analysis, estimate and assessment of possible environmental impacts following project planning and implementation, proposes measures to prevent or relieve adverse environmental impacts and monitors such impacts;
- *Feasibility study*, which provides the primary basis for investment decisions and involves researching, analyzing and comparing various aspects of the proposed project; estimating possible economic benefits and social and environmental impacts of the project; analyzing the risks and competitiveness of project; and advising on the feasibility of the project implementation;
- *Project application report*, which involves compiling project reports with supporting analysis to be submitted to government authorities to obtain the relevant approvals for the projects subject to government review;
- *Process package design*, which refers to using process design package as a carrier to provide reliable technological solutions;

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- *General engineering design*, which is applied in large projects and involves further specifying and unifying the detailed engineering specification, design principles and technology criteria and optimizing project layout and design pursuant to the approved feasibility study reports. In order to effect control of a project's process, progress and investment and to ensure compliance with laws and regulations with respect to environment, safety and occupational health. The general engineering design is a precursor to the engineering services;
- *Basic engineering design*, which refers to the provision of technical engineering solutions to meet the requirements for owner inspection, material procurement, construction preparation and detailed engineering design, as well as the regulatory requirements for fire protection, environmental protection, safety, occupational health, energy saving and seismic protection;
- *Detailed engineering design*, which refers to the provision of resolutions to problems encountered during construction, the drawing of construction plans according to the determined technology plans and principles, the determination of standards for installation, inspection and acceptance of the projects and the satisfaction of the requirements of procurement, equipment manufacturing and installation, construction and project commissioning and operation;
- *Project management contracting (PMC)*, which refers to the process in which we represent the project owner to manage the overall process of project planning, project definition, bidding and quotation, selection of EPC contractors, engineering, procurement and construction, and provide related consulting services; and
- *Technology licensing*, which refers to the licensing of our solely- or jointly-owned technologies to our clients.

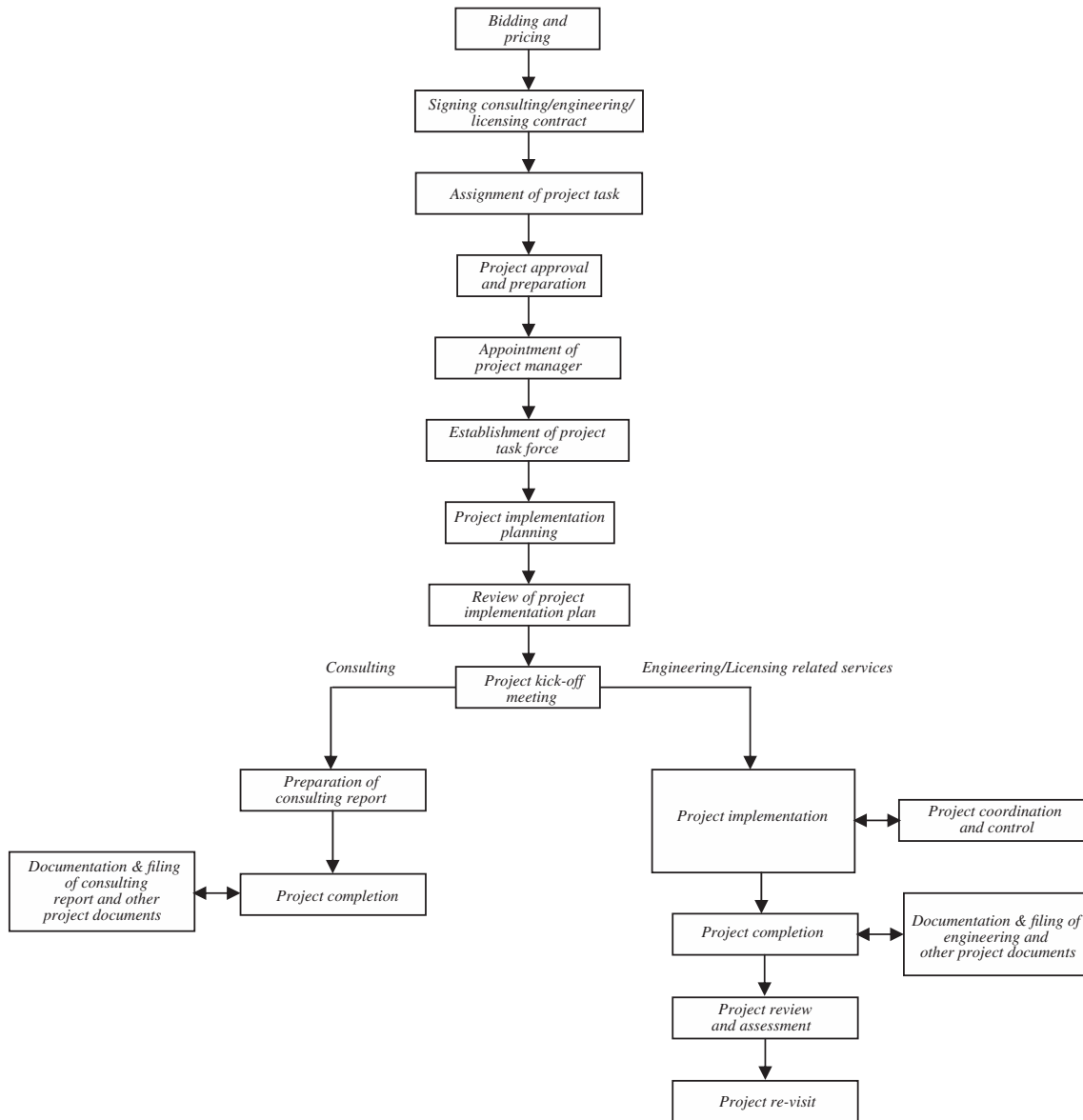
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### Business Process and Contract Terms

The following diagram presents the general process of our engineering, consulting and licensing business:



The engineering work for a project typically lasts approximately 8 to 12 months, while consulting and technology licensing services typically lasts approximately three to six months. The PMC service is provided throughout the life cycle of a project, which usually lasts approximately three to four years.

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The general process of our engineering, consulting and licensing business usually includes the preparatory phase, the bidding phase and, upon winning a bid, the project implementation phase. In the preparatory phase, we collect and analyze market information to identify potential projects. In the bidding phase, we generate preliminary plans and prepare and submit bidding documents pursuant to project specifications. In the project implementation phase, we conduct further site surveys to prepare more detailed plans and submit them to clients for review before finalization. For projects to which we provide engineering services, we from time to time also provide site consulting and related technical services during the project construction to resolve potential or unexpected engineering problems.

We generally set the price of our services during the bidding process. We typically rely on our past experience and take into account factors such as the specific project requirements, the estimated cost of labor, the volume of work, market status and potential benefits of establishing a long-term business relationship to assess the right price for undertaking the project before submitting bidding documents. In particular, with respect to fixed-price contracts which are adopted in most of our projects in the engineering, consulting and licensing business, we typically use the market reference price as our initial price, adjusted for the above factors and other competitive considerations involved in the bidding for a project.

With respect to our engineering, consulting and licensing service contracts, we normally use standard contract forms as a starting point, revising them as necessary based on negotiations with our clients. The key terms of our contracts include:

- *Pricing terms*, which are usually on a fixed-price basis. The fixed price may change by mutually agreed amendments to the contract as a result of subsequent changes in a client's requirements or scope of work;
- *Payment terms*, which usually require 90% to 95% of the total contract value to be paid to us in installments based on the phase of the project completed, including an advance payment of approximately 10% to 30% of the total contract value, which is typically due within one month after signing the contract. Subsequent installment payments (except retention deposits), which constitutes approximately 60% to 85% of the total contract value, are typically due upon our delivery of certain engineering and other related documents;
- *Retention deposit terms*, which usually provide for retention deposits equivalent to approximately 5% to 10% of the total contract value to be withheld by the project owner and then paid to us within approximately three months following the completion of the project. Retention deposits are typically not required for our consulting services; and
- *Work scope terms*, which usually set forth the scope of the engineering, consulting and licensing works we undertake.



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### EPC CONTRACTING

#### Overview

We provide EPC services as well as other types of EPC Contracting services. According to data from the CEDA and a survey conducted by ICIS Consulting, we ranked first in both 2010 and 2011 among all PRC Exploration and Design Enterprises providing services to oil refining and chemical industries based on completed contract value of EPC Contracting business. According to the CEDA, based on completed contract value, three of our nine major operating subsidiaries ranked among the top 20 Exploration and Design Enterprises in the PRC oil refining and chemical engineering industries in both 2010 and 2011.

Over the past ten years, in our EPC Contracting business, we have undertaken projects for a large number of oil refineries and petrochemical plants in the PRC. We have also served as a general contractor for a number of large-scale oil refining and petrochemical projects in overseas markets, including Singapore, Kazakhstan and Saudi Arabia. In addition, we are undertaking an increasing number of EPC Contracting projects in sectors including new coal chemicals, pharmaceutical chemicals, clean energy and environmental engineering. According to ICIS Consulting, we ranked among the top 10 global contractors in 2011 based on revenue generated from services provided to oil refining and chemical industries.

Our EPC Contracting services cover all processes of a project including consulting, engineering, project management, procurement, construction, equipment manufacturing and overhaul and maintenance, which brings us critical competitive advantages. Our EPC Contracting business is centered on our core competence in engineering, which plays a crucial role in quality control, cost control, progress control and HSE management in the course of project execution. We employ a team of professionals and management experienced in EPC Contracting, including, among other professionals, 124 senior project managers and a total of nearly 2,000 project managers, project control managers, design managers, procurement managers, construction managers and HSE managers.

For the years ended December 31, 2010, 2011 and 2012, revenue generated from our EPC Contracting business was RMB16.33 billion, RMB15.01 billion and RMB20.08 billion, respectively, before inter-segment elimination, and RMB16.33 billion, RMB15.01 billion and RMB20.08 billion, respectively, after inter-segment elimination.

#### Representative Projects

The EPC Contracting projects we undertake are typically large in scale and complex in technological aspects, which demonstrate our strong execution capability. For example:

- We are capable of providing a full range of services throughout the entire course of engineering and construction projects, ranging from providing process design packages to commissioning and start-up, for large and complex projects including 10 Mtpa capacity oil refineries and 1 Mtpa capacity ethylene plants. For instance, we provided EPC services for the Hainan 8 Mtpa Oil Refining Complex, which is the first 10 Mtpa capacity oil refining

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new construction project adopting the EPC model in the PRC since the 1990s. In addition, we undertook the Qingdao 10 Mtpa Oil Refining Complex as an EPC contractor, which was then the largest single-train oil refinery in the PRC and was the first single-train oil refining complex with a processing capacity of 10 Mtpa in the PRC. The 0.8 Mtpa ethylene plant we undertook in Wuhan is the first ethylene plant in the PRC built mainly with domestic equipment and our technologies, including all key equipment and critical technologies. As the EPC contractor for the 1 Mtpa capacity ethylene complexes in Tianjin and Zhenhai, we also constructed large-scale production units for ethyl benzene, isopropyl benzene and phenol-acetone.

- We are also able to undertake oil refining and petrochemical integrated engineering projects, such as the Fujian Refining and Ethylene Complex, which includes a 12 Mtpa oil refinery, a 0.8 Mtpa ethylene plant and a 0.7 Mtpa p-Xylene plant. We also provided EPC services for the Tianjin Refining and Ethylene Complex.
- In addition, we possess a number of advanced technologies in direct coal liquefaction, indirect coal liquefaction and coal gasification, which brings us first-mover advantages in the field of new coal chemical engineering in the PRC. As an EPC contractor, in 2008 we commenced engineering and constructing a direct coal liquefaction plant for Shenhua Group with production capacity of 1.08 Mtpa for oil products, which was the first commercial facility in the world to produce oil products by way of direct coal liquefaction and is the largest coal liquefaction project in the PRC to date. We also provided EPC services to Zhongyuan Petrochemical 200 Ktpa SMTO Project, one of the two MTO Projects in the PRC that is currently in operation, as well as the first IGCC plant in the PRC.

Below are some of our representative EPC Contracting projects in terms of scale, technological complexity and reputation.

### *Representative Projects in the PRC*

<u>Project Name</u>	<u>Industry</u>	<u>Client</u>	<u>Operation Model</u>	<u>Year of Completion/ Expected Year of Completion</u>	<u>Brief Description</u>
<i>Completed Projects</i>					
Hainan 8 Mtpa Oil Refining Complex	Oil Refining	Sinopec Group	EPC	2007	This project adopted the advanced factory design/fabrication model, which has been promoted in the PRC in the 21st century and was constructed entirely with components produced in the PRC. The project was awarded a Golden Key EPC Project by CEDA.

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Project Name	Industry	Client	Operation Model	Year of Completion/ Expected Year of Completion	Brief Description
Qingdao 10 Mtpa Oil Refining Complex	Oil Refining	Sinopec Group	EPC	2007	This project included the first single-train oil refinery with a processing capacity of 10 Mtpa, and demonstrates our leading position in the PRC in undertaking large-scale single-train projects.
Dalian West Pacific Hydrocracking and Hydrogen Production Project	Oil Refining	CNPC	EPC	2009	This project was awarded the Gold Award for National Project Management (全國工程項目管理金獎) by CEDA.
Huizhou 12 Mtpa Oil Refinery Crude and Vacuum Distillation Unit	Oil Refining	CNOOC	EPC	2009	This project included the largest single-train oil refining complex in the PRC to date in terms of processing capacity and the largest crude and vacuum distillation unit in the PRC to date based on single-train production capacity.
Shanghai SECCO 0.9 Mtpa Ethylene Plant and 260 Ktpa Acrylonitrile Plant	Petrochemical	Sinopec Group & BP	EPC	2005	This project was the largest joint venture petrochemical project in the PRC at the time it was completed, with the then-largest ethylene plant in the PRC. CEDA and China National Association of Engineering Consultants awarded the 0.9 Mtpa ethylene plant a Bronze Key EPC Project (全國工程總承包銅鑰匙獎) and the 260 Ktpa acrylonitrile plant a Golden Key EPC Project (全國工程總承包金鑰匙獎)
Maoming 640 Ktpa Ethylene Complex	Petrochemical	Sinopec Group	EPC	2006	This project was the first commercial ethylene project in the world to adopt the new technology jointly developed by China Petrochemical Technology Co., Ltd. and CB&I.
Zhenhai 450 Ktpa Polyethylene Project	Petrochemical	Sinopec Group	EPC	2010	This project was one of the largest polyethylene plants in the world in terms of production capacity at the time it was completed.

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Project Name	Industry	Client	Operation Model	Year of Completion/ Expected Year of Completion	Brief Description
Fujian Refining and Ethylene Complex (an IGCC plant with oil refining capacity expanded from 4 Mtpa to 12 Mtpa, an ethylene plant with production capacity of 0.8 Mtpa and a p-Xylene plant with production capacity of 0.7 Mtpa)	Oil Refining and Petrochemical Integrated Engineering	Sinopec Group, Exxon Mobil Corporation & Saudi Aramco	EPC	2009	This project demonstrates our ability to undertake oil refining and petrochemical integrated engineering projects. The four plants we engineered and constructed won first prize or second prize in the Award for Outstanding Project Management and Outstanding EPC Contractor in the PRC Petrochemical Industry in 2012.
Tianjin Refining and Ethylene Complex (with an oil refining processing capacity of 10 Mtpa and an ethylene production capacity of 1 Mtpa)	Oil Refining and Petrochemical Integrated Engineering	Sinopec Group & SABIC	EPC	2009	This project is a large-scale oil refining and petrochemical integrated engineering project in the PRC employing leading technologies.
Yueyang Coal Gasification Plant (with a coal processing capacity of 2000 t/d)	New Coal Chemical	Sinopec Group & Shell	EPC	2006	This project was the largest and most technologically advanced pulverized coal gasification project in the world at the time of its completion, and demonstrated our ability in the engineering and construction of large-scale coal syngas projects using pulverized coal gasification technology.
Shenhua Erdos Indirect Coal Liquefaction Project	New Coal Chemical	Shenhua Group	EPC	2009	This project was one of the PRC's earliest commercial projects involving indirect coal liquefaction and demonstrated our technological capability in the engineering and construction of indirect coal liquefaction projects.

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Project Name	Industry	Client	Operation Model	Year of Completion/ Expected Year of Completion	Brief Description
Shenhua Direct Coal Liquefaction Project (with a refined oil production capacity of 1.08 Mtpa)	New Coal Chemical	Shenhua Group	EPC/ EPCM	2011	This project is the largest coal-liquefaction project in the PRC to date and the first commercial project in the world to produce refined oil products with direct coal liquefaction units. The project demonstrates that we are the only engineering company in the world that has engineered and constructed a direct coal liquefaction plant with a production capacity of 1 Mtpa.
Zhongyuan Petrochemical 200 Ktpa SMTO Project	New Coal Chemical	Sinopec Group	EPC	2012	This project is one of the two MTO projects in the PRC that is currently in operation.
Huangdao State Petroleum Reserve Project	Storage and Transportation	Huangdao National Petroleum Storage Base Co., Ltd. (黃島國家石油儲備基地有限公司)	EPC	2011	The project demonstrated our capability to undertake EPC Contracting projects for large-scale petroleum reserves.
Xi'an Clean Fuel Production Technology Renovation Project	Environmental Engineering	Sinopec Group	EPC	2007	This project was awarded a Golden Key EPC Project by CEDA and China National Association of Engineering Consultants.
Sichuan Puguang Natural Gas Purification Project	Clean Energy	Sinopec Group	EPC	2010	This project was a key project for the Eleventh Five-Year Plan and our first gas purification EPC Contracting project.
<b>Ongoing Projects</b>					
Shijiazhuang 8 Mtpa Oil Refining Complex	Oil Refining	Sinopec Group	EP	2013	This project is one of our current and notable projects in the oil refining engineering sector.
Wuhan Ethylene Complex	Petrochemical	Sinopec Group	EPCC	2013	This project includes the first large-scale ethylene complex applying our technologies.

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<b>Project Name</b>	<b>Industry</b>	<b>Client</b>	<b>Operation Model</b>	<b>Year of Completion/ Expected Year of Completion</b>	<b>Brief Description</b>
Jingbian Energy Chemical Project	New Coal Chemical	Shaanxi Yanchang Petroleum Group	EPCC	2013	This project is a notable project promoted by Shaanxi government in developing the energy and chemical industry base of north of Shaanxi province.
Shandong LNG Project	Storage and Transportation	Sinopec Group	EPC	2014	This project is a key project for the Eleventh Five-Year Plan and our notable project in the storage and transportation engineering sector using imported technology.

### *Representative Overseas Projects*

<b>Project Name</b>	<b>Industry</b>	<b>Client</b>	<b>Operation Model</b>	<b>Year of Completion/ Expected Year of Completion</b>	<b>Brief Description</b>
<b><i>Completed Projects</i></b>					
YANSAB Polyolefin Project	Petrochemical	YANSAB	EPC	2009	We provided EPC services to a Saudi Arabian client to construct a polyolefin project with capacity to produce 500 Ktpa linear low-density polyethylene, 500 Ktpa polypropylene and 1.4 Mtpa PHU.
<b><i>Ongoing Projects</i></b>					
Singapore Lubricant Blending Plant Project	Oil Refining	Sinopec Group	EPC	2013	This project is the first lubricant project invested by Sinopec Group in the overseas market.
Kazakhstan Atyrau Refinery Oil Deep Processing Residue Fcc Project	Oil Refining	KMG	EPCC	2016	This project, upon completion, will be the largest oil refinery we have undertaken in the overseas market. Our services included provision of financing assistance and commissioning/start-up assistance. This project is an important project under Kazakhstan government's industrial strategic development plan.

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Project Name	Industry	Client	Operation Model	Year of Completion/ Expected Year of Completion	Brief Description
SABIC IBN RUSHD 420 Ktpa PET Project	Petrochemical	SABIC	EPC	2015	This project is the first EPC synthetic resin project we have undertaken in the overseas market. This project is an expansion project with complex interfaces, a multitude of connection points and short offline and maintenance time.
Kazakhstan Atyrau Refinery Aromatics EPC Project	Petrochemical	KMG	EPCC	2015	We are implementing a continuous catalytic reforming complex for the largest oil refinery in Kazakhstan with a processing capacity of 1 Mtpa, including a 500 Ktpa aromatics extraction unit and a 500 Ktpa p-Xylene unit as well as utilities & offsites facilities.
Saudi Kayan NDA Project	Fine Chemical	SABIC	EPC	2013	This project, upon completion, will be the largest fine chemical EPC Contracting project we have undertaken in the overseas market.

### Business Models

The business models we have adopted for our EPC Contracting business mainly include the EPC model and other EPC Contracting business models.

By adopting an EPC model, we undertake the engineering, procurement, construction and other project-related tasks on a turnkey basis. The EPC model is currently one of the primary models adopted in the global engineering market. It has more stringent requirements for funding, technology and management and requires a contractor to have comprehensive capabilities in engineering, procurement, construction and other areas. See “— Business Process and Contract Terms — Engineering”, “— Business Process and Contract Terms — Procurement” and “— Business Process and Contract Terms — Construction.” An EPC project generally requires approximately 20 to 40 months to be completed.

The business models we adopt in our EPC Contracting business also include:

- Engineering, procurement, construction and commissioning (“EPCC”), by which we undertake engineering, procurement and construction and also provide commissioning/start-up assistance;
- Engineering and procurement (“EP”), by which we undertake engineering and procurement;

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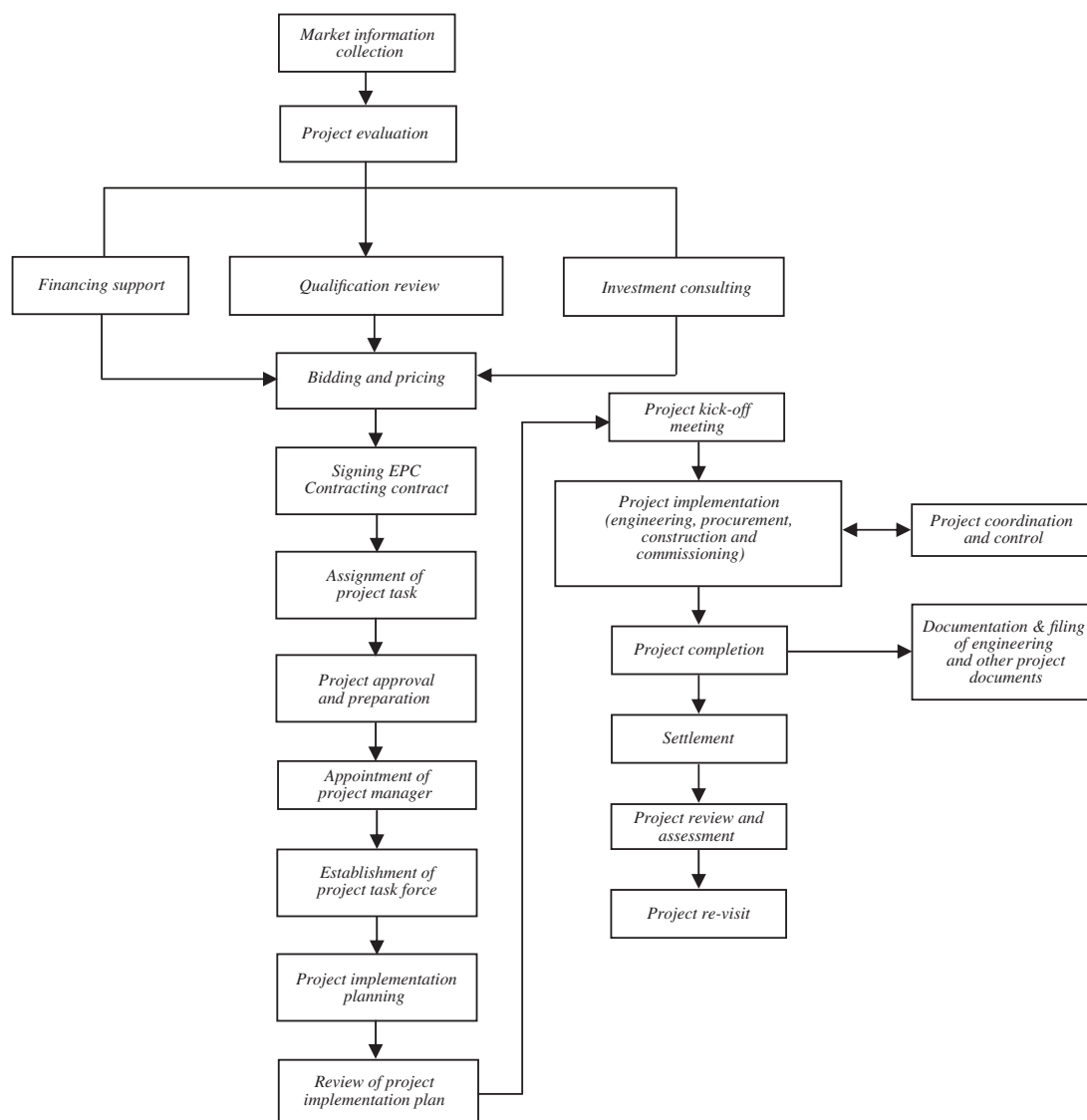
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- Procurement and construction (“PC”), by which we undertake procurement and construction; and
- Engineering, procurement and construction management (“EPCM”), by which we undertake engineering, procurement and construction management of a project and are also responsible for communication with relevant authorities and entities and preparations for cost planning, cost estimates and document control. We do not undertake construction work when working on an EPCM project.

### Business Process and Contract Terms

The following diagram presents the general business process involved in our EPC Contracting business:





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Our process for selecting and undertaking EPC Contracting projects typically involves the following steps:

- *Market information collection:* We collect timely and reliable market intelligence to identify potential projects. The information channels that we use to identify potential projects include our marketing research and surveys, on-going communications with our clients, market information with respect to tendering, our engineering, consulting and licensing business and information from the contractors, agents, suppliers and equipment manufacturers we cooperate with.
- *Project evaluation:* After we become aware of a potential project, we will conduct an initial evaluation to assess whether we meet the qualifications required for the project, the sufficiency of our resources, the costs and profitability of the project and certain other factors to decide whether or not to pursue it further. If our initial evaluation of a potential project is favorable, we will then conduct a detailed assessment of the technical and commercial features of the project, which may involve onsite inspections to allow us to accurately estimate timing and resource requirements in order to prepare a competitive bid. Such an assessment usually involves the following analysis: analysis of material and equipment costs, labor costs and related costs; site survey with respect to water supply, electricity supply, transportation and other infrastructure; capital expenditure analysis of the construction equipment needed and the projected length of use; and credit analysis of the potential client and the terms of payment. Such assessment will be reviewed and approved by an internal assessment committee of the relevant subsidiary or subsidiaries that will participate in the project before we proceed further. The review and approval of assessment for large projects are conducted by our senior management.
- *Qualification review:* We are generally required by potential clients to undergo qualification assessment procedures before we are allowed to bid for a project to ensure that we meet certain minimum requirements with regard to financial position, qualifications and scale of operations. Therefore, we are typically required to submit qualification information concerning our financial position, operation history and the availability of our resources, such as manpower.
- *Bidding and pricing (including pricing for related financing assistance and investment consulting service):* We usually bid for projects alone, as a general contractor. For some large-scale overseas projects, we may also participate in joint bidding with other companies as a joint venture or consortium. We typically determine our pricing in the bidding phase of a project. Accurate pricing for a project is important to ensure costs incurred are covered and acceptable profit margins are achieved. We determine our price quotation and subsequently submit the bid based on comprehensive and careful estimation of engineering costs, procurement costs, construction costs and management fees and expenses that may incur throughout the project, including: (a) engineering costs based on specific project requirements and work scope; (b) procurement costs based on the estimated costs of the required materials and equipment; (c) construction costs based on the project scale, volume of work and estimated subcontracting costs; and (d) management fees and expenses based on the estimated human resources required for the project. In addition, when determining

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the pricing of a project, we rely on our past experience and information collected during the project evaluation phase, and take into account factors such as the difference in site and environmental conditions as compared to those in the previous similar projects, the location of the project, the availability and pricing of materials, machinery and local labor and the tax expenses involved.

We begin implementation of a project after contracting with the client. We manage the project throughout its entire course by setting up project task force to monitor and control the quality, safety, progress and costs of the project. The major steps involved in the implementation of a project include engineering, procurement and construction.

- *Engineering:* Engineering is a key aspect of the EPC Contracting. It involves a variety of engineering services throughout the project and usually includes, among others, basic engineering design, detailed engineering design and technical services relating to the procurement of equipment and materials, construction and commissioning. Basic engineering design documents must meet contractual requirements for purchasing major equipment and materials and preparing construction tender documents. Approved basic engineering design documents are the foundation for carrying out detailed engineering design works. Detailed engineering design documents must meet the requirements for equipment and materials procurement, equipment manufacturing, construction and commissioning. Our EPC Contracting contracts set forth the scope of engineering work we undertake. Our engineering work usually consists of design, check, review and approval.
- *Procurement:* Procurement includes planning, purchasing, expediting, inspection, transportation and management of materials and equipment, as well as management of vendors' procurement activities. We generally procure materials and equipment by means of framework purchase agreements, price enquiry/comparison, tender bidding and other methods, aiming in each case to ensure the timely supply of equipment, materials and related services that meet our quantity and quality requirements. With respect to project budgeting and cost control, we abide by our internal rules and regulations on budget control.
- *Construction:* Construction management is important to project management. Generally, construction work is carried out by our relevant subsidiaries, and each project is managed by our project management team. Our construction department of project typically prepares and implements a detailed project plan and operation manual in accordance with our construction guidelines, subject to approval by our management and the project owner. If necessary, we will engage subcontractors to ensure work progress and enhance overall profitability. See “— Procurement of Equipment, Materials and Services — Subcontracting.”

Upon implementation of a project, an acceptance inspection is conducted in accordance with contract requirements and relevant standards and codes.

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Under other types of EPC Contracting business models, we may also provide commissioning/start-up assistance and engineering, procurement and construction management services pursuant to the contract terms agreed upon with the project owner.

Our EPC Contracting contracts usually contain pricing terms, price adjustment terms, incentive terms, payment terms, guarantee terms and other major terms.

- *Pricing terms:* We generally adopt three primary types of pricing methods for our EPC Contracting contracts: (1) lump sum, whereby a client pays a fixed price to us upon completion of the contract, which price may change upon subsequent changes to clients' requirements or scope of work; (2) unit price fixed, whereby the final price to be paid by clients is determined on the basis of the total amount of work delivered at the fixed unit price; and (3) cost plus fees, whereby clients pay us all relevant costs and an agreed amount of additional fee. The vast majority of our EPC Contracting contracts provide for lump sum price.
- *Price adjustment terms and incentive terms:* Some of our contracts contain price adjustment mechanisms, allowing us and our clients to adjust the price upon material changes to project requirements, scope of work, materials and equipment required or other conditions as applicable. For example, subject to clients' confirmation, we are contractually allowed to increase the price for certain additional costs incurred as a result of material changes to the scope or requirements of our work, including changes pursuant to an upgrading of engineering or construction standards required by law or regulations, changes to the project design or other expansion of our work scope. In addition, some of our contracts may also contain incentive terms, under which we are contractually allowed to share the cost savings from the initial investment budget, subject to our clients' confirmation.
- *Payment terms:* Payments from clients consist of an advance payment and progress payments. For large-scale projects, we typically receive payment in installments based on the amount of work that we have completed. Our contracts usually require our clients to make an advance payment of 5% to 15% of the total contract value. Such amount is usually payable within three months after the execution of the contract and prior to our commencement of work. Subsequent progress payments (except retention deposits), which typically constitutes 70% to 90% of the total contract value, are payable from time to time upon the achievement of certain milestones as set out in the relevant contract. We notify our client when we reach such milestones, and the client then sends a third party supervisor to certify our construction progress. Progress payments are usually due within 30 to 45 days after certification. We notify our client when all works of a project are completed, and the client then sends a third party supervisor to carry out a final inspection and certify acceptance of our work. If our completed work satisfies the relevant completion and inspection criteria, the third party supervisor issues a formal completion and inspection report to our client. Based on this report, our client makes the final payment to us pursuant to the contract.

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- *Advance payment guarantee, performance guarantee and other guarantee terms:* We are usually required to provide advance payment guarantees and performance guarantees in an amount equal to 5% to 15% of the total contract value to our clients. Our client may present the advance payment guarantees and the performance guarantees to their issuing financial institutions for payment in accordance with the relevant contract if we default on our performance obligations. Advance payment guarantees are typically released within one month after the advance payment is recognized as our revenue, and performance guarantees are typically released within one to three months after receiving the completion certification of the project. With respect to certain overseas projects, the client may request our Controlling Shareholder to provide a guarantee for our performance of the contractual obligations.
- *Retention and retention guarantee:* Pursuant to the terms of our contracts, our clients typically withhold approximately 5% of the total contract value as retention deposits against any possible defects in the quality of our work for the duration of the warranty period, which usually lasts from one to two years after completion of the project. However, in some cases, our clients are willing to accept contractual bank guarantees from us in lieu of the whole or part of the retention deposits. Such retention deposits and/or bank guarantees are held by our clients for the duration of the warranty period and are paid to us upon expiration of the warranty period or will lapse upon expiration.

## CONSTRUCTION

### Overview

We are one of the largest service providers of construction contracting and specialized construction in the oil refining and chemical industries in the PRC. We provide construction services for new construction, modification and expansion projects, and overhaul and maintenance projects in various industries, including oil refining, petrochemicals, new coal chemicals, pharmaceutical chemicals, clean energy, environmental engineering, power generation, and storage and transportation in the PRC and overseas.

We hold national Class A certification in construction contracting, as well as specialized construction certifications in areas including civil and architecture, equipment erection and installation, piping erection and installation, storage and transportation, hoisting, electrical and instrument, fire fighting facilities and municipal works. We have played a leading role in formulating national and industrial standards and codes for construction techniques. With respect to our construction services, we have expertise in the lifting and transportation of large equipment, installation of large rotating equipment (such as compressor units), installation of large storage tanks, installation and commissioning of complex distributed control systems and welding of special materials (collectively, "Special Construction Expertise"). As of December 31, 2012, our professional construction team consists of 6,916 operation management members and professional technical staff and 819 skilled technicians and senior technicians in welding, equipment installation, lifting, electrical and instrument.

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In addition, we also adopt advanced international project management models and construction procedures to participate in the international construction market. Since 2000, we have completed 16 construction projects and have 28 projects in progress abroad in countries such as Saudi Arabia and the United Arab Emirates. We engage in overseas construction projects, seek international business opportunities and develop our international management expertise. We have a group of project managers with sophisticated management skills, as well as specialized operating technicians and quality inspectors with internationally recognized qualifications. With the above resources, we have established good relationships with many overseas project owners and international general contractors.

For the years ended December 31, 2010, 2011 and 2012, revenue generated from our construction business was RMB11.36 billion, RMB14.12 billion and RMB16.30 billion, respectively, before inter-segment elimination, and RMB9.78 billion, RMB11.72 billion and RMB13.83 billion, respectively, after inter-segment elimination.

### **Construction Technologies and Representative Projects**

With respect to the construction business, we have expertise and competitive advantages in technologies and use of advanced equipment.

- With respect to Special Construction Expertise, we possess relevant specialized certifications, construction methods, large equipment and a specialized construction team, which have enabled us to complete a number of large construction projects in domestic and overseas markets. With respect to the lifting and transport of large equipment, we developed and introduced the “integrated hoisting and installation of large equipment” management model and established relevant management procedures in safety, quality and construction period, which have improved the operating rate of our lifting machinery. With respect to the installation of large rotating equipment and the installation and commissioning of complex distributed control systems, we maintain a high level of precision in order to ensure our project progress and success of the commissioning. With respect to the installation of large storage tanks, we have completed the installation of a number of cryogenic spherical tanks with a storage capacity of 30,000 cubic meters, crude oil tanks with a storage capacity of 150,000 cubic meters, and LNG tanks with a storage capacity of 160,000 cubic meters. With respect to the welding of special materials, we have won various National Outstanding Welding Work Awards (全國優秀焊接工程獎) and are industry leaders in the PRC in the welding of special materials such as nickel alloy, hastelloy, zirconium, titanium alloy and aluminum magnesium alloy, and the welding of structures such as low temperature materials, duplex stainless steel and high strength steel.
- We adopt the fabrication and modularized installation construction model, which involves the pre-manufacturing of individual components at our factory, such as pipelines, steel structures and equipment, assembly of components into modules and modularized installation using large lifting machinery. This model improves our construction efficiency, significantly reduces resources required on site, mitigates site safety risks, ensures project quality and shortens the construction period.

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- In addition, we utilize various types of advanced equipment and management software for our construction business. For example, as of December 31, 2012, we had 250 crawler cranes with lifting capacities covering all series ranging from 50 tons to 2,000 tons, and a self-propelled modularized transporter with a transport capacity of 2,000 tons. Such equipment supports the lifting and transportation services of our construction business. Furthermore, we are able to effectively manage our construction projects with a series of software developed in-house for disciplines such as heavy lifting, equipment installation, steel structure, piping and electrical and instrument.

Representative projects we have undertaken in the PRC include:

- the 1.7 Mtpa residue hydrotreating unit of Sinopec Corp.'s Changling branch. It is currently one of the six residue hydrotreating plants in the PRC. The project's process pipeline welding was awarded first prize in the National Outstanding Welding Works Award;
- the 1 Mtpa ethylene unit in Tianjin. We applied leading construction technologies of pipeline prefabrication and completed thick wall pipeline automatic welding for this project. We were awarded first prize in the National Outstanding Welding Works Award and developed the construction method accredited by the national authorities;
- the Guangdong LNG Receiving Station. We completed the first LNG cryogenic tank with a storage capacity of 160,000 cubic meters in the PRC, for which we developed the construction method accredited by the national authorities and was awarded the first prize in the National Outstanding Welding Works Award;
- the 220 Ktpa PTA unit in Tianjin. The project utilized advanced international management methods and stringent process controls. It won the National Luban Award;
- the acetic acid core unit of a joint venture project in Sichuan. This project won the National Luban Award;
- the 460 Ktpa PTA unit expansion project of Yangzi Petrochemical Company Limited, which won the silver prize in the National Premium Project Award (國家優質工程銀質獎);
- the large equipment lifting and assembly integration works for the Qingdao Oil Refinery Project, which was awarded the National Outstanding Lifting Work Award (國家優秀吊裝工程);
- the crude oil tank for the Huangdao State Petroleum Reserve Project and the Nanjiang Crude Oil Tank Yard auxiliary to the Tianjin Refining and Ethylene Complex, which won first prize in the National Outstanding Welding Works Award; and
- the pipeline welding works for the Lanzhou Petrochemical Acrylic Acid and Ester Project, and the welding works for Huaneng Tianjin IGCC's air separation unit, cold box and aluminum magnesium alloy, which won the National Outstanding Welding Work Award.

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The representative projects we have undertaken in the overseas market include:

- the oil refinery works for the PetroRabigh Oil Refining and Petrochemical Integrated Project which is the first of our overseas projects that was awarded silver prize in National Premium Project Award;
- the Saudi Kayan Utilities Closing Work/Port and Tank Farm;
- the Saudi Kayan Low-Density Polyethylene Project;
- the Saudi Jubail Hydrocracking Project;
- the Saudi Hawiyah Natural Gas Processing Plant Expansion Project; and
- the ASAB3 Long-distance Pipeline Project in the United Arab Emirates.

### **Business Model**

Our construction business models include construction contracting, specialized construction contracting and construction management. With respect to construction contracting, we are responsible for the construction of the whole project, as well as the tasks covering cost control, progress control, quality control, HSE management, contract management, organization and coordination. With respect to specialized construction contracting, we are responsible for specialized construction requiring certain professional qualifications, such as disciplines relating to steel structure, equipment and pipeline installation. With respect to construction management, we are responsible for coordination, management and control of progress, costs, quality and HSE management throughout the construction process.

### **Business Process and Contract Terms**

The business process involved in our construction business is similar to that of our EPC Contracting business, mainly consisting of market information collection, project evaluation, qualification review, bidding and pricing, establishment of project task force, implementation of construction and final inspection and acceptance. See “— EPC Contracting — Business Process and Contract Terms.” We typically price our construction projects during the bidding process based on estimation of construction costs and our expected profit. Our estimated construction costs vary in line with the project scale, volume and scope of work and estimated subcontracting costs. The construction work we undertake generally takes 12 to 24 months to complete.

Our construction contracts have similar provisions as those contained in our EPC Contracting contracts. See “— EPC Contracting — Business Process and Contract Terms.” However, in terms of final inspection and payment terms, our construction contracts usually require our clients to make progress payments on a monthly basis. With respect to pricing methods, the majority of our construction contracts provide for fixed unit price.

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### EQUIPMENT MANUFACTURING

We are one of the major manufacturers and suppliers of large static equipment used in oil refineries and chemical plants in the PRC. We manufacture and sell various types of large static equipment for use in our projects and for sales to our clients. Our principal products include pressure vessels and related equipment such as towers, reactors, vessels and heat exchangers, as well as components such as steel structures, spool pipes and industrial furnace modules. We have a pressure vessel equipment manufacturing capacity of 40 Ktpa and a steel structure manufacturing capacity of 30 Ktpa. In addition to the manufacturing and sale of equipment, we also provide related services including technical consultation, installation and inspection, and overhaul and maintenance with respect to equipment.

Our equipment manufacturing operations help to timely and reliably provide our EPC Contracting and construction businesses with large equipment and pre-fabricated steel structures and pipelines. In addition, the equipment and components manufactured by us are also sold to our clients. An equipment sales contract is usually entered into with our clients before we design the requested equipment, purchase materials, parts and components and begin production. We hold an ISO 9001 quality certification and maintain a complete quality assurance system under which each procedure involved in product manufacturing is examined for quality assurance purposes, and a product must pass final inspection and testing before delivery to a client. Our technicians also participate in on-site installation and inspection of equipment upon client request.

We employ specialized expertise and technologies in the construction of large-scale coking towers and acrylonitrile reactors as well as a number of patents and proprietary technologies in cutting, welding, heat treatment, stability testing and fatigue analysis. Each of our production plants is equipped with advanced equipment used for machining, forming, welding, heat treatment, integrity testing and physical and chemical inspection. We integrate the various aspects of our production process through our project service management system, which allows us to respond quickly and effectively to issues as they arise.

Our representative equipment manufacturing projects in the PRC and overseas markets include the following:

- We manufactured large-scale coking towers for Sinopec Corp.'s Beihai branch's delayed coking unit with a processing capacity of 1.2 Mtpa, Sinopec Qingdao Oil Refinery and Petrochemical Complex delayed coking unit with a processing capacity of 2.5 Mtpa and CNOOC's delayed coking unit in Huizhou with a processing capacity of 4.2 Mtpa. We also manufactured acrylonitrile reactors for Sinopec Corp.'s Anqing branch's, CNPC Jihua Group Co., Ltd.'s and other oil refining and chemical enterprises' acrylonitrile projects.
- We manufactured the delayed coking tower for the oil refining and petrochemical expansion project of Essar Projects India Ltd. The tower is 9.6m in diameter, 41.2m in length, weighs over 400 tons and was the largest coking tower manufactured in the PRC at the time it was completed.



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- We manufactured the polyethylene reactor for the 450 Ktpa polyethylene unit of Zhenhai Oil Refinery and Petrochemical Complex. The reactor is 8.7m in diameter, 100mm in maximum wall thickness, 42m in length, weighs over 490 tons and had the world's largest production capacity at the time of commissioning.
- We manufactured 2.25Cr-1Mo steel hydrocracking reactors, heat high pressure separators and other high-pressure heavy-wall equipment in hydrogen service for oil refining and petrochemical enterprises including Sinopec Corp.'s Jiujiang branch, Changling branch, Jingmen branch, Guangzhou branch, Zhenhai Oil Refinery and Petrochemical Complex and Shanghai Petrochemical as well as CNOOC's Zhoushan Petrochemical Plant.
- We manufactured desulfurization reactors and towers using catalytic flue gas desulfurization and catalytic gasoline absorption desulfurization (S Zorb<sup>TM</sup>) technologies for environmental protection projects of Sinopec Corp. at its branches in Shanghai, Gaoqiao, Yangzi, Anqing, Shijiazhuang and Beihai.
- We are currently manufacturing a Xylene tower for Hainan Oil Refinery and Petrochemical p-Xylene Complex. The Xylene tower is a large scale refining and petrochemical pressure vessel weighing 3,960 tons.

We are suppliers to multinational energy and chemical companies including Exxon Mobil Corporation, SABIC, Shell, BP and BASF, as well as international engineering companies including Foster Wheeler AG, Fluor Corporation, Saipem and CB&I. Our equipment has been exported to countries including Saudi Arabia, India, Bangladesh, Vietnam, Thailand, Australia and Portugal.

With respect to our equipment manufacturing business, our determination of pricing is based on analysis of various factors such as the specific requirement of the equipment, the technology we need to adopt in manufacturing, delivery schedule and cost of raw materials and labor, with a reference to market price of the equipment.

It generally takes three to ten months to manufacture the ordered equipment depending on specifications provided by the contract. Our equipment manufacturing contracts usually contain pricing terms, payment terms, guarantee terms and other major terms.

- *Pricing terms:* We usually adopt fixed price terms in most of our equipment manufacturing contracts. Our contracts usually include transportation expenses and cost of our related services in the contract value.
- *Payment terms:* Our contracts usually require an advance payment of approximately 15% of the total contract value, a payment of approximately 70% of the total contract value before the equipment leaves our factory, and a payment of approximately 10% of the total contract value upon installation of the equipment.
- *Retention and retention guarantee:* Following the contract terms, we either allow approximately 5% of the total contract value to be retained by our clients or have a bank

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guarantee issued on equivalent amount for the warranty period, which usually ends at the earlier of 12 months after the equipment is installed or 18 months after the equipment is delivered to the production site. During the warranty period, we are responsible for rectifying defects in the equipment sold.

For the years ended December 31, 2010, 2011 and 2012, revenue generated from our equipment manufacturing business was RMB0.76 billion, RMB0.79 billion and RMB0.62 billion, respectively, before inter-segment elimination, and RMB0.56 billion, RMB0.50 billion and RMB0.50 billion, respectively, after inter-segment elimination.

### BACKLOG AND NEW CONTRACT VALUE

#### Backlog

Backlog represents the total estimated contract value of work that remains to be completed pursuant to outstanding contracts as of a certain date, net of estimated value added tax. Such estimates are based on the assumption that the relevant contracts will be performed in accordance with their terms. However, many contracts are subject to work scope adjustments due to engineering issues or modification, termination or suspension by the client. Any modification, termination or suspension of these contracts by our clients, especially with regard to any one or more sizeable contracts, may have a substantial and immediate impact on our backlog. The term of the projects reflected in our backlog may be extended due to various factors beyond our control, in which case such projects may remain as part of our backlog for an extended period of time. Adding new contracts also has a direct impact on our backlog. In addition, backlog is not a measure defined by generally accepted accounting principles. Due to various reasons, including projects commencing and ending within a short period of time, not all revenue will be recorded in the backlog information. Therefore, our backlog information only reflects the general volume of our future projects under contract and may not be indicative of future operating results. Investors should not unduly rely on our backlog information or consider it a reliable indicator of our future profits and results of operations. See “Risk Factors — Risks relating to our business and our industry — Our backlog may not be a reliable indicator of our future results of operations.”

The following table sets forth a breakdown of the aggregate value of projects in our backlog for each of our business segments as of the dates indicated:

	As of December 31,		
	2010	2011	2012
	(RMB'000)		
Engineering, consulting and licensing .....	4,461,011	5,020,635	4,992,705
EPC Contracting .....	35,384,394	53,384,265	56,809,988
Construction .....	14,535,328	15,659,644	13,992,728
Equipment manufacturing.....	354,430	370,006	255,318
<b>Total</b> .....	<u>54,735,163</u>	<u>74,434,550</u>	<u>76,050,739</u>

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The following table sets forth a breakdown of the aggregate value of projects in our backlog by industry our clients operate as of the dates indicated:

	As of December 31,		
	2010	2011	2012
	(RMB'000)		
Oil refining .....	20,600,890	31,996,026	24,081,504
Petrochemicals .....	21,453,979	23,712,989	20,329,113
New coal chemicals .....	4,848,207	11,930,916	23,686,369
Other industries .....	7,832,087	6,794,619	7,953,753
<b>Total</b> .....	<u>54,735,163</u>	<u>74,434,550</u>	<u>76,050,739</u>

The following table sets forth a breakdown of the aggregate value of projects in our backlog by geographic region as of the dates indicated:

	As of December 31,		
	2010	2011	2012
	(RMB'000)		
PRC .....	41,815,088	52,391,709	47,792,690
Overseas .....	12,920,075	22,042,841	28,258,049
Middle East .....	5,423,600	4,400,519	2,313,588
Central Asia .....	6,954,718	17,170,956	15,215,844
Asia Pacific .....	530,862	464,676	228,617
Africa .....	—	—	—
Americas .....	10,895	6,690	10,500,000
<b>Total</b> .....	<u>54,735,163</u>	<u>74,434,550</u>	<u>76,050,739</u>

The contract value of our backlog contracts using fixed price terms represented over 70% of our backlog as of December 31, 2012 and most contracts in our backlog designated us as the sole contractor for the work specified. Most of the projects in our backlog as of December 31, 2012 are expected to be completed by the end of 2016. In addition, there was no project in the Sanctioned Countries in our backlog as of December 31, 2012.

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### New Contract Value

New contract value represents the aggregate value of the contracts we entered into during a specified period. The value of a contract is the amount that we expect to receive under the terms of the contract if the contract is performed in accordance with its terms. The following table sets forth the aggregate value of new contracts we entered into for each of our four key businesses during the periods indicated:

	Year ended December 31,		
	2010	2011	2012
	(RMB'000)		
Engineering, consulting and licensing .....	2,730,682	3,935,278	4,093,899
EPC Contracting .....	21,708,517	33,005,452	23,508,165
Construction .....	16,194,681	12,840,711	12,158,493
Equipment manufacturing.....	578,713	518,623	382,121
<b>Total</b> .....	<u>41,212,593</u>	<u>50,300,064</u>	<u>40,142,678</u>

The following table sets forth a breakdown of the aggregate value of new contracts we entered into by industry our clients operate during the periods indicated:

	Year ended December 31,		
	2010	2011	2012
	(RMB'000)		
Oil refining .....	14,830,365	23,695,660	4,641,968
Petrochemicals .....	14,999,914	13,452,324	11,652,313
New coal chemicals .....	4,372,048	9,664,539	16,683,509
Other industries .....	7,010,266	3,487,541	7,164,888
<b>Total</b> .....	<u>41,212,593</u>	<u>50,300,064</u>	<u>40,142,678</u>

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The following table sets forth a breakdown of the aggregate value of new contracts we entered into by geographic region during the periods indicated:

	Year ended December 31,		
	2010	2011	2012
	(RMB'000)		
PRC .....	36,559,241	36,936,252	27,412,139
Overseas .....	4,653,352	13,363,812	12,730,539
Middle East .....	3,664,994	2,735,314	2,227,839
Central Asia .....	278,258	10,583,307	—
Asia Pacific .....	698,755	8,204	2,700
Africa .....	—	24,288	—
Americas .....	11,345	12,699	10,500,000
<b>Total</b> .....	41,212,593	50,300,064	40,142,678

During the Track Record Period, our new contract values were generally in line with our revenue and fluctuated due to market conditions. In particular, our new contract value decreased from RMB50.30 billion in 2011 to RMB40.14 billion in 2012 partially due to a slowdown in the new project approval process by relevant PRC authorities which typically occurs at the beginning of a five-year plan for National Economic and Social Development. Nevertheless, some of our clients still tend to enter into letters of intent with us for their projects pending for the regulatory approval.

The contract value of our new contracts using fixed price terms represented over 65% of the total value of the new contracts we entered into during the Track Record Period and most of our new contracts designated us as the sole contractor for the work.

In addition, as of December 31, 2012, we received letters of intent to engage us to work on several engineering, consulting and EPC Contracting projects with a total contract value of approximately RMB14.43 billion, which was not included in our backlog as of December 31, 2012 or new contract value in 2012.

As of March 31, 2013, our backlog was RMB82.46 billion. The value of our new contracts for the three months ended March 31, 2013 was RMB14.22 billion. In particular, in January 2013, we entered into an EPC contract of a contract value of US\$1.15 billion to construct PTA/PET plants in the U.S.

## COMPETITION

### PRC Market

The participants in the PRC engineering industry primarily include state-owned enterprises, international engineering companies and private enterprises. We believe we are one of the major players in the PRC engineering industry and the market leading engineering company providing

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services to the oil refining, petrochemical and new coal chemical industries in the PRC. Our main competitors in the PRC market include large engineering and construction enterprises with which we share certain similar attributes in terms of sources of capital, technological abilities, employee qualifications and expertise, and brand recognition. Due to substantial requirements for capital, equipment, technology, professional expertise and qualifications, there are high barriers to entry in the industry in which we operate.

Our main competitors in the PRC market include China Petroleum Engineering & Construction Corporation, China Huanqiu Contracting & Engineering Corporation and China National Chemical Engineering Co., Ltd. (including its subsidiaries, China Chengda Engineering Co., Ltd., China Tianchen Engineering Co., Ltd. and Wuhuan Engineering Co., Ltd.). However, we believe we have rich expertise in the engineering and construction of large-scale refineries and ethylene complexes, new coal chemical plant and oil refining and petrochemical integrated complex.

### Overseas Market

Leveraging our established platform in the PRC's oil refining and chemical industries, we have established a growing international presence and participated in the engineering, EPC Contracting and construction of overseas projects in the Middle East, Central Asia, Asia Pacific, Africa, South America and North America. Our main competitors in the overseas market are international engineering companies from countries including, among others, Korea, the United States, Italy and France. Our ability to deliver comprehensive services to our clients, including financing assistance, engineering and consulting services and procurement and construction services, and to implement modern management techniques to maximize profit are key to our competitiveness in the international engineering market. Our Korean competitors sometimes have cost advantages as they are able to leverage support from their domestic manufacturing enterprises, global sourcing and relatively low labor costs. Major contractors from the United States and Europe tend to have more advanced technologies, a greater number of patents and more management expertise, particularly with respect to their project management contracting services and high-end engineering services. We leverage our advantages in providing total solutions and a full range of services to clients to actively compete overseas.

With respect to our overseas operations, we normally do not rely on subcontractors for our overseas projects but may engage local subcontractors to undertake specialized work, such as civil work and piling. We may also recruit local staff for our overseas operations to reduce costs, comply with local laws and regulations and enhance our presence in strategic markets. Our operating subsidiaries implement quality, health, safety, environmental protection control of overseas projects by regular reviewing and monitoring project task force's report. We participate in the overseas projects both on an individual basis as a general contractor and through joint ventures, consortiums or similar cooperative arrangements. See “— Joint Ventures and Consortiums.”

### CLIENTS, SALES AND MARKETING

We provide a full range of engineering and construction services and have a diversified client base which covers industries including oil refining, petrochemicals, new coal chemicals, inorganic

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chemicals, pharmaceutical chemicals, clean energy, storage and transportation, environmental engineering and utilities. With respect to services provided to the oil refining and chemical industries, our clients are mainly large-scale oil and gas companies and chemical companies, as well as coal companies and other energy companies.

We operate our business in most provinces, municipalities and autonomous regions in the PRC. In recent years, our overseas business has grown rapidly as we have participated in a number of projects in the Middle East, Central Asia, Africa, South America, North America and Southeast Asia. For the years ended December 31, 2010, 2011 and 2012, our overseas business accounted for 11.8%, 13.9% and 16.9%, respectively, of our total revenue. Revenue from our overseas operations increased steadily during the Track Record Period, mainly due to enhancement of our corporate brand in overseas markets, which led to increased overseas business volume. For the years ended December 31, 2010, 2011 and 2012, the total value of our new overseas contracts amounted to RMB4.65 billion, RMB13.36 billion and RMB12.73 billion, respectively. In particular, in 2012 we entered into a contract for engineering and construction of a coal-to-oil project in United States, with a total contract value of approximately US\$1.6 billion.

As of December 31, 2012, our major PRC and overseas clients included Sinopec Group, CNOOC, CNPC, Shaanxi Yanchang Petroleum (Group) Co., Ltd., Shenhua Group, Sinochem Group, China National Coal Group, Exxon Mobil Corporation, BP, Shell, Saudi Aramco, SABIC, BASF, KMG, Bayer AG and Novartis International AG, among which Sinopec Group, CNPC, Shaanxi Yanchang Petroleum (Group) Co., Ltd., Shenhua Group, Sinochem Group and KMG had been among our five largest clients in one or more years during the Track Record Period. We have established business relationships with these and other clients based on mutual cooperation. As these clients typically engage in capital intensive projects with high demand for engineering services, we believe our established relationships with them will help us further develop our domestic and overseas business.

Our services have been recognized by large- and mega-size petroleum enterprises and coal enterprises in the PRC. We are one of the major contractors for oil refining and chemical engineering projects of these enterprises. Over the past decade, in the oil refining industry, we undertook or participated in all of the new construction complexes and some of the modification and expansion of oil refineries of Sinopec Group, CNPC, CNOOC, Shaanxi Yanchang Petroleum (Group) Co., Ltd. and Sinochem Group; in the petrochemical industry, we undertook all 14 of the new construction, modification or expansion of ethylene complexes of Sinopec Group and the only new construction ethylene complex of CNOOC, and participated in two of the seven new construction, modification or expansion of ethylene complexes of CNPC; and in the new coal chemical industry, we undertook three of the four large new coal chemical projects of Shenhua Group, as well as almost all of the coal gasification projects of Sinopec Group.

We usually provide clients with a credit term ranging between 15 and 90 days. For the years ended December 31, 2010, 2011 and 2012, revenue derived from our five largest clients together accounted for 67.6%, 59.5% and 62.6%, respectively, of our total revenue. For the same periods, revenue derived from Sinopec Group and its associates was approximately RMB19.8 billion, RMB16.9 billion and RMB19.4 billion, respectively, accounting for 66.1%, 55.1% and 50.2%, respectively, of

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our total revenue. Except with respect to Sinopec Group, and to the best knowledge of our Directors, none of our Directors, Supervisors, their respective Associates or any shareholders holding more than 5% of our issued share capital had any interest in any of our five largest clients as of the Latest Practical Date.

We have established an extensive marketing network in domestic and overseas markets in order to better understand market conditions, maintain client relationships and pursue new business opportunities. We develop our marketing network based on the distribution of our clients' production bases, which in the PRC, includes key oil refining and chemical bases in areas such as the Yangtze River Delta, the Pearl River Delta, the Bohai Bay, the Beibu Bay and the central and western regions. With respect to the overseas market, we have established subsidiaries, branches or offices in countries and regions including Saudi Arabia, Nigeria, Singapore, the United Kingdom, Russia, Kazakhstan, the United Arab Emirates and Kuwait. Our marketing network enables us to sustain and develop our domestic and overseas business.

We formulate our sales and marketing strategies based on the plans provided by our various subsidiaries and branches. Our headquarters prepares an overall business plan that includes a five-year plan, a three-year rolling plan, an annual plan and a quarterly plan. The marketing team in each region is responsible for market development planning, project tracking, coordination of project bidding and quotation, contract negotiations and client liaison in their respective regions. We also rely on our overseas subsidiaries, branches and representative offices to provide information on current overseas market conditions and developing trends and enhance our brand awareness through various means including attending international conferences, exhibitions and investment forums, leveraging the networks built by non-governmental organizations such as local chambers of commerce and establishing joint ventures or consortiums.

### PROCUREMENT OF EQUIPMENT, MATERIALS AND SERVICES

#### Procurement of Equipment and Materials

We require substantial amounts of equipment, materials and consumables in our EPC Contracting and construction businesses, which consist of static and rotating equipment, electrical components, instruments, steel components and welding materials, among others. We generally do not procure equipment and materials for our engineering, consulting and licensing business, and the raw materials we procure for our equipment manufacturing business are relatively small and vary on a contract-by-contract basis. Materials and equipment costs (including materials, consumables and equipment) accounted for approximately 44.0%, 32.1% and 38.4% of our total cost of sales for the years ended December 31, 2010, 2011 and 2012, respectively.

We have adopted various measures to control our materials and equipment costs, including: (i) closely monitoring and controlling the delivery schedules, allocation and inventory level of equipment and materials to better suit the procurement plan and schedule of our projects; (ii) entering into framework agreements with major suppliers to secure volume discounts for procurement of some of our equipment and materials; (iii) entering into fixed-price contracts with suppliers to reduce fluctuations in the costs of our purchased equipment and materials; and (iv) establishing and



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maintaining a management system of our suppliers to ensure that alternative sources of equipment and materials may be available upon our demand. Our experienced and knowledgeable procurement team, early procurement planning and comprehensive control and monitor measures have helped us control our materials and equipment costs.

To ensure safety and quality of the products and services delivered to our clients as well as cost effectiveness, we have set out a comprehensive plan for sourcing materials, equipment and consumables that is tailored to the needs and contractual terms of our projects and have taken other measures to optimize our procurement, such as bulk purchase of common items used in multiple projects. We have established strategic cooperative relationships with some suppliers of equipment and materials for certain core equipment and materials to ensure the adequate and timely supply of such equipment and materials. We purchase standard equipment and common materials under framework agreements. We also carry out R&D of key equipment, proprietary equipment, patented equipment and special materials jointly with certain suppliers. During the Track Record Period, we have not experienced any interruption in our supply chain due to a shortage of equipment or materials or significant fluctuations in their prices.

We have established at various levels of our organization a complete system for the selection and management of suppliers of equipment and materials. In managing our relationships with and appraising our suppliers, we focus on factors including product quality, timing of delivery, price competitiveness and credit and financial status, and maintain lists of qualified suppliers which are evaluated and revised from time to time. Suppliers for a particular project are usually chosen in a coordinated fashion by the project owner and us. During the bidding process, we typically recommend certain suppliers from our lists of qualified suppliers to project owners for their consideration. In some cases, the clients may request that we select suppliers of materials and equipment from their own lists. In such cases, we independently appraise the suppliers recommended by our clients' according to our standards and include selected suppliers into our supplier management and appraisal system. In addition, we also purchase some materials locally in areas where the projects are located to reduce transportation costs or to fulfill certain contractual requirements.

We typically enter into purchase contracts with suppliers on a project-by-project basis. Our purchase contracts normally provide a fixed price, with contract duration dependent on the life cycle and nature of the project undertaken. According to our contracts with suppliers, we usually make installment payments to our suppliers before our final acceptance of the equipment or materials purchased, and retain 5% to 10% of the total contract value until the expiry of the warranty period, which typically lasts 12 months after our final acceptance of the equipment or materials purchased. Our suppliers typically allow us credit terms of 45 to 90 days. When setting prices, we normally consider a combination of relevant factors in their totality, including, among other things, normal fluctuations in the costs of equipment and materials and minor work adjustments within the scope of contract. In addition, some of our contracts with clients contain price adjustment clauses which allow us to reclaim additional costs incurred due to unexpected increases in material costs. During the Track Record Period, we were able to pass certain portion of the increase in materials and equipment costs to our clients through initial pricing and price adjustment mechanism. However, we still bear the risk of price fluctuations in equipment and materials to the extent the additional cost is not covered in full by our pricing and price adjustment clause. See "Risk Factors — Risks relating to our business and our industry — Our operations depend on the adequate and timely supply of equipment, materials and

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energy at acceptable prices and quality, which may subject us to related risks.” We also face exchange rate risks due to purchase of materials overseas. See “Risk Factors — Risks relating to our business and our industry — We face foreign exchange risk, and fluctuations in exchange rates could have a material and adverse effect on our business and investors’ investment.”

We purchase most of our equipment, materials and consumables through our independently operating subsidiaries. However, we are in the process of centralizing some procurement functions, which we believe will increase our bargaining power with suppliers and reduce our costs.

Most of our suppliers of equipment and materials are independent from our Group. For the years ended December 31, 2010, 2011 and 2012, purchase from our connected suppliers of equipment and materials accounted for approximately 4.7%, 1.6% and 1.9% of our total purchases, respectively. For the years ended December 31, 2010, 2011 and 2012, purchase from our largest supplier of equipment and materials accounted for approximately 2.2%, 1.4% and 1.4%, respectively, of our total cost of sales. For the same periods, purchase from our five largest suppliers of equipment and materials in aggregate accounted for approximately 3.4%, 3.9% and 4.9%, respectively, of our total cost of sales.

### **Subcontracting**

For most projects, we act as the EPC contractor or construction contractor. When necessary, we procure services from subcontractors to undertake specialized and non-core work that may vary on a project-by-project basis, such as civil work, non-destructive testing and installment of fire safe system, which facilitates project progress and improves overall project profitability. We adhere to strict standards for selecting subcontractors, have established long-term cooperative relationships with them, and maintain lists of qualified subcontractors to ensure availability of the appropriate subcontracting services at acceptable prices when necessary. For the years ended December 31, 2010, 2011 and 2012, subcontracting costs accounted for approximately 32.4%, 37.8% and 37.8%, respectively, of our total cost of sales. For more information on our subcontracting work and subcontracting costs, see “Financial Information — Consolidated Results of Operations — Description of Selected Items Components of Results of Operations — Cost of Sales.”

We have taken measures to manage our subcontracting costs including: (i) maintaining a list of preferred subcontractors which is regularly reviewed and updated, thereby maintaining long-term business relationships with our preferred subcontractors to secure availability of subcontracting services at reasonable price; and (ii) engaging subcontractors through a tender and bidding process in which we typically solicit bids from at least three potential subcontractors, primarily based on their qualifications, proposed subcontracting fees and track record. Our clients sometimes require us to obtain their consent before we subcontract.

According to our subcontracting contracts, we usually make progress payment to our subcontractors on a monthly basis, and retain 5% to 10% of the total contract value until the expiry of the warranty period, which typically lasts 12 to 24 months after our acceptance of the services provided by our subcontractors. The warranty periods and other major terms provided by our subcontracting contracts are normally equivalent to those in our contracts with clients. Our subcontractors typically allow us credit terms of 45 to 90 days.

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We incorporate subcontractors' work quality, progress, health, safety and environmental protection record into our management system, as we remain liable to our clients for our subcontractors' performance pursuant to the relevant contracts or applicable laws. We adopt various measures to monitor the subcontractors' performance. On any ongoing project, we typically hold meetings regularly with our subcontractors and require subcontractors to submit monthly reports to us regarding their work progress. In addition, we carry out both regular and ad hoc on-site inspections, and in some projects have on-site supervisors and technical consultants to monitor subcontractors' work and ensure compliance with relevant rules and regulations. We also maintain close relationships with subcontractors by providing training programs for them and entering into technical cooperation arrangements with them.

We typically engage one to five subcontractors in a single project. Most of the subcontractors we engage are independent from our Group. For the years ended December 31, 2010, 2011 and 2012, purchase from our connected subcontractors accounted for approximately 0.4%, 0.4% and 1.2% of our total purchases, respectively. For the years ended December 31, 2010, 2011 and 2012, purchase from our largest subcontractor accounted for approximately 1.2%, 2.5% and 1.5% of our total cost of sales, respectively, and purchase from our five largest subcontractors in aggregate accounted for approximately 3.9%, 7.9% and 5.9% of our total cost of sales, respectively.

We have maintained business relationships of two to ten years with our five largest suppliers of goods and services, including subcontracting services, for each of the years ended December 31, 2010, 2011 and 2012. For the years ended December 31, 2010, 2011 and 2012, purchases from our largest supplier of goods or services, including subcontracting services, accounted for approximately 2.8%, 3.6% and 2.0%, respectively, of our total purchases. For the same periods, purchases from our five largest suppliers of goods or services, including subcontracting services, in aggregate accounted for approximately 7.2%, 12.2% and 8.1%, respectively, of our total purchases. Sinopec Corp., a subsidiary of Sinopec Group, was one of our five largest suppliers of goods and services, including subcontracting services, for the years ended December 31, 2010 and 2012. Save as disclosed above, and to the best knowledge of our Directors, none of our Directors, Supervisors, their respective Associates or any shareholders holding more than 5% of our issued share capital had any interest in any of our five largest suppliers of goods and services, including subcontracting services, as of the Latest Practicable Date.

### JOINT VENTURES AND CONSORTIUMS

In a given project, we may act as the general contractor, a subcontractor or a member of a consortium or party to a joint venture, depending upon the requirements of the project and the terms of the contract. For projects within the PRC, we generally bid to act as the general contractor rather than as part of a joint venture or consortium given our recognized technical expertise in the PRC. For overseas projects, we submit bids both on an individual basis and as a member of a consortium or party to a joint venture, in which case we share the project work, and normally bear joint and several liability, with the other consortium members or joint venture partners; in most cases, other consortium members or joint venture partners are local companies at the place where the project is located. During the Track Record Period, we were mandated to act individually as the general contractor for over 90%, in terms of contract value, of the EPC Contracting projects we undertook, and we participated in the rest of the projects as a joint venture partner or member of a consortium.

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### TECHNOLOGY, RESEARCH AND DEVELOPMENT

Our business development is inseparable from development of our technology. Our R&D focuses primarily on process technology, engineering application and project management. During the Track Record Period, we have made significant contributions to the development of core technologies in the PRC oil refining, petrochemical and new coal chemical engineering industries. For the years ended December 31, 2010, 2011 and 2012, our R&D expenditure was RMB411.8 million, RMB504.3 million and RMB547.6 million, respectively. We expect to continue to invest in R&D in the future.

We have patents and proprietary technologies which have been widely used in the PRC, as well as construction methods accredited by the national, provincial and ministerial authorities, covering various sectors including oil refining, petrochemicals, new coal chemicals, inorganic chemicals, pharmaceutical chemicals, clean energy, storage and transportation and environmental engineering. As of December 31, 2012, we had 771 patents in the PRC, as well as 267 proprietary technologies and 336 construction methods, including 23 construction methods accredited by the PRC national authorities. In the oil refining sector, primarily employing our own technologies, we have successfully completed the new construction, modification, expansion and optimization of a number of 10 Mtpa capacity modern oil refineries (including oil refineries that process high-sulfur crude oil, crude oil with high acidity and heavy crude oil). Our complete series of technologies for large oil refineries have also been promoted and widely applied. In the petrochemical sector, through engineering and construction of the 1 Mtpa capacity ethylene plants in Wuhan, Tianjin and Zhenhai, we managed to enhance, and promote the application of, our process technologies relating to 1 Mtpa capacity ethylene plants and other related technologies in the petrochemical industry. In addition, we have technical expertise with respect to the engineering and construction of 1 Mtpa PTA complexes. In the petroleum-alternative sector, our technologies in this sector follow the trend of selective to comprehensive development and application. For instance, our coal gasification, coal to syngas, MTO, coal substitution for oil in chemicals manufacturing, natural gas purification, natural gas to liquid fuel, bio-jet fuels and bio-diesels technologies have all been applied in large-scale commercial operation. In the pharmaceutical chemical sector, we possess specialized bio-fermentation and chemical synthesis technologies, natural medicine extraction technologies and clean pharmaceutical chemical engineering technologies, which technologies have been promoted and applied in various projects. We also have an R&D platform for developing the latest medication. In the inorganic chemical sector, we have advanced technologies with respect to the production of sulfuric acid, phosphate fertilizer, phosphate compound fertilizer and advanced technologies for low-level heat recovery to improve energy efficiency in sulfuric acid complex. Such technologies have been applied in various projects, including the phosphate compound fertilizer base project in Yunnan, and the low-level heat recovery project of a sulfuric acid plant in Guizhou.

We have actively led or participated in formulating and revising national and industrial construction standards and codes and engineering specifications, which has further improved our reputation in and influence on relevant engineering industries in the PRC. Strong R&D capabilities and advanced engineering technologies have enabled us to achieve outstanding engineering performance and win numerous awards in the fields of engineering and consulting, EPC Contracting, construction and research.

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We have established an advanced R&D platform to support our continual innovation and the integration of such innovation into our engineering technologies and techniques. As of December 31, 2012, we have established two research institutes (including a new coal chemical and natural gas chemical research institute and a provincial and ministerial level refining reaction engineering laboratory), two postdoctoral workstations and several enterprise technology centers, which have played an important role in enhancing our technology development and innovation. We also actively seek cooperation opportunities with scientific research institutions and renowned universities to jointly develop new technologies. We will continue and deepen our cooperation with scientific research institutions such as SINOPEC CORP. Research Institute of Petroleum Processing (中國石化石油化工科學研究院), SINOPEC CORP. Beijing Research Institute of Chemical Industry (北京化工研究院), SINOPEC CORP. Shanghai Research Institute of Petrochemical Technology (上海石油化工研究院), SINOPEC CORP. Fushun Research Institute of Petroleum and Petrochemicals (撫順石油化工研究院) and affiliates of the Chinese Academy of Sciences, including the Dalian Institute of Chemical Physics (中國科學院大連化學物理研究所), the Institute of Process Engineering (中國科學院過程工程研究所) and the Institute of Coal Chemistry (山西煤炭化學研究所). At the same time, we will continue to strengthen our relationships with universities such as Tsinghua University, Zhejiang University, Tianjin University, Dalian University of Technology, Xi'an Jiaotong University, Sun Yat-sen University, China University of Petroleum and East China University of Science and Technology. We also carry out joint R&D initiatives with clients including large-scale petroleum enterprises and coal enterprises. We will continue leveraging such cooperation opportunities to improve the efficiency of technology R&D, diversify the risks from R&D activities and promote the achievements of R&D.

Our R&D activities are primarily driven by client demand and have penetrated into the process technologies, engineering and construction technologies and project management technologies that are closely related to our business. Our R&D initiatives and activities are not limited to our full-time R&D personnel, but may also be carried out by designers, engineers and technician teams with strong expertise. We encourage them to carry out R&D activities that correlate with the improvement and optimization of our technologies for projects.

We intend to focus on our major business, increase our investment and improve R&D cooperation to further improve existing engineering and construction technology in industries including oil refining, petrochemicals, new coal chemicals, natural gas chemicals, fine chemicals and pharmaceutical chemicals.

## INTELLECTUAL PROPERTY

Through our R&D initiatives and in the normal course of business, we have obtained various intellectual property rights which are valuable to our business. We protect our intellectual property through patents, copyrights, trademarks and contractual rights. As of December 31, 2012, we held 771 patents comprising 299 invention patents and 472 utility patents in the PRC and 15 patents overseas, and had approximately 500 patent applications pending in the PRC and 313 patent applications pending overseas. In December 2012, we entered into an agreement with Sinopec Corp. under which

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we are entitled to a complete and non-restricted usage right with respect to 120 jointly-owned patents and 199 jointly-owned patent applications listed in the agreement. We continually seek new patents for products and technologies developed through our R&D activities. We also have unregistered proprietary technologies, unregistered processes and other intellectual property rights.

We have developed a system that provides detailed guidelines for intellectual property management and protection and various templates for related transactions, including technology licensing agreements and technologies development agreements. Our employees are required to enter into confidentiality agreements prohibiting them from disclosing any of our proprietary technologies and trade secrets. In addition, we maintain full ownership rights to any intellectual property relating to our business that is developed by our technical personnel. We have also implemented a security system to prevent unauthorized access to our technological information system. We generally seek intellectual property protection against third-party misappropriation for any new inventions we develop, including product improvements or technologies, though there can be no assurance that such protection will be effective. We may also be subject to claims for infringement of intellectual property rights of others. See “Risk Factors — Risks relating to our business and our industry — Any failure to adequately protect our intellectual property rights or any infringement claims brought by third parties against us may have an adverse effect on our business, financial condition and results of operations.”

### SOFTWARE AND INFORMATION TECHNOLOGY

With respect to our engineering, consulting and licensing and EPC Contracting businesses, we own and utilize a variety of advanced software and facilities.

- With respect to process technology software, we own and utilize prevailing international software packages and kits for process, such as aspenONE® Engineering PACKAGE including Aspen Plus, Aspen Polymers, Aspen HYSYS, Aspen Flare System Analyzer, Aspen Energy Analyzer, Aspen Properties, Aspen Plus Dynamics. We also own Invensys, including Pro II and others, as well as HTRI, FRI, CFX, GRTMPS, H/CAMS, AMSIM, ProMax with TSWEET, DNV PHAST/SAFETI, FRNC-5PC, REFORM-3PC and Comos FEED.
- With respect to computer-aided engineering software, we own and utilize advanced international software, such as AVEVA Diagrams, SmartPlant P&ID, PDS, Smart Plant 3D, Navisworks, Smart Plant Foundation, Smart Plant Instrumentation, CAESAR II, ANSYS, ABAQUS, EDSA, ETAP, Solidege, Autodesk Inventor Professional, Tekla Structures, SAP2000 and PIPENET.
- With respect to project management software, we own and utilize software systems, such as Oracle’s Primavera P6 Enterprise Project Portfolio Management, Oracle’s Primavera Contract Management, Active Risk Manager, Kildrummy CostMANAGER, SmartPlant Materials, AVEVA VPRM, SAP/R3 SYSTEM and EMC Documentum, to assist with resource management throughout the life cycle of a project.

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We use these systems and the above related software extensively in our engineering and EPC Contracting projects, for which they serve as a platform to support the overall management of our process design, engineering, overall plant design and project management and to facilitate the collaboration of our professionals based in different locations. In addition, we possess an integrated smart information system that aids our senior management's decision-making, operational management and project management, including a global virtual network platform employing modern information technologies, an aided decision support platform, an operation platform, a standardized project management platform, an engineering integration platform and a service platform providing operation and maintenance support. Our integrated information system provides an intelligent, efficient and comprehensive platform for unified decision-making and the optimal sharing of our resources.

With respect to our equipment manufacturing business, we own globally recognized software including PV ELITE calculation software, ANSYS stress analysis and calculation software, X-STEEL steel structure design software and PDSOFT pipeline design software, which are required for manufacturing ASME boiler pressure vessels.

### FACILITIES

With respect to our construction business, as of December 31, 2012, we had 250 crawler cranes with lifting capacities covering all series ranging from 50 tons to 2,000 tons, and a self-propelled modularized transporter with a transport capacity of 2,000 tons.

With respect to our equipment manufacturing business, we use various types of special equipment for cutting, forming, welding, non-destructive testing, physio-chemical testing, heat treatment, pressure testing and other processes which are required for manufacturing and testing equipment for oil refinery and chemical projects and the prefabrication of steel structures and pipelines.

### QUALIFICATIONS

As of December 31, 2012, we held a total of 102 certifications of various types, including:

- 26 certifications to provide engineering and consulting services, including certifications in engineering, consulting, project environmental impact assessment and engineering cost consulting. Our subsidiaries SEI, LPEC, SSEC and SNEC all hold comprehensive Class A certification in engineering, which was granted by the MOHURD, and SNEI holds Class A certification in chemical and petroleum industrial engineering;
- 20 certifications to provide EPC Contracting and construction services, including certifications in EPC contracting, construction contracting, construction project management, construction implementation and overseas contracting;
- 6 certifications to provide construction supervision services;

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- 36 certifications to design and manufacture equipment and components, including certifications for special equipment manufacturing, special equipment installation, modification and maintenance, special equipment design and lifting machinery manufacturing; and
- 14 certifications to engage in other business activities, including, among others, road transportation (general cargo transportation and bulky cargo transportation), electrical equipment installation (including repair and commissioning) and foreign labor cooperative operations.

We hold qualifications and certifications that are necessary for our current business operations and plan to obtain additional certifications in the future in line with the development and expansion of our business. We ensure compliance with requirements for our various qualifications and certifications by, among other measures, maintaining high standards for quality control and health, safety and environmental protection. In addition, we carry out appropriate R&D activities to maintain our existing qualifications and certifications.

### QUALITY CONTROL

We operate an independent quality control division in each of our operating subsidiaries. These quality control divisions are responsible for monitoring the quality of our engineering and construction services and equipment manufacturing activities both in the PRC and overseas.

We have compiled quality management manuals, established quality control procedures and adopted quality control standards. We have also implemented a quality supervision and management organizational structure. For example, in our engineering business, EPC Contracting business and construction business, we conduct a series of stringent quality control tests, measured against national or industrial standards and codes, throughout the various project phases, particularly prior to the delivery phase.

Additionally, we have established quality control reporting mechanisms such as daily inspections, self-inspections, cross inspections among projects, inter-departmental joint inspections and remote monitoring to identify quality issues as early as possible. Slight quality issues identified are dealt with immediately, while major issues are submitted to management to be discussed and resolved. We also conduct supervision and review activities to improve the quality of our products and services. With respect to our engineering business, we revisit our clients to assess engineering quality, conduct preliminary reviews and perform internal audits after project completion. With respect to our EPC Contracting business and construction business, we carry out process monitoring and customer satisfaction surveys during the project implementation phase and make annual visits to completed projects, conducting internal and external reviews. In addition, clients typically hire a third-party supervisor to certify the quality of our work at different stages. We have also established a project quality assurance system, which we believe efficiently and effectively implements each quality control activity in a systematic and practical manner.



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We have implemented quality controls on labor, mechanical equipment and construction process and methods in our construction projects, including conducting sampling tests and quality inspection on all materials, parts and components, working procedures, semi-finished and finished products. With respect to our equipment manufacturing business, all materials, semi-finished and finished products are subject to sampling and quality inspection at each stage of the manufacturing process. We have also implemented certain quality control standards established by the International Organization for Standardization. We have received various ISO 9001 and ISO 9002 series accreditations for our quality control systems across different segments of our business.

As of December 31, 2012, we had close to 1,000 employees responsible for quality control across different segments of our business.

### **HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION**

We regard occupational health and safety and environmental protection as an important social responsibility. Since 2004, we have implemented various system standards, including GB/T28001-2001 (the PRC equivalent of the internationally recognized OHSAS 18001 standard for health and safety management) and GB/T24001 (the PRC equivalent of ISO 14001, the international environmental safety management standard). We have adopted a health, safety and environmental supervision and management model comprising government supervision, societal monitoring, corporate internal controls and external certifications. Each of our major operating subsidiaries has received the relevant certification for their respective health, safety and environmental management systems. In 2011, SEI received certification from Lloyd RQA for compliance with OHSAS 18001 and ISO 14001. SFCC was recognized with a 20 million manhours with no loss working injury/illness certificate in 2008 for its Saudi Rabigh project, and FCC was recognized with a 13 million manhours without loss time incident certificate in 2009 in its Saudi Hawiyah Natural Gas Processing Plant Expansion Project.

#### **Health and Safety**

Our business operations have been, and may in the future be, subject to unexpected incidents and accidents, resulting in fatalities and injuries caused by falls from heights, toxic gases, typhoons, mudslides and similar events. In particular, our EPC Contracting business and construction business have experienced, and may in the future experience, fatalities and injuries as a result of accidents such as collapses, explosions and machinery accidents. For the years ended December 31, 2010, 2011 and 2012, we recorded 10 accidents resulting in a total of 10 fatalities, all of whom were our subcontractors' employees. These accidents include seven which occurred in the PRC and three in Saudi Arabia. Among the 10 fatalities, four were caused by falling from height, three were caused by strike by objects, one was caused by machinery accident and two were caused by traffic accidents. As all fatalities in the Track Record Period were our subcontractors' employees, we did not pay and were not legally responsible for any compensation with respect to these accidents. As of December 31, 2012, no material claim has been brought against us as a result of these accidents. Additionally, we experienced no material interruption to our operation as a result of these accidents, nor have these accidents, individually or in the aggregate, had any impact on business relationship with our clients

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and our overseas expansion plans or a material effect on our financial condition and results of operations. See “Risk Factors — Risks relating to our business and our industry — Our operations are subject to inherent operational risks and occupational hazards, which could cause us to incur substantial costs and to face contractual claims and litigation.”

We have carefully investigated accidents happened and are continuously enhancing our quality and safety controls from these experiences. We have adopted a series of safety measures, pursuant to which a clear internal structure with detailed responsibilities of each responsible department at both headquarter and subsidiary level has been set up. All the production accidents are closely followed up and further measures are properly performed to mitigate the losses. In addition, as all fatalities in the Track Record Period were employees of subcontractors, we have adopted measures to strengthen the management of our subcontractors. In particular, we are in the process of comprehensively evaluating our subcontractors and classifying them into three categories based on the adequacy of their safety control. We set a policy to limit the number of and to gradually remove subcontractors with low safety ratings from our list of qualified subcontractors. We also require our subcontractors to have customary insurance policies based on industry practice. The measures we adopted also include intensified safety inspections for the ongoing projects and safety trainings for our subcontractors with long-term cooperative relationships.

We have safety supervisory and management systems both at the headquarters and in each of our domestic operating subsidiaries. We also have departments that are responsible for formulating and implementing occupational safety rules and standards and providing occupational safety training to our employees. For each of our construction projects, we establish a safety supervisory and management team responsible for on-site implementation and compliance with safety-related rules, regulations and internal policies as well as other safety-related matters. We believe that our businesses are in compliance with applicable PRC national and local as well as foreign health and safety laws and regulations in all material aspects. As of the Latest Practicable Date, we had all work safety permits issued by the relevant PRC local and overseas authorities which are material to our business and are not aware of any penalties associated with any material breach of any existing health and safety law or regulation.

In preparation for the Listing, we engaged an independent business consulting and internal audit firm (the “Internal Control Consultant”) to conduct an evaluation of our internal control system. Based on the review of our internal control system and the enhanced quality and safety control measures as well as its relevant due diligence work performed to test the effectiveness of the implementation of the relevant measures, the Internal Control Consultant confirmed that (i) all the relevant measures have been carried out properly and followed accordingly and no material deficiency in respect of our quality and safety control was identified, (ii) measures set out above are adequate and effective in enhancing our quality and safety controls and (iii) relevant adequate and effective measures have been in place for our future operations. After considering the quality and safety control measures adopted and on the basis of the Internal Control Consultant’s relevant confirmations as well as the relevant due diligence work conducted, the Joint Sponsors are of the view that the above enhanced quality and safety control measures are reasonably adequate and will reasonably effectively help enhance the Group’s quality and safety controls in all material respects. Our Directors are of the view that the qualifications and experience of our employees responsible for quality and safety controls are

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reasonably adequate and, having considered the Internal Control Consultant's view above, there is no material weakness in the quality and safety controls in our domestic and overseas operations and our enhanced quality and safety control measures are reasonably adequate and will reasonably effectively help enhance our Group's quality and safety controls in all material respects.

### **Environmental Protection**

We are subject to PRC national and local as well as foreign environmental laws and regulations relating to air pollution, noise emissions, hazardous substances, sewage and waste discharge and other environmental matters. We place great emphasis on environmental protection and are dedicated to environmental protection in our construction projects and the research and development of new environmental protection technologies, equipment and products. Some of our environmental protection measures include:

- establishing and implementing environmental protection procedures and incorporating facilities addressing environmental impact in our construction projects, which are reviewed and approved by our relevant departments as part of the initial project planning process;
- disposing of pollutants discharged from our operations in accordance with the local standards to reduce water, atmospheric and solid waste pollution and recycling such wastes where possible; and
- using only equipment and products that comply with national environmental protection standards and encouraging the use of natural and clean resources which in turn enhances product quality.

With regard to our overseas operations, we place great emphasis on our ability to comply with applicable foreign environmental laws and regulations. As compliance directly affects our success in any overseas project, it is one of many factors we carefully consider prior to our decision to participate in an overseas project. When necessary, we engage local counsel to advise us on applicable environmental law-related issues in our overseas operations.

We believe that our businesses are in compliance with the applicable national, local and foreign environmental laws and regulations in all material aspects. As of December 31, 2012, we are not aware of any material penalties associated with the breach of any existing environmental law or regulation. We believe that environmental compliance costs are a nominal component of overall project costs, as the majority of these costs are borne by project owners. In our EPC Contracting business, for example, the project owner is responsible for obtaining the relevant environmental protection permit, rather than us. Although we are responsible for complying with the permit in the course of our construction business, these costs are ultimately shifted to the project owner. We also consider the environmental compliance costs of our engineering, consulting and licensing business and equipment manufacturing business immaterial. As a result, we did not segregate our environmental compliance costs during the Track Record Period.

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### INTERNAL CONTROLS

Our Board of Directors is responsible for establishing our internal control system and reviewing its effectiveness. In accordance with applicable laws and regulations, we have established procedures for developing and maintaining internal control systems. Such systems cover corporate governance, operations, management, legal matters, finance and auditing, as appropriate for the needs of our organization. Our Directors believe that our internal control systems and current procedures are sufficient in terms of comprehensiveness, practicability and effectiveness. However, while our system of rules, policies and procedures are in place, there may still be weaknesses in their implementation. Moreover, we cannot guarantee that our employees will not in their personal capacity act in such a way that contravenes our internal control procedures. Though we believe our internal control systems have been effective in the past, we have recently undergone the Reorganization and other changes related to becoming a publicly listed company through the Global Offering, which may entail different requirements for our internal control systems. We have been further enhancing our internal control systems following the Reorganization and we believe that our internal control systems are effective for the purposes they are designated for. However, as our business continues to expand, we may need to further refine and enhance our internal control systems promptly and appropriately to respond to the evolving requirements of our expanded operations. See “Risk Factors — Risks relating to our business and our industry — The development of our internal controls may not keep up with the expansion of our business and our internal control measures may not always be implemented effectively.” We will continue to strengthen our internal control systems to ensure compliance with PRC and overseas regulatory requirements.

### INSURANCE

Our projects are normally covered by construction all risks insurance and third-party liability insurance. Such policies generally cover the entire contract period, including the warranty period following the completion of the project. In addition, with regard to our EPC Contracting business and construction business, we generally purchase insurance for our fixed assets, such as our key equipment, inventory and office buildings, and employer’s liability insurance. With regard to our equipment manufacturing business, we generally purchase all risks insurance for our fixed assets and current assets and transit insurance for goods transported by rail, road and sea. We maintain insurance coverage in amounts that we believe are consistent with our risk of loss and the customary practice in the industry. We also purchase pension insurance, medical insurance, unemployment insurance, injury insurance and maternity insurance for our employees in accordance with relevant PRC laws and regulations. With regard to our overseas projects, we purchase personal accident insurance for all of our participating employees.

Certain of our subsidiaries do not purchase any third-party liability insurance to cover claims with respect to personal injury or property or environmental damage arising from accidents on their property or relating to their operations, nor do they carry any business interruption insurance or key-man life insurance on their key employees. This is generally consistent with industry practice in the PRC. Such insurance is not mandatory according to the laws and regulations of the PRC and

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voluntarily purchasing such insurance would impose additional costs on our business operations, which would reduce our competitiveness in the PRC. See “Risk Factors — Risks relating to our business and our industry — Our insurance coverage may not be sufficient to cover all potential risks or losses.”

### EMPLOYEES

As of December 31, 2012, we had a total of 19,599 employees. The following table presents a breakdown of our employees by function as of December 31, 2012:

	<u>Number of Employees</u>	<u>(%)</u>
Operational management personnel .....	1,175	6.0
Professional technicians .....	13,160	67.1
Production operators .....	<u>5,264</u>	<u>26.9</u>
<b>Total</b> .....	<u><u>19,599</u></u>	<u><u>100.0</u></u>

The following table presents a breakdown of our employees by level of education as of December 31, 2012:

	<u>Number of Employees</u>	<u>(%)</u>
Master or doctorate degree.....	1,232	6.3
Bachelor’s degree .....	7,776	39.7
College-level degree .....	3,824	19.5
Others .....	<u>6,767</u>	<u>34.5</u>
<b>Total</b> .....	<u><u>19,599</u></u>	<u><u>100.0</u></u>

Currently, the majority of our employees are operational management personnel and professional technicians. As of December 31, 2012, 219 of our employees held professor-level senior professional technical positions, 3,318 held senior professional technical positions, 4,684 held mid-level professional technical positions and 819 were skilled technicians and senior technicians.

As of December 31, 2012, our staff included approximately 2,000 registered consulting engineers, registered chemical engineers, registered architects, registered civil engineers, registered cost estimators, registered environmental impact assessment engineers, registered electrical engineers, registered public facility engineers, registered mechanical engineers, registered petroleum and natural gas engineers, registered construction engineers, registered safety engineers and certified public accountants, as well as over 700 Project Management Professionals certified by the Project Management Institute of the United States.

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In accordance with the relevant requirements of local governments in the PRC where we operate, we make contributions to pension and purchase medical insurance, unemployment insurance, maternity insurance and injury insurance for our employees. The amount of our contributions is based on the specified percentages of our employees' aggregate salaries as required under PRC laws and regulations. We also make contributions to the employee housing fund according to applicable PRC regulations.

In addition to legally required contributions, we also provide voluntary benefits to our current employees and retired employees. These benefits include supplemental medical insurance plans and supplemental pension plans for both current and retired employees, and annual bonuses for our current employees.

For the years ended December 31, 2010, 2011 and 2012, our total employee compensation and benefits expense (including wages, salaries and benefits) amounted to approximately RMB3.22 billion, RMB4.01 billion and RMB4.52 billion, respectively.

We have established a labor union to protect our employees' rights and encourage employees to participate in our management. We have not experienced any major labor disputes in the past and we consider our relationship with our employees to be satisfactory.

We endeavor to provide training for our employees. We provide continuing education and training programs for our management staff and technical staff to enhance their skills and knowledge. We also offer management courses to our managers, annual project management training to our project managers and overseas training opportunities to certain of our employees.

We enter into an employment contract with each of our employees. We also enter into confidentiality agreements and non-competition agreements with our key employees.

## PROPERTIES

Our headquarters are located in Beijing, PRC. As of December 31, 2012, we owned 129 parcels of land in the PRC and 1,137 buildings or units in the PRC and the Kingdom of Saudi Arabia. All of the 129 parcels of land with an aggregate site area of approximately 3,408,244.27 sq.m. are in the PRC. We also leased 26 buildings or units and 7 parcels of land in the PRC and the Kingdom of Saudi Arabia.

### Owned Land

As of December 31, 2012, we owned a total of 129 parcels of land with a total site area of approximately 3,408,244.27 sq.m. which are located in 15 cities, namely in Shanghai, Beijing, Luoyang of Henan Province, Quanzhou of Fujian Province, Lanzhou of Gansu Province, Ningbo of Zhejiang Province, Danzhou of Hainan Province, Zibo and Qingdao of Shandong Province, Nanjing of Jiangsu Province, Tianjin, Guangzhou and Zengcheng of Guangdong Province, Dalian of Liaoning Province, and Yueyang of Hunan Province and we have obtained land use right certificates regarding all of such land. Our owned land is typically used for offices, production facilities and ancillary facilities.

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### Leased Land

As of December 31, 2012, we leased 7 parcels of land with a total site area of approximately 207,443.93 sq.m. for industrial use at an annual rent of approximately RMB2.0 million, located in Shanghai, Ningbo of Zhejiang Province, Nanjing of Jiangsu Province, Tianjin, and the JUBAIL Industrial Park located in the east of Saudi Arabia.

Our landlords had defects in the title certificates for four parcels of land with a total site area of approximately 69,396.86 sq.m., which accounted for approximately 33.5% of the aggregate site area of the land we leased as of December 31, 2012. These properties are used for our offices, production facilities for prefabrication, commercial usages and other ancillary purposes.

### Owned Buildings

As of December 31, 2012, we owned a total of 1,137 buildings or units (ranging from 10.24 sq.m. to 32,273.02 sq.m.) with a total gross floor area of approximately 1,063,519.99 sq.m., which are located in Shanghai, Beijing, Heihe of Heilongjiang Province, Ningbo of Zhejiang Province, Haikou and Danzhou of Hainan Province, Huizhou and Guangzhou of Guangdong Province, Dalian of Liaoning Province, Luoyang of Henan Province, Fuzhou and Quanzhou of Fujian Province, Lanzhou of Gansu Province, Zibo of Shandong Province, Nanjing of Jiangsu Province, Tianjin, Yueyang of Hunan Province and Urumqi of Xinjiang Uighur Autonomous Region and the Kingdom of Saudi Arabia. With respect to our 1,123 buildings or units located in PRC, we have obtained building ownership certificates for 1,121 buildings or units, which buildings were primarily used for offices, production facilities, ancillary facilities, and dormitories for our employees.

As of December 31, 2012, among our owned buildings in the PRC, 72 building or units located in Shanghai, Beijing, Ningbo of Zhejiang Province, Guangzhou of Guangdong Province, Zibo of Shandong Province, Nanjing of Jiangsu Province, Tianjin, and Lanzhou of Gansu Province with a total gross floor area of approximately 173,166.40 sq.m., have been leased to third parties as office, commercial, residential, warehouse, and production premises. As of December 31, 2012, these properties had a carrying amount of approximately RMB253.9 million, accounting for approximately 0.68% of our Group's total assets.

We have not obtained the appropriate building ownership certificate for two buildings with a total gross floor area of approximately 3,684.00 sq.m. (the "Temporary Buildings"), as we deemed those buildings as temporary buildings which do not require building ownership certificates. Such buildings accounted for approximately 0.3% of the aggregate gross floor area of buildings or units we owned as of December 31, 2012. Further, we had certain restrictions or title defects with respect to four buildings or units with a total gross floor area of approximately 5,904.10 sq.m. (the "Buildings on Allocated or Collective Land"), as those buildings or units are erected in whole or in part on the state allocated land and rural collective land. We have been advised by our PRC legal advisor, King & Wood Mallesons, that we can legally occupy and use the buildings or units erected on the state allocated land but our rights to transfer, lease, mortgage or dispose of such properties are restricted unless we obtain the relevant granted land use rights certificates. The Buildings on Allocated or Collective Land accounted for approximately 0.6% of the aggregate gross floor area of buildings or units we owned as of December 31, 2012. In addition, we do not hold the building ownership

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certificate for a building which was jointly developed by us and an Independent Third Party on a piece of rural collective land with a total gross floor area of approximately 3,729.20 sq.m. (the “Jointly Developed Building”). The title of such building is now registered under the name of the joint developer which has now been dissolved. The Jointly Developed Building accounted for approximately 0.4% of the aggregate gross floor area of buildings or units we owned as of December 31, 2012. These properties are used for our offices, production facilities for prefabrication, commercial usages and dormitories for our employees.

As of December 31, 2012, we owned a total of 14 buildings (ranging from 10.24 sq.m. to 864 sq.m.) with a total gross floor area of approximately 4,411.87 sq.m., which are located in Jubail, the Kingdom of Saudi Arabia. There is no system in the Kingdom of Saudi Arabia that regulates building ownership separately from land ownership. Title deeds in the Kingdom of Saudi Arabia confirm ownership of land only and, therefore, we do not have building ownership certificates for any of these buildings. In the Kingdom of Saudi Arabia, the title to any buildings or improvements on a land is generally granted to the landowner. We can legally occupy and use these buildings but our rights to transfer, lease, mortgage or dispose of such properties are restricted because building ownership certificates do not exist in the Kingdom of Saudi Arabia separately from the land title deed. These buildings are used for our offices, production facilities, and dormitories for our employees.

### **Leased Buildings**

As of December 31, 2012, we leased a total of 26 buildings or units (ranging from 27.00 sq.m. to 12,920.60 sq.m.) with a total gross floor area of approximately 50,685.58 sq.m. in the PRC and the Kingdom of Saudi Arabia, which were mainly for offices, residential and ancillary purposes. Our leased buildings in the PRC are located in seven cities, namely Shanghai, Beijing, Ningbo of Zhejiang Province, Nanjing of Jiangsu Province, Tianjin, Zibo of Shandong Province, and Guangzhou of Guangdong Province.

Our landlords have not obtained building ownership certificates or real estate title certificates for 10 buildings with a total gross floor area of approximately 29,324.32 sq.m., accounting for approximately 57.9% of the aggregate gross floor area of the buildings or units we leased as of December 31, 2012. These properties are used for our offices, production facilities for prefabrication, commercial usages, dormitories for our employees and other ancillary purposes.

For the leased properties we occupy in the PRC with title defects, we believe that the maximum potential liabilities which may be incurred by us if we are required by the relevant authorities to demolish the buildings without ownership certificates or if we need to find alternative sites to relocate, will be no more than the total carrying value amount of approximately RMB51.1 million for our own properties with title defects and the annual rent of approximately RMB5.4 million for our leased properties with title defects. As the properties with defective titles are not used for our core engineering and construction operations, we believe we will be able to relocate quickly with minimal expenses for relocation, and the possible relocation and demolition would not materially affect our business and financial positions. Our Directors believe that these properties with title defects are not individually or collectively crucial to, and will not have a material impact on our operations because (1) these properties comprise a very minor portion of the properties we occupy; (2) these properties are not used for our core engineering and construction operations and we would be able to relocate



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easily and quickly to comparable alternative sites to conduct the same activities; and (3) for buildings or units erected on the state allocated land, we have been advised by our PRC legal advisor that we can legally occupy and use the properties and therefore, there is no material impact on our operations. See “Risk Factors — Risks relating to our business and our industry — Certain properties that we occupy have title defects.” Our PRC legal advisor, King & Wood Mallesons, are also of the view that these properties with title defects would not have any material adverse effect on our business and operations.

With respect to our leased properties in the PRC, we are in the process of obtaining letters of undertaking from our landlords that they will bear all responsibilities and any potential cost with respect to defective titles. We plan to obtain such letters of undertaking no later than the time when the respective lease is renewed. With respect to the Temporary Buildings, we will demolish the buildings if required by the relevant authorities or when the buildings are no longer needed. With respect to the Buildings on Allocated or Collective Land, we are currently unable to obtain the relevant granted land use rights certificates due to land planning restrictions of the relevant local authorities. We plan to apply the granted land use rights certificates once the relevant land planning restrictions on the relevant lands are lifted. Our PRC legal advisor, King & Wood Mallesons, confirmed that there is no material legal impediment for us to obtain the granted land use rights certificates once the land planning restrictions on the relevant lands are lifted.

### **Material Property Analysis**

Having considered all relevant circumstances of our Group including the information contained in the property due diligence report from our property valuer and consultant, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, our Directors take the view that the properties set out in “Appendix III — List of Material Properties” to this prospectus are the material properties of the Group. This is mainly because these properties are used for operation and ancillary purposes, and they together form the principal or major operation sites of the Group.

According to our latest audited consolidated balance sheets in the Accountants’ Report set forth in Appendix I to this prospectus, the total carrying amount of our owned property interests and our total assets as of December 31, 2012 were RMB5,357 million and RMB37,130 million, respectively, and that as of the date no single property interest that forms part of non-property activities has a carrying amount of 15% or more of total assets.

On the basis of the above, we are not required by Chapter 5 of the Hong Kong Listing Rules to value or include in this prospectus any valuation report on our property interests.

Accordingly, pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempt from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which requires a valuation report with respect to all our Company’s interests in land or buildings.

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### REGULATORY COMPLIANCE AND LEGAL PROCEEDINGS

We are from time to time involved in certain legal proceedings arising in the ordinary course of our business, either as plaintiff, defendant or a third party in litigation or arbitration proceedings. Save as disclosed below, during the Track Record Period and up to the Latest Practicable Date, we were not involved in any material litigation, arbitration or administrative proceedings. So far as the Directors are aware, as of the Latest Practicable Date, no such material litigation, arbitration or administrative proceedings were pending or threatened against any member of our Group. We believe that we have made adequate provisions based on our best estimate with respect to potential losses from such legal proceedings.

In the opinion of King & Wood Mallesons, our PRC legal counsel, during the Track Record Period and up to the Latest Practicable Date, we complied in all material respects with relevant PRC laws and regulations and we obtained licenses, approvals and permits from appropriate regulatory authorities that are material for our business operations in the PRC. In the opinion of our respective overseas legal counsel, we have complied in all material respects with the applicable local laws and regulations of the overseas jurisdictions in which we operate, and we have obtained licenses, approvals and permits from appropriate regulatory authorities that are material for our operations.

We are 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 (the “Oil and Gas Storage Tank Project”) on April 24, 2007, which resulted in the deaths of two workers and injuries to four others. Our subsidiary, SSEC, and its subsidiary, SSEC Canada Ltd. (“SSEC Canada”), were contracted for construction contracting of the Oil and Gas Storage Tank Area Project. Another of our subsidiaries, TCC, was responsible for construction. Following the incident, Alberta’s Occupational Health and Safety investigators eventually brought 53 charges against SSEC and SSEC Canada, as well as against our client for that project, Canadian Natural Resources Ltd (“CNRL”), for contravening the Occupational Health and Safety Act. Among those charges, ten were against SSEC, 14 were against SSEC Canada and 29 were against CNRL. The agreed statement of facts that was put before the Provincial Court of Alberta in connection with the Occupational Health and Safety investigators’ charges against SSEC and SSEC Canada which has been concluded, made no reference to any underlying reason for the incident, with the result that the Provincial Court of Alberta made no specific finding of fact in that regard. The plea bargain reached between us and the Department of Justice of Alberta has been implemented. SSEC Canada admitted to three charges that on or about April 24, 2007 SSEC Canada failed to ensure, as an employer, the health and safety of four workers engaged in the work of SSEC Canada, and the Department of Justice of Alberta imposed a fine of CAD0.2 million and a public welfare donation of CAD1.3 million on SSEC Canada, and withdrew the remaining charges against SSEC Canada and all charges against SSEC. We have paid the fines and the case has been concluded.

In addition, Zachry Energy International Inc. and Zachry T & E Canada Inc. (together, “Zachry”), which was subcontracted to provide project management, engineering and construction support services on the Oil and Gas Storage Tank Project, brought claims against CNRL, SSEC and SSEC Canada as co-defendants for amounts allegedly owed to Zachry under the project management and engineering agreements entered into between us and Zachry. The amount claimed was of CAD818,000. On May 20, 2009, the Court of Queen’s Bench of Alberta, Judicial District of Calgary, stayed the

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action, deferring the dispute to arbitration in Singapore pursuant to the terms of the agreements between us and Zachry. If the arbitration body rules in favor of Zachry, we may be liable to Zachry for up to EUR1.8 million. To date, however, Zachry has neither initiated arbitration proceedings in Singapore nor taken other action to forward their claim. The proceeding is currently in a suspended state.

Stemming from the action brought by Zachry, CNRL, a co-defendant, has asserted counter claims against several parties including SSEC and SSEC Canada for damages of CAD62.6 million allegedly resulting from breach of contract and negligence.

Although we believe that we have meritorious defenses and intend to pursue all avenues available to vigorously defend the lawsuit, the outcome of any litigation is subject to inherent uncertainties and the actual cost will depend upon many unknown factors. Moreover, we could be forced to expend significant resources in the defense of the lawsuits. As such, during the four years ended December 31, 2012, we recorded a total provision of RMB380.1 million which represented the high end of the estimated range of the legal exposure (the estimated range is based on consultation with our Canadian legal counsel, our accountants and our Company's judgment) and related costs associated with this matter in the event that we do not completely prevail in our defense of the suit. We believe the event has no impact on our business relationship with our clients and our overseas expansion plans. In addition, we have further improved our safety measures as detailed in "— Health and Safety" above to reduce risks of future accidents.

Save as mentioned above, to our knowledge, there are no current litigation or arbitration proceedings against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

### **HISTORICAL OPERATIONS IN THE SANCTIONED COUNTRIES**

The U.S. and other jurisdictions have comprehensive or broad economic sanctions targeting the Sanctioned Countries. For descriptions of sanction laws, see "Regulations — Descriptions and Impact of Sanctions Laws."

We historically had certain operations in certain of the Sanctioned Countries, and our revenue derived therefrom in aggregate accounted for 5.0%, 4.4% and 2.8%, respectively, of our total revenue for the years ended December 31, 2010, 2011 and 2012. All of our related obligations (including warranty and guarantee obligations, if any) and payments from the respective clients (including progress payments and retention deposits, if any) under all of our projects in the Sanctioned Countries have been fully completed and settled.

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### Projects in the Sanctioned Countries

During the Track Record Period, we had five projects in the Sanctioned Countries, including two projects in Iran, two projects in Cuba and one project in Myanmar.

- In July 2006, we, as a member of a consortium, entered into an EPC contract with an Iranian company to upgrade and expand a refinery in Iran. This contract and all the related payments and obligations have been fully completed and settled.
- In December 2006, we, as a member of a consortium, entered into a contract with an Iranian company to provide certain technical services in connection with a gasoline production plant. This contract and all the related payments and obligations have been fully completed and settled.
- In November 2010, we, as a member of a consortium, entered into a pro forma evaluation agreement with a Cuban-Venezuelan joint venture company in connection with the construction of an oil refinery in Cuba. This agreement was completed in April 2011.
- We participated in a technology export project related to a Cuban refinery, which was completed in December 2011.
- In June 2012, we provided feasibility study related services to a PRC company with respect to the construction of an oil refinery in Myanmar, which was completed in December 2012.

For the years ended December 31, 2010, 2011 and 2012, our revenue derived from the two projects in Iran described above amounted to US\$223.6 million, US\$211.1 million and US\$167.9 million, respectively; our revenue derived from the two projects in Cuba described above amounted to nil, US\$3.2 million and US\$1.1 million, respectively; and our revenue derived from the project in Myanmar describe above amounted to nil, nil and US\$0.4 million, respectively.

In relation to the above contracts, we have not been notified that any sanctions will be imposed on us. No U.S. individuals employed by us or U.S. companies with which we conduct business are involved in the supply of our products and services to the Sanctioned Countries, and we are not involved in re-exporting goods of U.S. origin to the Sanctioned Countries.

### Our Undertakings and Internal Control Procedures

We undertake to the Hong Kong Stock Exchange that we will not use the proceeds from the Global Offering, as well as any other funds raised through the Hong Kong Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Sanctioned Country or any other government, individual or entity sanctioned by the European Union, the United Nations, the U.S. or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions (hereinafter, the “sanctioned business”). In addition, we have no present intention to undertake any future business that would cause us, the Hong Kong Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders to violate or become a target of sanctions laws of the European Union, the United Nations, the U.S. or Australia.

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We will continuously monitor and evaluate our business and take measures to protect the interests of our Group and our Shareholders. The following measures have been fully implemented as of the date of this prospectus.

- We have internal control policies and procedures in place that regulate the funds owned by us, such as policies and procedures with respect to the designated use of funds, record keeping, regular review procedures, appointment of responsible personnel, accountability and reporting line and other necessary operational procedures. We have adopted additional internal control policies and procedures to monitor and regulate the use of the net proceeds of the Global Offering as well as any other funds raised through the Hong Kong Stock Exchange, and ensure that such proceeds and funds currently are not being used for or applied to and will not be used for or applied to any sanctioned business. In addition, we will deposit the proceeds from the Global Offering, as well as any other funds raised through the Hong Kong Stock Exchange, in a bank account separated from our other funds.

Any material change to the use of proceeds disclosed in this prospectus requires the approval of the Board and will be disclosed as appropriate but in no event will such change breach the undertakings made by us in favor of the Hong Kong Stock Exchange in this prospectus.

- We will evaluate the sanctions risks prior to determining whether we should embark on any business opportunities in the Sanctioned Countries. Such an evaluation will include a determination regarding whether sanctioned business would constitute a predominant portion (under OFAC regulation) of our business. According to our internal control procedures, our legal affairs and risk management department (the “legal department”) needs to review and approve all new contracts, including contracts in connection with new business opportunities as well as underlying documents for projects or transactions to which any proceeds from this offering will be applied, to determine whether such projects or transactions involve any sanctioned business. In particular, our legal department will review the information relating to the counterparty to the contract along with the draft new contract. Our legal department will check the counterparty against the various lists of restricted parties and countries maintained by the U.S., the European Union, the United Nations and Australia, which lists are publicly available, and determine whether the counterparty is, or is owned or controlled by, a person located in a Sanctioned Country or a sanctioned person. Periodic reviews of contracts will also be conducted by our legal department to ensure that no parties to the contracts, or the persons that own or control such parties, have become subject to sanctions since entering into the contract. If any potential sanctions risk is identified, our legal department will seek advice from reputable external international legal counsel with necessary expertise and experience in OFAC and sanctions law matters. Based on the advice of our external international legal counsel, our legal department would veto any projects or transactions to which any proceeds from this offering will be applied that involve any sanctioned business and veto any proposed business if it could potentially impose material sanctions law risks, operational risks or reputational risks, and we will not embark on such business opportunity.

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- We will retain external international legal counsel with necessary expertise and experience in sanctions law matters on an ongoing basis. Our legal department, advised by our external international legal counsel, will periodically review our internal control policies and procedures with respect to sanctions law matters and provide us with recommendations and advice as necessary.
- Our external international legal counsel will provide regular training programs relating to the sanctions laws to our Directors, our senior management, our legal department and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations. Our external international legal counsel will provide current list of Sanctioned Countries and sanctioned persons and entities to our legal department, who will in turn disseminate such information throughout our domestic operations and overseas offices and branches.
- To further enhance our existing internal risk management functions, we have established a Risk Management Committee. The members of such committee include an executive Director, the President, some Vice Presidents, the Chief Financial Officer, head of the finance department, head of the legal department and head of the operation department of our Company, and its responsibilities include, among others, monitoring our exposure to sanctions law risks, our implementation of the related internal control procedures and our compliance with our undertakings to the Hong Kong Stock Exchange. Our Risk Management Committee will hold at least four meetings each year to monitor our exposure to sanctions law risks. Our legal department will provide a quarterly report for such committee's review, which will include, among others, an updated list of Sanctioned Countries and sanctioned persons and entities and a list of projects which contracts have been reviewed by the legal department.
- Subject to applicable laws and regulations, we will make disclosure on the Hong Kong Stock Exchange's website and our own website if there are any violations of sanctions laws. We will disclose in our annual reports, when necessary, the results of monitoring our business exposure to sanctions law risks including a description of sanctioned business if any or a confirmation that we did not conduct any sanctioned business during the respective period. We will also consider to disclose in our annual reports, when necessary, our business intention relating to any Sanctioned Country.

To monitor our exposure to sanctions risks and to ensure compliance with the undertakings to the Hong Kong Stock Exchange, we have adopted the internal control measures, including measures recommended by the Internal Control Consultant, as described above. The Internal Control Consultant has reviewed and evaluated these internal control measures and is of the view that these measures are adequate and effective for the purposes of the Company.

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With regards to the internal control measures set forth herein, after undertaking relevant due diligence, and subject to the full implementation and enforcement of these measures, the Joint Sponsors are of the view that these measures will provide a reasonably adequate and effective framework to assist the Company in identifying and monitoring any material risk relating to sanctions laws. Having adopted the additional internal control measures recommended by the Internal Control Consultant and taking into account the Internal Control Consultant's view above, our Directors are also of the view that these measures will provide a reasonably adequate and effective framework to assist us in identifying and monitoring any material risk relating to sanctions laws.

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## REGULATIONS

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### REGULATIONS ON OUR BUSINESS IN THE PRC

Our engineering, consulting, licensing, EPC Contracting, construction, supervision and equipment manufacturing businesses are subject to the regulation by the relevant competent governmental authorities and relevant laws and regulations in the PRC.

#### 1. Engineering, Consulting and Licensing Business

##### Principal regulatory authorities

The principal governmental authorities in the PRC that regulate our engineering, consulting and licensing business are:

- The MOHURD and the local administrative authorities governing construction, which are responsible for the supervision and administration of the qualifications for carrying out national construction, engineering exploration, design and engineering cost consulting businesses, and the supervision and administration of construction, engineering exploration, design and engineering costs consulting activities;
- The NDRC, which is responsible for the accreditation and supervision of the qualifications of engineering consulting entities, and providing guidance for the development of the engineering consulting industry;
- The Ministry of Environmental Protection and local administrative authorities governing environmental protection, which are responsible for the administration of environmental protection issues of construction engineering projects, including the review and approval of environmental impact assessment documents for construction engineering projects, the assessment of the qualifications of enterprises that conduct environmental impact assessment for construction engineering projects and the inspection and acceptance of environmental protection facilities of construction engineering projects; and
- The State Intellectual Property Office, which is responsible for the administration on the application, transfer, licensing and protection of the patents.

##### Principal laws and regulations

*The Regulation on the Administration of Exploration and Design of Construction Projects (《建設工程勘察設計管理條例》) and Provisions on the Administration of Qualifications for Exploration and Design of Construction Projects (《建設工程勘察設計資質管理規定》)*

Pursuant to the Regulation on the Administration of Exploration and Design of Construction Projects (《建設工程勘察設計管理條例》) and Provisions on the Administration of Qualifications for Exploration and Design of Construction Projects (《建設工程勘察設計資質管理規定》), the State has



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## REGULATIONS

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implemented a system of qualification administration for enterprises engaged in construction engineering exploration and design. Enterprises engaged in construction project exploration and design shall apply for certifications in light of, among other things, their registered capital, professional and technical personnel, technical equipment and achievements in exploration and design. They must pass assessments and obtain qualification certificates for carrying out construction exploration and engineering design, before they can undertake construction exploration and engineering design activities within the scope set out in their qualification certificates. Engineering design certifications are categorized into comprehensive engineering design certifications, industry-specific engineering design certifications, specialty engineering design certifications and specific engineering design certifications. Grade A is the only category for comprehensive engineering design certification. Industry-specific engineering design certifications, specialty engineering design certifications and specific engineering design certifications are each categorized into Grade A and Grade B. Based on the nature and technical characteristics of the relevant construction engineering projects, there may be an additional Grade C category for certain industry-specific, specialty and specific engineering design certifications and a Grade D category for specific construction engineering certifications. An enterprise with Grade A comprehensive engineering design certifications may provide engineering design services for construction projects in any industry and of any grade. An enterprise with industry-specific engineering design certifications may provide engineering design services of a corresponding qualifications grade and related specialty and specific engineering design services (other than those requiring integrated design and construction certifications) in the relevant industry and of a same grade. An enterprise with specialty engineering design certifications may provide engineering design services within the relevant specialty of a corresponding qualifications grade and related specific engineering design business (other than those requiring integrated design and construction certifications) of the same grade. An enterprise with specific engineering design certifications may provide specific engineering design services of a corresponding qualifications grade.

***Provisions for the Qualification Accreditation of Engineering Consulting Entities*** (《工程諮詢單位資格認定辦法》)

Pursuant to the Provisions for the Qualification Accreditation of Engineering Consulting Entities (《工程諮詢單位資格認定辦法》), enterprises engaged in engineering consulting business shall obtain engineering consulting qualification certificates issued by the NDRC in accordance with the laws and regulations and conduct the relevant engineering consulting business under such certificates. An engineering consulting qualification certificate consists of three parts: qualification grading, professional consultation and scope of services. The qualification grades of engineering consulting entities are categorized into Grade A, Grade B and Grade C, based on factors such as how long the enterprise has been engaged in engineering consulting business, its registered capital, its technological strength, technical level, possession of technical equipment and managerial competence. The engineering consulting entities at each grade shall carry out their respective businesses in accordance with relevant provisions of the State and the requirements of project owners.

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***Provisions for the Administration of Engineering Cost Consulting Enterprises (《工程造價諮詢企業管理辦法》)***

Pursuant to the Provisions for the Administration of Engineering Cost Consulting Enterprises (《工程造價諮詢企業管理辦法》), enterprises engaged in engineering cost consulting shall obtain engineering cost consulting certifications in accordance with the law and carry out engineering cost consultancy activities within the scope permitted by its qualification grade. Qualification grades of engineering cost consulting entities are categorized into Grade A and Grade B, based on factors including, among others, the qualifications of its technical representatives, number of its specialized professionals and registered capital and business revenue of the entity. An engineering cost consulting enterprise with Grade A certifications may undertake engineering cost consultancy businesses for construction projects of any kind. An engineering cost consulting enterprise with Grade B certifications may undertake engineering cost consultancy businesses for construction projects of any kind with engineering costs of less than RMB50 million.

***Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》), the Regulation on the Implementation of the Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法實施條例》), Provisions for Exploration and Design Bidding of Construction Projects (《工程建設項目勘察設計招標投標辦法》) and Provisions on the Scope and Threshold of Construction Projects for Bid Invitation (《工程建設項目招標範圍和規模標準規定》)***

Pursuant to the Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》), the Regulation on the Implementation of the Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法實施條例》), the Provisions for Exploration and Design Bidding of Construction Projects (《工程建設項目勘察設計招標投標辦法》) and the Provisions on the Scope and Threshold of Construction Projects for Bid Invitation (《工程建設項目招標範圍和規模標準規定》), a bid must be invited for a construction engineering project if it is carried out in the PRC and meets certain criteria, including the engineering exploration, design, construction and supervision of the project, as well as procurement of important equipment and materials relating to construction works. A bid must be invited for a construction engineering project if it conforms with the scope and threshold requirements set out in the Provisions on the Scope and Threshold of Construction Projects for Bid Invitation (《工程建設項目招標範圍和規模標準規定》). No company or individual is permitted to evade the bidding process by splitting a project for which a bid must be invited according to law or by any other means. A bid inviter may, in light of the various characteristics of a construction engineering project, conduct an overall bidding process for exploration and design; or conduct separate processes in stages as required without prejudicing the integrity and continuity of the project.

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***Environmental Impact Evaluation Law of the People's Republic of China (《中華人民共和國環境影響評價法》) and Provisions on the Administration of Qualifications for Assessment of Environmental Impact of Construction Projects (《建設項目環境影響評價資質管理辦法》)***

Pursuant to the Environmental Impact Evaluation Law of the People's Republic of China (《中華人民共和國環境影響評價法》) and the Provisions on the Administration of Qualifications for Assessment of Environmental Impact of Construction Projects (《建設項目環境影響評價資質管理辦法》), the State categorizes the assessment of environmental impact of construction projects according to their degree of environmental impact. The enterprise that develops the project shall prepare an environmental impact report, an environmental impact statement or an environmental impact record as required. Any organization entrusted to provide technical services for environmental impact assessments of construction engineering projects shall obtain a Certificate of Qualification for Assessment of Environmental Impact of Construction Projects (《建設項目環境影響評價資質證書》) before it can provide technical services for environmental impact assessments within the qualifications grade and scope stipulated in the certificate. Qualifications for environmental impact assessments are categorized into Grade A and Grade B, and the State imposes a limit on the total number of Grade A environmental impact assessment organizations. Assessment organizations with Grade A qualifications are allowed to, within the scope stipulated in the certificate, prepare environmental impact reports or environmental impact statements for construction engineering projects for the examination and approval by competent environmental protection authorities at all levels. Assessment organizations with Grade B qualification are allowed to, within the scope stipulated in the certificate, prepare environmental impact reports or environmental impact statements for construction engineering projects for the examination and approval by competent environmental protection authorities below a provincial level.

***The People's Republic of China Patent Law (《中華人民共和國專利法》) and the Implementation Rules of the People's Republic of China Patent Law (《中華人民共和國專利法實施細則》)***

Pursuant to the People's Republic of China Patent Law (《中華人民共和國專利法》) and the Implementation Rules of the People's Republic of China Patent Law (《中華人民共和國專利法實施細則》), where an entity or individual uses the patent of anyone else, it or he shall conclude a licensing contract with the patentee and pay a patent royalty to the patentee. The licensing contract shall, within 3 months from the date when the contract entered into force, be submitted for record to the administrative department for patent under the State Council. If there is any agreement between the joint owners of a patent right regarding the exercise of the relevant rights, the agreement shall be followed. If there is no such agreement, any of the joint owners may use the patent independently or license others to use the patent by means of ordinary license. In the case of licensing others to use the patent, royalties charged shall be distributed among the joint owners.

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### 2. EPC Contracting, Construction and Supervision Business

#### Principal regulatory authorities

The principal governmental authorities in the PRC that regulate our EPC Contracting, construction and supervision business are:

- the NDRC and local development and reform commissions, which are responsible for the planning, review and approval of construction projects with fixed asset investments;
- the MOHURD and local administrative authorities for construction, which are responsible for the administration of the requirements and qualifications of enterprises in the construction industry, including the review and approval of market entry requirements for, and the endorsement and confirmation of qualifications of, various types of construction enterprises, the establishment of industry standards and codes, and the supervision and administration of industry quality;
- the MOFCOM and local administrative authorities for commerce, which are responsible for the supervision and administration of the qualifications and bidding processes of enterprises contracting for overseas projects and the establishment of any overseas company through outbound investments by such enterprises, as well as foreign investments in the construction industry;
- the Ministry of Transport and local administrative authorities for transport, which are responsible for the administration of the construction market of highways and waterways, and the centralized leadership and stratified administration of highway and waterway construction projects;
- the SAWS and local administrative authorities for work safety, which are responsible for the supervision and administration of the work safety of construction projects in the PRC; and
- the Ministry of Environmental Protection and local administrative authorities for environmental protection, which are responsible for the administration of environmental protection issues of construction projects, including the review and approval of environmental impact assessment documents for construction projects, the assessment of the qualifications of enterprises that conduct environmental impact assessment for construction projects and the inspection and acceptance of environmental protection facilities of construction projects.

#### Principal laws and regulations

The requirements on the qualifications of enterprises engaging in engineering design and consulting and related regulatory matters are set forth in Part 1.

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### ***Provisions on the Administration of Qualifications of Construction Enterprises (《建築業企業資質管理規定》)***

Pursuant to the Provisions on the Administration of Qualifications of Construction Enterprises (《建築業企業資質管理規定》), qualifications of construction enterprises are categorized into three groups, namely general construction contracting, subcontracting and labor subcontracting. Each group is divided into various categories according to the nature and technical characteristics of the relevant construction projects, and each category of qualifications is further divided into various grades according to stipulated conditions. An enterprise which has obtained general construction contracting certifications may be the general contractor in construction projects. Such enterprises may undertake all construction itself, or subcontract any sub-projects or labor works to subcontracting enterprises or labor subcontractors with relevant qualifications in accordance with the laws and regulations. An enterprise which has obtained subcontracting certifications may undertake projects subcontracted by a general construction contractor and those outsourced by a construction enterprise in compliance with relevant regulations. A subcontracting enterprise may subcontract any labor works to labor service subcontractors with relevant qualifications in accordance with laws and regulations. An enterprise which has obtained the labor subcontracting certifications may undertake labor works subcontracted by a general construction contractor or a subcontractor.

### ***Foreign Trade Law of the People's Republic of China (《中華人民共和國對外貿易法》), the Regulation on the Administration of Overseas Project Contracting (《對外承包工程管理條例》), Provisions for the Administration of the Qualifications for Contracting Overseas Construction Projects (《對外承包工程資格管理辦法》) and Provisions for the Administration of the Bidding or Negotiation of Overseas Project Contracting (《對外承包工程項目投標(議標)管理辦法》)***

Pursuant to the Foreign Trade Law of the People's Republic of China (《中華人民共和國對外貿易法》), the Regulation on the Administration of Overseas Project Contracting (《對外承包工程管理條例》), the Provisions for the Administration of the Qualifications for Contracting Overseas Construction Projects (《對外承包工程資格管理辦法》), the Provisions for the Administration of the Bidding or Negotiation of Overseas Project Contracting (《對外承包工程項目投標(議標)管理辦法》) and the relevant laws and regulations, enterprises that undertake overseas project contracting shall hold appropriate credentials or qualifications. A qualification permit system has been implemented for overseas project contracting business. All enterprises engaged in overseas project contracting shall apply for overseas project contracting qualifications in accordance with laws and regulations. Enterprises shall obtain the PRC Certificate of Qualification for Contracting Overseas Projects (《中華人民共和國對外承包工程資格證書》) before they can contract foreign construction projects within the permitted scope. When contracting overseas construction projects with a contract quote of not less than US\$5 million by means of a bidding process or negotiation, the enterprise shall, prior to overseas bidding or negotiation, apply for approval of the bid or negotiation through the data base established by the Ministry of Commerce, and obtain the Approval Permit of Bidding or Negotiation of Overseas Project Contracting (《對外承包工程項目投標(議標)核准證》). Pursuant to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) and the Administrative Provisions for Foreign Cooperative Labor Services Qualifications (《對外勞務合作經營資格管理辦法》), enterprises that engage in foreign cooperative labor services shall obtain relevant permits from the MOFCOM and acquire

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foreign cooperative labor services qualifications. Such enterprises may not undertake any foreign cooperative labor service activities until they obtain the PRC Certificate of Qualification for Cooperative Operation of Foreign Labor Services Business (《中華人民共和國對外勞務合作經營資格證書》).

***Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》), the Regulation on the Implementation of the Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法實施條例》)***

Pursuant to the Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》) and the Regulation on the Implementation of the Tender and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法實施條例》), bids must be invited for the following construction projects which satisfy certain requirements and are undertaken in the PRC, including the exploration, design, construction and supervision of the projects as well as the procurement of important equipment, materials, etc. for the construction.

***Provisions on the Administration of Qualifications of Project Supervision Enterprises (《工程監理企業資質管理規定》) and Opinions for the Implementation of the Provisions on the Administration of Qualifications of Project Supervision Enterprises (《工程監理企業資質管理規定實施意見》)***

Pursuant to the Provisions on the Administration of Qualifications of Project Supervision Enterprises (《工程監理企業資質管理規定》) and the Opinions for the Implementation of the Provisions on the Administration of Qualifications of Project Supervision Enterprises (《工程監理企業資質管理規定實施意見》), qualifications for project supervision enterprises are categorized into general certifications, specific certifications and firm certifications. There are no sub-categories for general certifications or firm certifications. Specific certifications are categorized into Grade A and Grade B, and there is an additional Grade C category for the specific certifications for building construction, irrigation and hydro-electricity works, and highway and municipal public utilities projects. The relevant construction departments of the State Council are responsible for the overall supervision and administration of qualifications for project supervision enterprises in the PRC. The competent authorities of the State Council, such as the Ministry of Railways, the Ministry of Transport, the Ministry of Water Resources, the Ministry of Industry and Information Technology and the Civil Aviation Administration of China, shall assist the relevant construction departments of the State Council to implement the supervision and administration of qualifications for project supervision enterprises in the relevant qualification categories. The relevant construction departments of the people's governments of provinces, autonomous regions and municipalities directly under the PRC central government are responsible for the overall supervision and administration of qualifications for project supervision enterprises in their respective administrative regions. The competent authorities of provinces, autonomous regions and municipalities directly under the PRC central government, such as the transport departments, water resource departments and information industry departments, shall assist the relevant construction departments at the same level to implement the supervision and administration of qualifications for project supervision enterprises in the relevant qualification categories.

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### ***The Regulation on the Administration of Quality Control of Construction Projects (《建設工程質量管理條例》)***

The Regulation on the Administration of Quality Control of Construction Projects (《建設工程質量管理條例》) provide that enterprises that develop a project or undertake the exploration, design, construction or supervision works of the project are responsible for the quality control of the project. All construction activities must be conducted in strict compliance with basic construction procedures and by adhering to the principle of exploration first, designing second and followed by construction. If any quality issues of the construction project arise within the warranty coverage and period, the construction enterprise shall perform the warranty obligations and compensate for any losses suffered. The State implements a quality supervision and administration system for construction projects. The relevant construction administrative authorities of the State Council are responsible for the overall supervision and administration of the quality of construction projects in the PRC. The competent authorities of the State Council, such as the Ministry of Railways, the Ministry of Transport and the Ministry of Water Resources, in compliance with their divisions of duties and responsibilities, shall be responsible for the supervision and administration of the quality of professional construction projects in the PRC. The construction administrative authorities of local people's governments above county level are in charge of implementing quality supervision and administration for construction projects in their respective administrative regions. The relevant authorities of local people's governments above county level, such as the transport departments and water resource departments are in charge of implementing quality supervision and administration for professional construction projects in their respective administrative regions.

### ***Work Safety Law of the People's Republic of China (《中華人民共和國安全生產法》), the Regulation on the Work Safety Permits (《安全生產許可證條例》), the Regulation on the Administration of Construction Safety (《建設工程安全生產管理條例》) and Provisions on the Administration of Construction Enterprises' Work Safety Permit (《建築施工企業安全生產許可證管理規定》)***

Pursuant to the Work Safety Law of the People's Republic of China (《中華人民共和國安全生產法》), the Regulation on the Work Safety Permits (《安全生產許可證條例》), the Regulation on the Administration of Construction Safety (《建設工程安全生產管理條例》), the Provisions on the Administration of Construction Enterprises' Work Safety Permit (《建築施工企業安全生產許可證管理規定》) and other relevant laws and regulations, enterprises that engage in the construction, expansion, renovation, demolition and other related activities of a construction project and that supervise and administer the work safety of a construction project in the PRC shall abide by the relevant requirements on work safety. Enterprises that develop the project or undertake the exploration, design, construction or supervision works of the project and other parties involved in the work safety of the construction project shall comply with the requirements of the laws and regulations on work safety to ensure the work safety of the construction project and assume responsibilities for the work safety of the construction project according to law. The State implements a work safety permit system for construction enterprises. Without a work safety permit, a construction enterprise may not engage in construction activities.

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*Environmental Protection Law of the People's Republic of China* (《中華人民共和國環境保護法》), *Prevention and Control of Atmospheric Pollution Law of the People's Republic of China* (中華人民共和國大氣污染防治法), *Prevention and Control of Water Pollution Law of the People's Republic of China* (中華人民共和國水污染防治法), *Law of the People's Republic of China on Prevention and Control of Environmental Pollution of Solid Waste* (《中華人民共和國固體廢物污染環境防治法》), *Construction Law of the People's Republic of China* (《中華人民共和國建築法》), *Environmental Impact Evaluation Law of the People's Republic of China* (《中華人民共和國環境影響評價法》) and the *Regulation on the Environmental Protection of Construction Projects* (《建設項目環境保護管理條例》)

Pursuant to the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Prevention and Control of Atmospheric Pollution Law of the People's Republic of China (中華人民共和國大氣污染防治法), the Prevention and Control of Water Pollution Law of the People's Republic of China (中華人民共和國水污染防治法), the Law of the People's Republic of China on Prevention and Control of Environmental Pollution of Solid Waste (《中華人民共和國固體廢物污染環境防治法》), the Construction Law of the People's Republic of China (《中華人民共和國建築法》), the Environmental Impact Evaluation Law of the PRC (《中華人民共和國環境影響評價法》), the Regulation on the Environmental Protection of Construction Projects (《建設項目環境保護管理條例》) and other relevant laws and regulations, a construction enterprise shall adopt measures to control environmental pollution and damage caused by dust, waste gas, sewage, solid waste, noise and vibration at the construction site in accordance with the laws and regulations on environmental protection and work safety. The State implements an environmental impact evaluation system for construction projects. The enterprise that develops the project shall prior to the commencement of construction of the construction project, submit the environmental impact report, environmental impact statement or environmental impact record of the construction project for approval. If a business license is required, the enterprise shall submit the environmental impact report, environmental impact statement or environmental impact record for approval before it applies for a business license. The environmental impact report, environmental impact statement or environmental impact record of the construction project shall be submitted by the enterprise to competent administrative authorities for environmental protection for examination and approval. If the construction project is under the administration of a competent industry regulatory authority, the environmental impact report or environmental impact statement shall be submitted to the competent administrative authorities for environmental protection for examination and approval after pre-examination by the competent industry regulatory authority. The environmental impact report or environmental impact statement of a coastal construction project shall be submitted to competent administrative authorities for environmental protection for examination and approval when it has been reviewed and signed by competent oceanic administrative departments. The competent administrative authorities for environmental protection shall respond and inform the enterprise in writing within 60 days from the date of receipt of the environmental impact report, 30 days from the date of receipt of the environmental impact statement and 15 days from the date of receipt of the environmental impact record, respectively. Supporting facilities for environmental protection required by a construction project shall be designed, constructed and put into operation simultaneously with the main utilities. The preliminary design of a construction project shall contain a chapter for environmental protection in accordance with the requirements of environmental protection design standards and provide measures for preventing and controlling environmental pollution and ecological damage as well as an investment budget for facilities for environmental protection according to the approved environmental



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impact report or environmental impact statement. Upon completion of the main utilities of the construction project, if a trial production is needed, the supporting facilities for environmental protection shall be put into trial operation simultaneously. During the trial production period of the construction project, the enterprise shall oversee the operation of the environmental protection facilities and monitor the environmental impact of the construction project.

### 3. Equipment Manufacturing Business

#### Principal regulatory authorities

The principal governmental authorities in the PRC that regulate our specialty equipment and components and parts manufacturing business are:

- the NDRC and local development and reform commissions, which are responsible for coordinating resolutions on major issues relating to the popularization and application of critical equipment;
- the MOFCOM and local administrative authorities for commerce, which are also responsible for formulating and organizing the implementation of trade policies relating to the import and export of package units, in addition to the review and approval of outbound investment by domestic companies;
- the Ministry of Industry and Information Technology, which is responsible for the organization and coordination of the development of the equipment manufacturing industry of the PRC. It formulates plans and policies regarding the development and innovation of major technical equipment, coordinates the implementation of major specialty projects by relying on critical national engineering and construction projects, promotes the domestic production of critical equipment and provides guidance for the introduction and innovation of imported critical equipment. The Ministry of Industry and Information Technology is also responsible for the organization and coordination of the popularization and application of major projects, new products, new technologies, new equipment and new materials;
- GAQSIQ, which is responsible for the supervision of product quality and safety and the administration of product quality and safety related matters, including mandatory inspection, risk control, monitoring and spot examination. The Specialty Equipment Supervision Bureau under the GAQSIQ is responsible for the monitoring and supervision of the safety of relevant specialty equipment; the supervision and examination of the design, manufacturing, installation, renovation, maintenance, use, examination, testing, import and export of specialty equipment; the investigation and settlement of specialty equipment related accidents and related data collection and analysis; the supervision and administration of the qualifications of institution and individuals responsible for the testing, examination and operation of specialty equipment; and the supervision and inspection of the implementation of the energy saving standards for high energy consumption specialty equipment; and

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- the SAWS and local supervision and administrative authorities for work safety, which are responsible for the supervision and administration of work safety in the industrial sector and other industries.

***The Regulation on the Supervision of the Safety of Specialty Equipment (《特種設備安全監察條例》) and Provisions on the Supervision of the Quality and Safety of Specialty Equipment (《特種設備質量監督與安全監察規定》)***

Pursuant to the Regulation on the Supervision of the Safety of Specialty Equipment (《特種設備安全監察條例》) and the Provisions on the Supervision of the Quality and Safety of Specialty Equipment (《特種設備質量監督與安全監察規定》), relevant manufacturers of boilers, pressure vessels, elevators, hoisting machineries, passenger ropeways, large entertainment facilities, special motor vehicles within a site (plant) and other specialty equipment shall obtain permissions from relevant supervisory and administrative departments under the State Council for specialty equipment safety before they can carry out manufacturing and other related activities. The design, manufacturing, installation, use, examination, maintenance and upgrading of specialty equipment shall be conducted in compliance with national requirements for the supervision of quality and safety. GAQSIQ has centralized responsibility for the supervision of the quality and safety of specialty equipment. Local quality and technical supervision and administrative departments shall be responsible for the supervision of the quality and safety of specialty equipment in their respective administrative regions. Safety supervision authorities for specialty equipment under quality and technical supervision and administrative departments at all levels are responsible for the supervision of the quality and safety of specialty equipment within their respective scopes of duty. Manufacturing enterprises are responsible for the quality and technical safety performance of specialty equipment. For the specialty equipment covered by the production permit system, a unified production permit administrative system shall be implemented by GAQSIQ; and for the specialty equipment not covered by the production permit system, a safety approval system shall be implemented. Enterprises that fail to obtain the relevant production permit or safety approval may not manufacture relevant products. For the collection (or replacement) and management of the production permits of specialty equipment, it shall be conducted in accordance with specific requirements regarding the production permits for industrial products in the PRC. The collection (or replacement) of production permits are managed in multiple categories and at multiple levels. The national safety supervision authorities for specialty equipment and provincial safety supervision authorities for specialty equipment are respectively responsible for accepting permit applications, while the units authorized by the national safety supervision authorities for specialty equipment are in charge of examination and approval. Upon approval, permits will be issued by national safety supervision authorities for specialty equipment and provincial safety supervision authorities for specialty equipment respectively. Enterprises that install, maintain and upgrade specialty equipment shall be responsible for the quality and technical safety performance of the installation, maintenance and upgrading of the specialty equipment. Enterprises that install, maintain and upgrade specialty equipment shall satisfy relevant conditions and apply for accreditation from local provincial safety supervision authorities for specialty equipment or the safety supervision authorities for specialty equipment authorized by them, and may not undertake the

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business of approved projects until they have obtained qualification certificates. Such qualification certificates are effective on a nationwide basis. The installation, maintenance and upgrading business of specialty equipment may not be subcontracted in any form.

### *Work Safety Law of the People's Republic of China (《中華人民共和國安全生產法》)*

Pursuant to the Work Safety Law of the People's Republic of China (《中華人民共和國安全生產法》), a production enterprise shall satisfy the work safety conditions set forth in the relevant laws and regulations and national or industry standards and codes. Enterprises that fail to satisfy such work safety conditions may not engage in any production and operation activity. Specialty equipment that impacts on personal safety or is high-risk, and the containers or tools used in transportation of hazardous substances shall, according to the relevant provisions of the State, be manufactured by specialized production entities. It can be put into use only after it has passed the tests by qualified institutions and after it has obtained a certificate for safe use or a mark of safety. The qualified institutions shall be responsible for the results of their tests.

### *Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》)*

Pursuant to the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》), every producer or seller shall establish an internal product quality management system and strictly implement job quality specifications, quality liability and connected assessment measures. Product quality shall pass inspections, and nonconforming products may not be passed off as acceptable. Industrial products which might endanger personal safety or property must comply with the national or sector standards for safeguarding personal safety or property; and in case of an absence of such national or sector standards, they must comply with the requirements for safeguarding the health and personal or property safety. The State adopts random inspection as the main form of its supervisory inspection system for product quality and conducts random inspection on products which might endanger personal safety or property, as well as key industrial products which have a bearing on the national economy and products which have been subject to complaints about quality.

## REGULATIONS ON OUR BUSINESS OVERSEAS

### 1. Regulation on Our Business in Saudi Arabia

Our operations in Saudi Arabia are subject to the regulation by the relevant competent governmental authorities and relevant laws and regulations in Saudi Arabia. The Kingdom of Saudi Arabia's legal system is based on Islamic Sharia law. Saudi legislation is derived from a variety of sources including Royal Orders, Royal Decrees, Council of Ministers' Resolutions, Ministerial Resolutions and Ministerial Circulars. However, they are all ultimately subject to, and cannot conflict with, Sharia law. The Basic Law, Royal Decree No. A/90 dated 27/8/1412 H (1 March 1992) sets out the framework for government.

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### *Foreign Investment Laws*

Foreign investors must apply for and obtain a license from the Saudi Arabia General Investment Authority to conduct business in Saudi Arabia. This requirement does not apply to nationals of the Gulf Co-operation Council (“GCC”) countries. The GCC countries include Bahrain, Kuwait, Oman, Qatar, and the United Arab Emirates, as well as Saudi Arabia.

Some types of business are restricted to Saudi nationals, such as operation of blood banks, religious tourism, production of explosives, manufacture of military equipment and apparel, real estate brokerage, fisheries, and recruiting and employment services.

There are no exchange controls. The Saudi riyal is freely convertible and has a fixed exchange rate with the U.S. dollar roughly equal to US\$1 to SAR3.75 (as at 1 May 2012, EUR1 was about SAR5). While there is no limit on the amount of currency taken out of the country, amounts in excess of SAR60,000 must be reported.

The most common form of business vehicle used by foreign companies is the limited liability company (“LLC”). An LLC must have between two and 50 shareholders. Shareholders are referred to, interchangeably, as “shareholders” or “partners” and LLCs are referred to interchangeably as “LLCs”, “joint ventures” and “partnerships.” Except in certain circumstances, shareholders are liable for the debts of the company only to the extent of their interest in the company’s share capital. Pre-application preparation includes preparation of powers of attorney and board resolution(s) and obtaining certified copies of the corporate articles.

### *Construction Laws*

The Law of Roads and Buildings governs construction in Saudi Arabia. Before a construction project commences, a proposal for the project must be presented to the appropriate municipality for approval — the municipality will then decide whether to grant a license for construction. During the process of licensing a construction projects, the municipality will look at ownership of land and proposed building. Any laborer, architect, or engineer performing design or execution work must be licensed by the relevant authorities in Saudi Arabia.

After construction, the municipality will inspect the completed construction project to make sure it conforms with approved proposal and license. Contractors must also be licensed by the relevant authority and demonstrate its ability to complete construction projects. Other details and construction standards are provided in the Law of Roads and Buildings.

### *Environmental Protection Laws*

The General Law for Environment sets out the basic environmental regulations in Saudi Arabia. The Law provides that the Presidency of Meteorology and Environment (“PME”) is the competent authority for setting the policies for environmental protection as well as enforcement of environmental protection laws and regulations. The PME is tasked with evaluating the state of the environment;

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monitoring and conducting environmental studies; documentation of environmental studies; setting standard for environmental protection; preparing and drafting environmental regulations; and promoting environmental awareness in Saudi Arabia. Any activities potentially affecting the environment must be conducted in coordination with the PME.

### *Employment Laws*

The principal legislation governing the terms and conditions of employment is the Labor Law, Council of Ministers Resolution No. 219 dated 22/8/1426 H (26 September 2005). The Labor Law contains provisions relating to working hours, annual leave, sick leave, prohibition on wrongful dismissal, and payment of a gratuity on completion of service (end of service benefit), among other things. The Labor Law applies to all workers in Saudi Arabia and sets out the minimum standards for employment contracts, regardless of any choice of law in the employment contract.

Employment contracts must be written in Arabic, although they can be bilingual (Article 51, Labor Law). Non-Saudi workers must be hired on fixed-term contracts that expire on the expiration of the employee's work permit. The contract must contain the name of the employer, salary of the employee, type and place of work, date of appointment, and length of appointment. Foreign employees need a work/residency permit (iqama) to work in Saudi Arabia.

### *Tax Laws*

For Saudi tax purposes, a company is tax resident if it meets either of the following conditions: (a) it is formed under the Companies Regulations (that is, it is formed in Saudi Arabia), or (b) its place of central control and management is situated within Saudi Arabia. A company doing business in Saudi Arabia must submit annual income tax and zakat returns. Income tax is paid with respect to the portion of the entities income/property that is allocated to its owners who are non-Saudi Arabia and non-GGC nationals. The allocation is based on the percentage ownership of each shareholder. Taxation and zakat is paid only with respect to Saudi Arabia-source income and property.

Corporate income tax is payable at a flat rate of 20% (except for income derived from gas and hydrocarbon activities which are taxed at between 30% and 85%). The rate of zakat is 2.5% of capital employed in the business, including all income and cash reserves but excluding fixed assets, long-term investments and deferred costs, as adjusted by net results for the year. The distribution of dividends is not taxable. However, dividend payments paid outside Saudi Arabia are subject to a withholding tax of 5%. There is no capital gains tax in Saudi Arabia. Because zakat is a tax on wealth, the Saudi national taxpayer's wealth, including dividends received, is part of the zakat tax calculation. Interest paid is considered a legitimate business expense and used to calculate a company's net profit. Payments remitted outside the country are subject to a withholding tax of 5%. Royalty payments paid outside Saudi Arabia are subject to withholding tax of 15%.

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### *Competition Laws*

Saudi Arabia's competition policies are based on free market principles. The Competition Law was enacted pursuant to Royal Decree No. M/25 of 4/5/1425H (22 June 2004). The Law contains prohibitions, among others, on cartel and monopoly-type practices, mergers and unfair commercial practices. It prohibits all agreements and contracts between competing (or potentially competing) companies where the result of those arrangements is to restrict trade. The Competition Regulations further prohibit current market participants from fixing prices, erecting barriers to entry, and manipulating the supply or prices of goods and services. There does not seem to be any differences in treatment between horizontal and vertical arrangements. In addition, Islamic law prohibits a number of anti-competitive practices under the general rule requiring fair dealing in all commercial exchanges.

The law and principles apply generally to all businesses operating in Saudi Arabia, including foreign companies, except for public corporations and companies wholly owned by the Kingdom of Saudi Arabia. Violations of competition law may be subject to criminal prosecution. However, competition law does not specify the possible penalties for violation of the law.

Any merging company involved in a merger that puts them in a dominant position must notify the Council 60 days prior to completion (Competition Law). There are no specific rules for foreign-to-foreign mergers. However, the Competition Law has extra-territorial effect if a Saudi affiliate company engages in a foreign-to-foreign merger to control prices or services. In addition, a person who increases his ownership of a class of listed equity securities to 10% or more must file certain information about himself and other information as required by regulations issued by the Capital Markets Authority (Resolution Number 1-50-2007, dated 21/9/1428 H (3 October 2007)). These provisions are similar to early warning disclosures in other countries and can apply to foreign-to-foreign mergers in certain circumstances (see above). The Capital Markets Authority is authorized to adopt a range of substantive protections for the shareholders of the firm that is the target of a takeover.

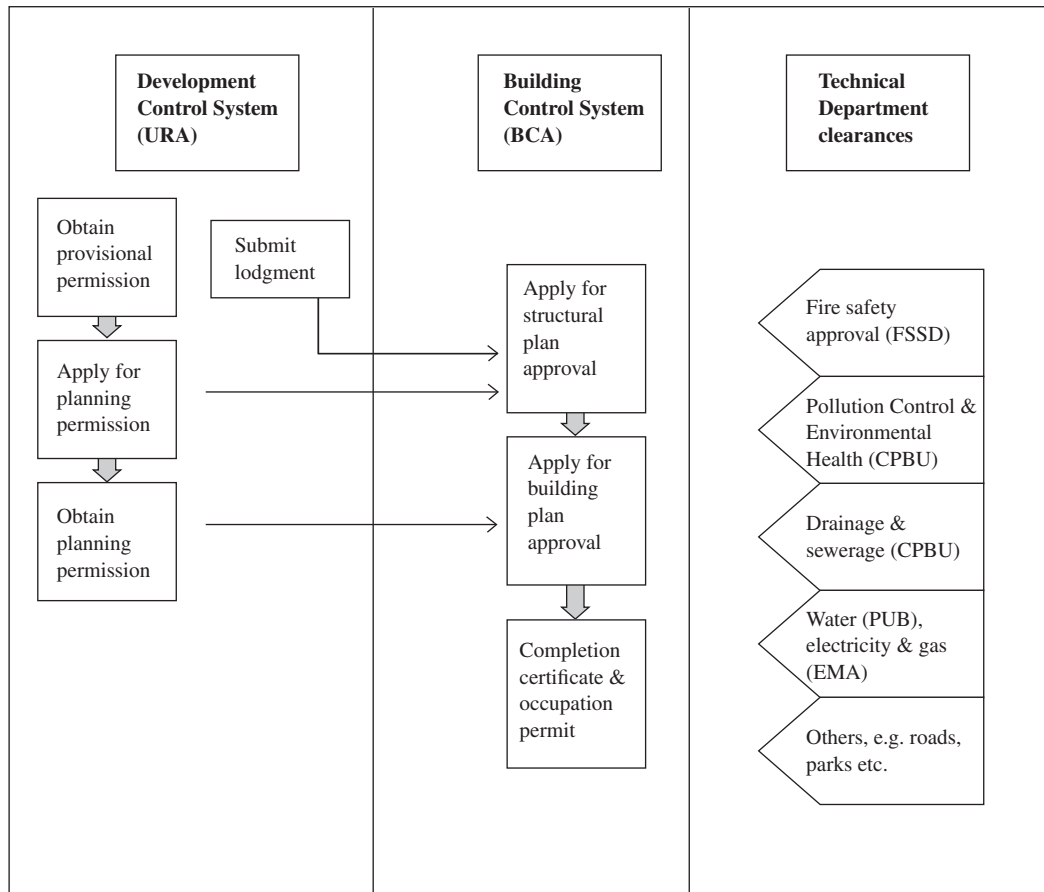
## **2. Regulation on Our Business in Singapore**

Our operations in Singapore are subject to the regulation by the relevant competent governmental authorities and relevant laws and regulations in Singapore.

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### *Construction Laws*

Industrial developments in Singapore have to comply with building laws and regulations including the Planning Act, Chapter 232, the Building Control Act, Chapter 29, the Fire Safety Act, Chapter 109A, the Environmental Protection and Management Act, Chapter 94A and the related regulations and to secure various licenses, permits, approvals, clearances and consents from the relevant governmental authorities or agencies, schematically represented as follows:



In particular, regulatory approvals will have to be obtained on (a) development, planning and control, (b) building structural safety, (c) fire safety and (d) environmental control.

With respect to development, planning and control, planning permission from the Urban Redevelopment Authority (“URA”) will first have to be obtained pursuant to the provisions of the Planning Act. To obtain the planning permission, the development proposal shall comply with planning requirements, including use quantum, building height, setback, plot ratio, vehicular access, plot configuration, land/building subdivision. With respect to building structural safety, pursuant to the Building Control Act, approval of the structural plan for the development and a permit to commence work will have to be obtained from the Building and Construction Authority (“BCA”) before construction works can commence on site. Consultation with other relevant technical agencies or departments including, including, among other things, the Fire Safety & Shelter Department,

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Central Building Plan Unit of National Environment Agency, Public Utilities Board and Energy Market Authority will have to be made to incorporate their requirements into such building plans. Further, the Building Control Act obliges every person for whom building works are to be carried out to appoint an “accredited checker,” who serves as an additional level of control in the process of design. Additionally, following completion of construction works, an application for the Temporary Occupation Permit or Certificate of Statutory Completion will have to be made to the BCA, before the building can be used or occupied. With respect to fire safety, pursuant to the Fire Safety Act, the development has to comply with fire safety requirements stipulated by the Fire Safety and Shelter Department (“FSSD”) of the Singapore Civil and Defence Force. Fire safety plans complying fully with the Fire Code (Code of Practice for Fire Precautions in Buildings) will have to be submitted to FSSD for approval. Upon the satisfactory completion and inspection of the fire safety works, a Fire Safety Certificate will be issued by the FSSD before the building can be allowed to be used or occupied. With respect to environmental control, various industrial allocation/land use applications, development control plans and building/detailed plans for development proposals on environmental matters relating to pollution control, environmental health, sewerage/sanitary and drainage matters will also have to be submitted to the Central Building Plan Unit (“CBPU”) of the National Environment Agency for clearance. The CBPU screens and assesses the hazards and pollution impacts of the proposed development to ensure that they do not pose unmanageable health and safety hazards and pollution problems, and do not generate wastes that cannot be safely managed and properly disposed off. During construction, restrictions and requirements relating to air/water pollution control and noise control under the Environmental Protection and Management Act would also need to be observed.

### *Workplace Safety and Health Laws*

Under the Workplace Safety and Health, Chapter 354A (“WSH Act”), various duties and obligations are placed on all stakeholders on every company operating in Singapore, whether as an employer, a principal, an occupier or a supplier of machinery and equipment.

Insofar as the company’s employees are concerned, the company is required, to take such measures to ensure the safety and health of its employees at work, including, among other things, conducting risk assessments to remove or control risks to workers at the workplace, and providing workers with adequate instruction, information, training and supervision.

To the extent the company engages third party contractors to supply labor or perform work under a contract for service, the company is required, as principal, to take such measures to ensure that the contractor engaged has the competency to carry out the work that they were engaged for and has taken adequate safety and health measures in relation to any machinery, equipment, plant, article or process used by the contractor or the contractor’s employees.

In the cases that the company is the occupier of any workplace or worksite, the company must ensure that the workplace, all entrances to and exits from the workplace, and all machinery, equipment, plants, articles and substances within are safe and without risk to the health of any person within those premises, even if the person is not one of its employees. As an occupier, the company may also be responsible for the common areas used by its employees and contractors.



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Insofar as the company is supplying any machinery, equipment or hazardous substances for use, the company is required to provide proper information on the safe use of the machinery, equipment or hazardous substance, and to ensure that the same has been tested and examined so that it is safe for use.

### *Labor Laws*

Pursuant to Employment Act, Chapter 91 (“EA”), every employer in Singapore has to provide every employee (regardless of nationality) it employs and who falls within the coverage of the EA with certain basic terms of employment such as the prescribed annual leave, sick leave, maternity leave, paternity leave, childcare leave, shared parental leave, adoption leave, infant care leave, and maximum working hours per day or week, break times, rest days, payment for work done on rest days, overtime allowances, frequency of salary payment, permissible deductions, subject to certain qualifying conditions. Any term in that employee’s contract of employment which is found to be less favorable than the relevant provisions of the EA will be null and void. Generally, the EA covers any person doing manual works, cleaners, construction workers, laborers, machine operators and assemblers, metal and machinery workers, train, bus, lorry and van drivers, train and bus inspectors, and all workmen employed on piece rates at the employer’s premises.

Pursuant to Work Injury Compensation Act, Chapter 354 (“WICA”), every employer is required to insure and maintain one or more approved policies with an insurer against all liabilities which it may incur under the provisions of the WICA, in respect only of its employees engaged in manual labor, and its employees engaged in non-manual labor, with monthly earnings of S\$1,600.00 or less. Regardless of any insurance policy in place, the WICA places the company as the primary party responsible for paying the prescribed compensation to its employee in the event of a valid claim.

Under Skills Development Levy Act, Chapter 306 (“SDLA”), employers shall pay a levy for their employees at a rate of 0.25% of the first S\$4,500 of their respective monthly remuneration, or a minimum of S\$2, whichever is the greater.

Pursuant to Employment of Foreign Manpower Act, Chapter 91A (“EFM Act”), all foreigners who wish to work in Singapore are required to obtain an employment pass or other relevant permit issued by the Ministry of Manpower, pursuant to the provisions of the EFM Act. Additionally, an employer who employs any foreign worker under a work permit or special pass is required to pay a monthly foreign worker’s levy and skills development levy, at the prevailing rate for his foreign workers.

Under Central Provident Fund Act, Chapter 36 (“CPF Act”), Singapore implements a compulsory social security system known as the Central Provident Fund (“CPF”) pursuant to the CPF Act, wherein an employer is legally liable to make monthly contributions to the CPF account of each employee who is a Singapore citizen or Singapore permanent resident (“Singapore Employee”) at the prescribed rates based on the employee’s monthly wages and age. The employer is also obliged to make monthly contributions to the CPF account, of an employee’s share of CPF contributions. Such employee’s share of CPF contributions may be recovered from the employee’s wages.

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### *Tax Laws*

Generally, and subject to the Income Tax Act, Chapter 134 and rules and regulations promulgated thereunder, companies incorporated in Singapore are subject to (among other things) income tax in Singapore. Singapore tax resident company is subject to Singapore income tax on income accrued in or derived from Singapore and foreign sourced income received or deemed received in Singapore, unless otherwise exempted. A non-Singapore tax resident company, subject to certain exceptions, is subject to Singapore income tax on income accrued in or derived from Singapore, and on foreign income received or deemed received in Singapore. A company is regarded as tax resident in Singapore if the control and management of the company's business is exercised in Singapore. Normally, control and management of the company is vested in its board of directors and the place of residence of the company is where its directors meet. The corporate tax rate in Singapore is 17%, although various tax exemptions and deductions are available for qualifying companies. Under the one-tier corporate tax system, the tax paid by a resident company is a final tax and the distributable profits of the company can be paid to shareholders as tax exempt (one-tier) dividends.

Under the Goods and Services Tax Act, Chapter 117A, a company that is expected to have an annual revenue in excess of S\$1 million is required to apply for GST registration. GST is a broad-based consumption tax levied on nearly all supplies of goods and services in Singapore, excluding however, the sale and leasing of residential properties and the provision of most financial services. Only GST-registered companies can charge GST (currently set at 7%) to clients on goods and services provided by them. A GST-registered company can claim the GST incurred by it, on local purchases from GST-registered suppliers or on the importation of goods, subject to certain conditions. A GST-registered business is required to file GST returns with the Inland Revenue Authority of Singapore ("IRAS") at the end of each prescribed accounting period and to remit the GST payments collected by it, to the IRAS.

Under the Income Tax Act, when a person makes payment of a specified nature to a non-resident, he has to withhold a percentage of that payment and pay the amount withheld to IRAS. Withholding tax is applicable to certain limited payments made to non-residents such as interest on loans, and for technical assistance and management fees, if the services are provided in Singapore. The rate of withholding tax depends on the nature of the payment. Depending on the nature of the payment, the withholding tax rate could be either 10%, 15% or at the prevailing corporate tax rate of 17% or the rate specified under an applicable tax treaty.

Stamp duty is a tax payable on certain documents pursuant to the provisions of the Stamp Duties Act, Chapter 312. Generally, stamp duty applies to documents relating to immovable properties, and stock and shares. Documents that will be liable to stamp duty will include agreements for the sale, purchase and lease of real property or shares, as well as mortgages on immovable properties.

Property tax is levied on all immovable properties in Singapore and is payable annually by property owners at the beginning of each year. Immovable properties include houses, offices, factories, shops and land. The annual property tax is calculated based on a percentage of the gross annual value of the property as determined by the property tax department of IRAS. A progressive tax rate of between 0 to 6% applies for owner-occupied residential property and 10% for other properties.

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### *Commercial Laws*

In Singapore, contract law is largely based on common law and remains in the form of judge-made rules, some of which have been modified by specific statutes, which apply to limit the validity or enforceability of certain contractual terms, including the following statutes.

Under Unfair Contracts Terms Act, Chapter 396 (“UCTA”), terms that exclude or restrict a party’s liability for death or personal injury resulting from that party’s negligence are rendered wholly ineffective by the UCTA, while terms that exclude or restrict liability for negligence resulting in loss or damage other than death or personal injury, and those that exclude or restrict contractual liability, are subject to the requirement of reasonableness, evaluated as at the time at which the contract was made. The UCTA also gives protection to persons who are dealing as consumers.

Pursuant to Contract (Rights of Third Parties) Act, Chapter 53B (“CRTPA”), generally, only persons who are party to a contract may enforce rights or obligations arising from that contract. However, where statutory exceptions like those under the CRTPA apply, a third party may be given a statutory right to enforce a term of a contract against a party who is in breach of his or her obligations under the contract (the ‘promisor’), notwithstanding the third party is a volunteer who has not provided any contractual consideration. This may occur if either the contract expressly provides that the third party may enforce a term of the contract in its own right or the contract, ‘purports to confer a benefit on the third party’, provided however, such third party will not be granted the direct statutory right of suit in the absence of an express provision permitting him or her to do so, ‘if, on a proper construction of the contract, it appears that the parties did not intend the term to be enforceable by the third party.’

Under Limitation Act, Chapter 163, generally, no action may be brought for a breach of contract after 6 years have lapsed from the time when the contract was breached. This bars access to the court insofar as the remedies of damages or an action for a fixed sum are concerned.

The Companies Act, Chapter 50, (“CA”) is the principal legislation that governs companies in Singapore. The CA provides, among other things, for the formation and dissolution of companies, regulates the responsibilities of directors and officers of companies, regulates the relationships between members, officers and employees of companies, and facilitates dealings between companies and third parties. Among other things, the CA provides that every company must have a local registered office, and must appoint at least one resident director and company secretary. The CA also prescribes certain statutory filing and audit requirements.

### **3. Regulation on Our Business in the Province of Alberta, Canada**

Operations of our subsidiary SSEC Canada Ltd. are subject to the oversight of various regulations by relevant competent governmental authorities and pursuant to relevant laws and regulations in the Province of Alberta, Canada. The following are a description of the substantial laws and regulations as having effects on operations of SSEC Canada Ltd. at the material times.

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### *Corporate Laws*

The existence of a company is governed by and under the provisions of the Business Corporations Act. This is a provincial legislation which sets forth the minimum requirements for the corporate structure of the company, the mandated reporting on an annual basis as to use of the corporate vehicle and to confirm that it is still operational, the provisions of rights and obligations for corporate directors, the provisions of rights and entitlements for shareholders of the corporation, and generally mandates the minimum standards of corporate governance within the company.

### *Construction Law*

In general, construction law encompasses a number of legal areas ranging from contract law to workplace safety and health laws. Any construction or erection of structures is to comply with building laws and regulations as are in effect and these may vary somewhat depending upon the location of the actual activity. These building laws and regulations will generally include all licenses, permits and leave to commence construction, including approval of plans, blueprints, and technical drawings.

Whilst construction operations or activities are on going on site, a company undertaking such operations or activities is subject to various regulations and laws relating to workplace safety and health laws. All such workplace safety and health laws are to ensure the safety and health of all of its employees at work, including the determination of risk, risk assessments, the removal or control of risks to workers, and the provision of adequate instruction, information, training and supervision of workers to ensure no work place injuries or fatalities.

The Occupational Health & Safety Act in Alberta is wide scoping and addresses the manner in which work is to be undertaken in construction and industrial settings and works. The legislation has overriding effect upon occupation safety ranging from work place conditions, safety protocols, preventative steps and measures, to reporting of any and all incidences of injuries or death on the work site.

During the course of activity at the material times, a company is also obliged to comply with the provisions of the Worker's Compensation Act. This legislation is a mechanism whereby all employers and employees are mandated to pay a portion of the wages described as premiums due to all workers into a common fund which is administered by the provincial authorities. The employer's portion payable for premiums is over and above the worker's portion. The fund's purpose and intent is to assist workers who have been injured or debilitated by a work place incident or accident.

### *Labor Laws*

All matters concerning labor, treatment of workers, standards of reporting and payment, and various other protections for workers is provided for under the Employment Standards Code in the Province of Alberta. This legislation deals with the rights and protection of workers in their position vis-à-vis employers. Numerous obligations and reporting requirements are placed upon employers under this legislation and arising therefrom, any disputes for non payment or deficient payment are

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dealt with via a quasi judicial process and procedure. Additionally, where applicable, union and collective bargaining requirements, and minimum standards are outlined in the legislation and dictate the process upon which labor disruptions or disputes are adjudicated or where impositions of resolutions may be applicable.

### *Tax Laws*

In the course of operations, it is mandatory that corporations report their income both to the provincial authorities and federal authorities. The Alberta Corporate Tax Act obliges all corporations having an office in the Province of Alberta and conducting business within the Province of Alberta to report incomes earned and derived from business operations and activities within the Province of Alberta. Moreover, the Income Tax Act, a federal law in Canada, obliges all corporations having operations and conducting business within Canada to report incomes earned and derived from business operations and activities within Canada. There are various cross obligations, concurrent and reporting linkages between both provincial and federal tax legislation.

### *Commercial Laws*

In Alberta, contract law is largely based upon common law and case law as may be determined from time to time by courts of competent jurisdiction. The legal principles of contract apply in all instances to operations in the Province of Alberta which have been reduced to writing and are supported by documentation as arising therefrom.

## **4. Regulation of Our Business in the Republic of Kazakhstan**

### *Licensing Laws*

The licensing laws in the Republic of Kazakhstan regulate licensing of certain types of activities. The state licensing system encompasses the Government of the Republic of Kazakhstan, the authorized body and the licensors. The licensing laws state 25 types of licensing, including license to carry out activities in the field of architecture, building and planning required for particular activities such as prospecting activities, project work and construction work, and construction activities for organization residential buildings involving raising money from shareholders.

Individuals and legal entities to implement the project activities and construction works in the field of architecture, urban planning and construction are divided into the following three categories: (1) business activities on the construction site of all levels of responsibilities under the license, (2) individuals and entities operating on the projects with secondary or tertiary responsibilities as well as primary responsibility under the license pursuant to subcontracts, and (3) individuals operating in low-tech projects with secondary and tertiary responsibilities as well as working on projects with primary and secondary responsibilities under the license pursuant to subcontracts. The assignment of individuals and businesses to a particular category is the responsibility of the licensor for the license in accordance with the eligibility requirements for the project activities and construction works in the field of architecture, urban planning and construction, and must be specified in the special conditions of the license. Licensing activities in the field of architecture, urban planning and construction activities are performed by the authorized state body for architecture, urban planning and

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construction. Therefore, to undertake activities in the field of architecture, construction and urban development in the Republic of Kazakhstan, individuals and businesses must obtain a license, which require the individuals or entities to meet the qualification requirements for certain types or subtypes of licensed activities in the field of architecture, urban planning and construction.

### *Laws Governing Architectural, Urban Planning and Construction Activities*

The subjects of architecture, urban planning and construction activities are public authorities, individuals and legal persons involved in the formation and development of the environment and human life in the Republic of Kazakhstan. Non-citizens, foreign citizens and foreign legal entities can be given in the manner prescribed by law the right to perform in the Republic of Kazakhstan work and services related to architecture, urban planning, and/or construction activities, unless otherwise stipulated by legislative acts of the Republic of Kazakhstan. Officials and government bodies in charge of regulation, and perform control functions, in the field of architecture, urban planning and construction are the President of the Republic of Kazakhstan, the Government of the Republic of Kazakhstan, the authorized government agency for architecture, urban planning and construction, and its subdivisions, other central executive bodies within their special competence on the issues that are related to architecture, urban planning and construction activities, and local representative and executive bodies of the regions, cities and the capital, regions, cities of regional importance.

State Architectural and Construction Inspectorate carries out inspections for (1) the developer's documentation confirming its rights to the land and contract with contractor or general contractor, (2) the availability of a license to engage in certain activities in the field of architecture, urban planning and construction, (3) the presence of the duly approved construction documents, the evidence of the examination of the projects, as well as the notification of the bodies making state architectural-building control and supervision about the start of the construction works, (4) the accuracy of the information specified in the notice, the timely execution and maintenance of executive participants in the building of technical documentation, including making changes to the approved construction documents, (5) the quality of used building materials, products and structures, installed equipment, the relevant certificates, and (6) the proper execution of construction works, application of building materials (products, structures) and equipment to the approved design solutions meeting the state or interstate standards, including the provision for strength, stability, reliability and load-bearing frame structures and performance of buildings and structures, (7) the organization and implementation by the contractor or general contractor of all forms of self-monitoring of quality of construction, (8) the organization and implementation of the construction with proper techniques and supervision, and (9) the compliance with technical and field supervision stipulated by the State about the technical implementation and supervision of engineering services in the field of architecture, urban planning and construction.

State Architectural and Building Inspection consists of the structural unit of the authorized body for architecture, town planning and construction and territorial divisions in charge of state architectural and building control and supervision over the quality of construction, and is responsible for monitoring of construction, including planned for construction, facilities and quality control of

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construction, including reconstruction, scalable, upgradeable, capially repaired, facilities and systems, participation in the established order in the acceptance and state acceptance committee, and adoption of measures by the legislation in relation to legal and public officials who committed violations.

### *Tax Laws*

The “Code of the Republic of Kazakhstan On Taxes and Other Obligatory Payments to the Budget,” adopted on December 10, 2008 and as amended as of January 16, 2013 (the “Tax Code”), provides for the power to establish as well as the calculation and payment of taxes, other obligatory payments to the government budget, as well as relations between the state and the taxpayers or tax agents. The tax law applies throughout the territory of Kazakhstan and to natural persons, legal entities and their subdivisions. The current rates of some types of the taxes imposed in Kazakhstan are 20% for corporate income tax, 10% for personal income tax, 12% for value added tax which applies to sales turnover in Kazakhstan and to imports of goods and services to Kazakhstan, 11% of salaries and in-kind benefits of employees for social tax paid by legal entities and 5% for social deductions.

### *Labor Laws*

Labor legislation of the Republic of Kazakhstan is based on the Constitution of the Republic of Kazakhstan and consists of the Labor Code of the Republic of Kazakhstan, adopted on May 15, 2007 and as amended as of October 7, 2012 (the “Labor Code”), laws of the Republic of Kazakhstan and other regulatory legal acts of the Republic of Kazakhstan. If an international treaty ratified by the Republic of Kazakhstan establishes rules other than those contained in the Labor Code, the rules of the international treaty apply. International treaties ratified by the Republic of Kazakhstan with respect to labor relations are directly applicable, except in cases where such application requires the promulgation of a law.

Principles of the labor legislation of the Republic of Kazakhstan touch upon impermissible restrictions on human and civil rights at work; freedom of labor; prohibition of discrimination, forced labor and the worst forms of child labor; ensuring the right to working conditions that meet certain safety and hygiene standards; the priority of life and health of workers over results of production activities; ensuring the right to fair remuneration not less than the minimum wage; ensuring the right to rest; equality of rights and opportunities for employees; ensuring the right of workers and employers to organize to protect their rights and interests; social partnership; state regulation of health and safety; and ensuring the right of workers’ representatives to exercise public control over observance of labor legislation of the Republic of Kazakhstan.

### *Environment Laws*

The Environmental Code of the Republic of Kazakhstan, adopted on January 9, 2007 and as amended as of December 24, 2012 (the “Environmental Code”), regulates relations in the protection, restoration and conservation of the environment, the use and reproduction of natural resources in the implementation of economic and other activities related to natural resource use and with environmental impact, within the territory of the Republic of Kazakhstan.

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The Environmental Code governs individuals, legal entities, the state, as well as government agencies that perform state regulation in the field of environmental protection and governance of natural resources.

State regulation in the field of environmental protection covers licensing activities in the field of environmental protection; environmental regulation; technical regulation in the field of environmental protection; state environmental assessment; issuance of environmental permits; state environmental control; system of economic regulation of the environment, promotion of the use of clean technologies, and system of financing environmental protection measures; quotas for emission of greenhouse gases; an inventory of greenhouse gas emissions; establishing market mechanisms to reduce emissions and absorption of greenhouse gases; system of monitoring actual emissions and absorption of greenhouse gases; state environmental monitoring; public accounting of natural resources, sources and sites of environmental contamination; and environmental education and awareness.

State regulation in the field of natural resources covers state planning in the use of natural resources, state control over the protection, use and reproduction of natural resources; issuance of licenses, permits and contracts for the use of natural resources; organization of repair and restoration of natural resources and introduction of resource-saving technologies; implementation of monitoring and inventorying of natural resources; establishing limits and allocation of quotas for the use of natural resources; management of public legal persons who use, recover, and restore natural resources; and organization of protection of natural resources.

During the Track Record Period and up to the Latest Practicable Date, the Company has been in compliance with applicable PRC and overseas laws and regulations in all material aspects, has obtained the relevant permits and certificates that are material to the operation of the Company in PRC and overseas countries and regions, and, save as disclosed in the section headed “Business — Regulatory Compliance and Legal Proceedings”, was not involved in any material litigation.

### DESCRIPTIONS AND IMPACT OF SANCTIONS LAWS

#### United States

U.S. laws and regulations impose economic sanctions against certain countries, which include without limitation, Iran, Cuba and Myanmar, as well as persons specifically-designated for sanctions by the U.S. The term “person” used herein includes any individual or entity. Such laws and regulations, primarily administered by OFAC, generally apply to U.S. persons (*e.g.*, U.S. citizens and permanent residents, entities incorporated in the U.S. and their non-U.S. branch offices, any person located in the territory of the U.S., and, in the case of Cuba and Iran sanctions, entities owned or controlled by the foregoing) and activities conducted in the U.S. or otherwise subject to U.S. jurisdiction. U.S. persons are prohibited from engaging in most direct or indirect activities or transactions with Sanctioned Countries and sanctioned persons, and are also prohibited from facilitating such activities or transactions. The United States has taken a number of recent steps to ease U.S. economic and trade sanctions against Myanmar. In May 2012, President Obama announced that, in response to reforms taking place in Myanmar, the United States would begin to ease certain sanctions on Myanmar. On July 11, 2012, the Obama Administration issued licenses authorizing the



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exportation of U.S. financial services to Myanmar and permitting the first new U.S. investment in Myanmar in 15 years. On November 16, 2012, the Obama Administration issued a license broadly authorizing the importation of Myanmar-origin goods (other than jadeite and rubies) into the U.S. for the first time in over ten years. And on February 22, 2013, the Obama Administration issued a license authorizing U.S. persons to conduct most transactions, including opening and maintaining accounts and conducting a range of other financial services, with four of Myanmar's major financial institutions. In addition, on March 18, 2013, OFAC issued responses to "Frequently Asked Questions" regarding these recent steps taken by the United States to ease sanctions against Myanmar.

U.S. laws, executive orders and regulations also target the activities of non-U.S. companies doing business with Iran in certain sectors, including the petroleum sector. The Iran Sanctions Act of 1996 (the "ISA") as amended by the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, the Iran Threat Reduction and Syria Human Rights Act of 2012 (the "ITRA"), and other laws, among other things, authorizes the U.S. Department of State to impose sanctions on non-U.S. companies that undertake certain investments in, or provide certain goods, services or technology to, the Iranian petroleum sector. Executive Order 13590, effective November 21, 2011, authorizes the U.S. Department of State and the U.S. Department of the Treasury to impose sanctions on non-U.S. companies that knowingly provide goods, services, technology or support to Iran that could directly and significantly contribute to the maintenance or enhancement of Iran's ability to develop petroleum resources located in Iran or to the maintenance or expansion of Iran's domestic production of petrochemical products. The U.S. Department of State has stated in guidance published on its website that completion of contracts entered into prior to the effective date of Executive Order 13590 is not sanctionable, provided such contracts are not expanded, renewed or amended after November 21, 2011. Executive Order 13599, effective February 6, 2012, requires U.S. persons to block all property and interests in property of the government of Iran and all persons determined by the U.S. Department of the Treasury to be owned by, controlled by, or acting for or on behalf of any of those parties. Executive Order 13622, effective July 31, 2012, authorizes the U.S. Department of the Treasury to block all property and interest in property of any person determined to have materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services in support of certain specified Iranian entities. OFAC's designation of Iranian and other entities and individuals under certain of these and other sanctions programs prohibits U.S. persons from any dealings directly or indirectly with these designated parties. Imposition of sanctions under these measures can have severe repercussions for non-U.S. companies, including prohibitions on transactions involving U.S. financial institutions, other U.S. persons, or any property subject to U.S. jurisdiction. The U.S. authorities have imposed sanctions on non-U.S. companies under these sanctions laws.

After consulting with our legal advisors, we believe that, as a non-U.S. company that does not conduct business in or through the U.S. (except for one U.S. subsidiary incorporated in February 2012), we are not subject to U.S. jurisdiction and are therefore not legally required to comply with U.S. sanctions regulations as a U.S. person. Our U.S. subsidiary is not and has never been involved in any business, directly or indirectly, with or for the benefit of any Sanctioned Country. Based on the above, our Directors believe it is unlikely that we could be deemed to have violated U.S. sanctions prohibitions related to U.S. persons during the Track Record Period.

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Our projects in Iran, however, could potentially expose us to scrutiny or risk of sanctions under the ISA or similar U.S. sanctions targeting the petroleum sector of Iran. Iranian government-owned companies with which we had business are subject to Executive Order 13599, and U.S. authorities may view these companies as Iranian entities specified by Executive Order 13622. The facts that (i) our Iran projects and all the related obligations have been fully settled, (ii) our projects in Iran were conducted pursuant to contracts entered into prior to the effective date of Executive Order 13590, and (iii) we have no present intention to undertake any future business in Iran that would expose us to U.S. extraterritorial sanctions substantially remove any risk that the U.S. government will seek to impose sanctions on us. Moreover, as a non-U.S. company that does not conduct business in or through the U.S. (except for one U.S. subsidiary incorporated in February 2012, which has not been involved with our historical operations in the Sanctioned Countries), we are not subject to U.S. jurisdiction and are therefore not legally required to comply with U.S. sanctions regulations as a U.S. person. We cannot, however, completely rule out the possibility that the U.S. government would seek such sanctions for our historical activities. If sanctions are imposed, the Hong Kong Stock Exchange, HKSCC, HKSCC Nominees and our Shareholders (collectively, the “Relevant Parties”) may be restricted or prohibited from conducting transactions with us to the extent they are subject to U.S. jurisdiction.

The Relevant Parties, to the extent that they are U.S. persons or otherwise subject to U.S. jurisdiction, could face potential facilitation liability under U.S. sanctions if we use the proceeds from the Global Offering or any other funds raised through the Hong Kong Stock Exchange towards business with Sanctioned Countries or sanctioned persons. We have undertaken not to use proceeds from the Global Offering or any other funds raised through the Hong Kong Stock Exchange towards business with the targets of U.S. sanctions. Accordingly, it is unlikely that the Relevant Parties would face facilitation liability under U.S. sanctions.

### **European Union**

The European Union (“EU”) also imposes economic sanctions against certain countries which include Iran and Myanmar (though sanctions against Myanmar are, for the most part, currently suspended). EU Sanctions apply to any person in the territory of the Union, to any national of a Member State, entities incorporated under the law of a Member State, and activities conducted in or through the EU or otherwise subject to EU jurisdiction. EU sanctions regulations are directly applicable in the 27 Member States of the EU (28 Member States as from July 1, 2013). Although the applicable rules are adopted at the EU level, the sanctioning of non-compliance with EU Sanctions is left to the Member States, subject to certain conditions.

EU sanctions against Iran are comprehensive and prohibit or severely restrict (i) the export and import of specified goods and technology; (ii) the supply of specified equipment to the Iranian oil and natural gas industries; (iii) the import, purchase or transport of crude oil, natural gas and petroleum products of Iranian origin or that have been imported from Iran, or the provision of financing or financial assistance related thereto; (iv) investing in Iranian oil and natural gas industries; (v) the transfer of funds to and from Iranian persons, and certain financial services; and (vi) transport services. In addition, they (vii) require the freezing of all funds and economic resources belonging to or owned by specified individuals and entities and (viii) prohibit making funds or economic resources directly or indirectly available to those specified individuals or entities.

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A limited number of grandfathering provisions apply, which allow the fulfillment of obligations under an agreement or contract concluded before the entry into force of EU sanctions. Approval by national competent authorities is required.

EU sanctions further prohibit (i) provision of technical assistance, training, and/or financing or financial assistance in support of prohibited activities, and (ii) knowing or intentional participation in activities which have the object or effect to circumvent the prohibitions.

After consulting with our legal advisors, we believe that, as a company that is not incorporated in an EU Member State and does not conduct business in or through the EU, we are not subject to EU jurisdiction and are therefore not legally required to comply with EU sanctions as an EU company or national. Even if EU law were applicable, we note that (i) we have no present intention to engage in any business with EU-sanctioned countries; (ii) work under the Iran projects have been completed; (iii) agreements to conduct the Iran projects were entered into prior to the entry into force of EU sanctions; and (iv) we have undertaken not to use the proceeds from the Global Offering or any other funds raised through the Hong Kong Stock Exchange in connection with any of the activities targeted by EU Sanctions.

Based on the above, our Directors believe it is unlikely that we could be deemed to have violated EU sanctions during the Track Record Period. This analysis also applies to the Relevant Parties.

### **United Nations**

The United Nations Security Council (“UNSC”) sanctions against Iran target its nuclear and ballistic missile programs, arms exports from Iran, certain types of conventional weapons, and freeze the assets of certain persons related to the foregoing. The UNSC does not maintain sanctions against Cuba or Myanmar.

Our historical activities in Iran did not involve Iran’s nuclear or ballistic missile programs, arms exports, weapons, or any persons subject to UNSC sanctions targeting Iran.

Generally UNSC sanctions only apply to United Nations Member States through their respective domestic legislation, interpretation and enforcement of UNSC sanctions may differ among United Nations Member States.

### **Australia**

Australia imposes sanctions against Iran, has no autonomous sanctions in respect of Cuba, and currently imposes only military or arms sanctions in respect of Myanmar. Australian sanctions against Iran include prohibitions on the supply of specified goods and services to Iran for the oil and gas sector and the acquisition of interests in, joint ventures with and granting of financial assistance or loans to Iranian entities in the oil and gas sectors. These sanctions apply to Australian citizens, persons incorporated in Australia, persons located in Australia, and activities conducted in or through Australia or otherwise subject to Australian jurisdiction.

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After consulting with our legal advisors, we believe that, as a company that is not incorporated in Australia and that does not conduct business in or through Australia, we are not subject to Australian jurisdiction and are therefore not legally required to comply with Australian sanctions as an Australian company or national.

Even if Australian jurisdiction did apply, we believe that the goods and services we historically supplied to Iran are not the same as those prohibited by Australian sanctions. We are also of the view that our historical arrangements with Iran do not comprise other activities prohibited by Australian sanctions against Iran. Based on the above, our Directors believe it is unlikely that we could be deemed to have violated Australian sanctions during the Track Record Period. This analysis also applies to the Relevant Parties.

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### OVERVIEW

Our Company was converted and established as a joint stock limited liability company from our predecessor Sinopec Engineering (Group) Co., Ltd. (formerly known as Sinopec Engineering) on August 28, 2012 under the PRC Company Law. Sinopec Group is one of the Promoters of our Company. Upon our conversion into a joint stock limited liability company, our Company had a total of 3,100,000,000 issued and outstanding Domestic Shares, with a nominal value of RMB1.00 each. Sinopec Group directly owns 98% of our share capital while indirectly owning the remaining 2% of our issued share capital through its wholly-owned subsidiary, SAMC, the other Promoter of our Company. Immediately upon completion of the Global Offering, assuming the Over-allotment Option is not exercised, Sinopec Group will own, directly and indirectly, approximately 67.01% of our issued share capital (or 63.69% if the Over-allotment Option is fully exercised). Sinopec Group and SAMC will continue to be our Controlling Shareholders after completion of the Global Offering.

In preparation for the Global Offering, we underwent the Reorganization in 2012. For details of the Reorganization, see “History, Reorganization and Corporate Structure — The Reorganization.”

### DELINEATION OF BUSINESS AND COMPETITION

Established in July 1998, Sinopec Group is an investment institution authorized by the State and a state-owned company with a registered capital of RMB231,620,585,000 as at the Latest Practicable Date. Sinopec Group is the largest integrated oil and petrochemical enterprise in the PRC and is one of the largest integrated oil and petrochemical enterprises in the world in terms of operating revenue. Sinopec Group (other than the Group) principally engages in the following businesses:

- exploration, development, production and trading of oil and gas;
- oil processing, production, trading, transportation, distribution and marketing of oil products;
- production, distribution and trading of petrochemical and other chemical products;
- oil engineering: engineering and technical services for oil and gas fields, oil and gas field surface engineering design and construction, crude oil and gas pipeline design and construction, manufacturing of oil and gas related equipment, oil field informatization and development and operation of related products, etc.;
- utilities services and social services such as water and electricity; and
- others: mainly include international trading, R&D as well as manufacturing of chemical fiber, fertilizer and polyester related equipment.

We are the operating platform for the oil refining and chemical engineering businesses within Sinopec Group. Our core business includes EPC Contracting, designing, construction, project management, procurement, special equipment manufacturing, operation and maintenance and repair services for production units, project consulting services in relation to oil refining engineering,

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chemical engineering, pharmaceutical engineering, storage and transportation facilities engineering and ancillary facilities engineering and other business and services in relation to EPC Contracting within or outside the PRC (“Core Business”). With respect to storage and transportation facilities engineering, we focus on the design and construction of oil products pipelines, oil depot, LNG storehouse and LPG storage; with respect to special equipment manufacturing, we focus on the manufacturing of equipment for oil refining, ethylene and aromatics production, etc. With respect to engineering and technical services, we focus on clients in the oil refining and chemical industries, whilst Sinopec Group focuses on clients in the oil and gas exploration and production industry. Sinopec Group and our Company confirm that the Parent Group is not currently operating any business that competes with our Core Business, and they will not, other than the Excluded Business, compete, directly or indirectly with our Core Business. Following the completion of the Global Offering, neither Sinopec Group nor any of its non-listed subsidiaries will engage in any other new business that competes, or is likely to compete, directly or indirectly with our Core Business. We have no present intention to engage in any of the Excluded Business.

### DIRECTORS’ COMPETING INTERESTS

Other than certain directorships and/or other senior management positions held by some of our Directors in the Parent Group as further discussed below, our Directors have confirmed that none of them is interested in any business which competes, or is likely to compete directly or indirectly with our business as of the Latest Practicable Date.

### NON-COMPETITION UNDERTAKINGS BY SINOPEC GROUP TO SINOPEC CORP.

As disclosed in the prospectus in relation to the initial public offering of A shares of Sinopec Corp., the prospectus in relation to the global offering of H shares of Sinopec Corp., the annual reports of Sinopec Corp. since its listing and other related public announcements or documents published by Sinopec Corp., we understand that Sinopec Group has made undertakings not to compete with Sinopec Corp. and has entered into a non-competition agreement with Sinopec Corp. To further avoid competition with Sinopec Corp., Sinopec Group has made a further undertaking to Sinopec Corp. in 2012 that, among other things, Sinopec Corp. shall become the sole platform which deals with the exploration and production of oil and gas, oil refining, chemicals and the sale of petroleum products after the integration of the upstream, midstream and downstream businesses in Sinopec Group. In contrast, our Company focuses on EPC Contracting, designing, construction, project management, procurement, special equipment manufacturing, operation and maintenance and repair services for production units, project consulting services in relation to oil refining engineering, chemical engineering, pharmaceutical engineering, storage and transportation facilities engineering and ancillary facilities engineering and other business and services in relation to EPC Contracting.

Our Directors are of the view that (i) there is no conflict between Sinopec Group’s non-competition undertakings to Sinopec Corp. and the non-competition undertakings granted to us under the Non-Competition Agreement and (ii) our business does not fall within the scope of Sinopec Group’s non-competition undertaking to Sinopec Corp. as described above. Moreover, having made reasonable enquiries into the publicly available information relating to Sinopec Group’s non-competition undertakings to Sinopec Corp., our PRC legal advisor, King & Wood Mallesons, has

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confirmed that there is no conflict between Sinopec Group's non-competition undertakings to Sinopec Corp. and the non-competition undertakings granted to us under the Non-Competition Agreement. Based on the above, we do not believe that the Listing will result in a breach of the non-competition undertakings made by Sinopec Group to Sinopec Corp.

### NON-COMPETITION AGREEMENT AND UNDERTAKINGS

#### Non-Competition

We entered into the Non-Competition Agreement with Sinopec Group on December 19, 2012, under which the Parent Group (other than Sinopec Group's Listed Subsidiaries) has agreed not to, and has endeavored to procure Sinopec Group's associated enterprises and joint ventures not to, compete with us in our Core Business and has granted to us options for new business opportunities, options for acquisitions, and pre-emptive rights which are further discussed below.

Sinopec Group has further irrevocably undertaken in the Non-Competition Agreement that during the term of the Non-Competition Agreement, it will not, alone or with any other person, in any way, directly or indirectly, engage in, participate in, assist or support a third party to engage in or participate in any business that competes, or is likely to compete, directly or indirectly with our Core Business (other than the Excluded Business), and will procure its subsidiaries (other than Sinopec Group's Listed Subsidiaries) to comply with such non-competition undertakings.

The foregoing restrictions do not apply to (1) the purchase by Sinopec Group, its subsidiaries, joint ventures or associated enterprises for investment purpose of not more than 10% equity interest in other listed companies whose business competes or is likely to compete with our Core Business; or (2) the holding by Sinopec Group, its subsidiaries, joint ventures or associated enterprises of not more than 10% equity interest in other companies whose business competes or is likely to compete with our Core Business, as a result of a debt restructuring of such companies (collectively referred to as "Investment Companies" for scenarios (1) and (2)). For the avoidance of doubt, the exceptions above do not apply to such Investment Companies which Sinopec Group, its subsidiaries, joint ventures or associated enterprises are able to control their respective board of directors notwithstanding the fact that not more than 10% of the equity interests of such Investment Companies are being held by Sinopec Group, its subsidiaries, joint ventures or associated enterprises.

#### Options for New Business Opportunities

Sinopec Group has undertaken in the Non-Competition Agreement that:

- (1) during the term of the Non-Competition Agreement, if Sinopec Group and its subsidiaries (other than Sinopec Group's Listed Subsidiaries) become aware of any new business opportunity ("New Business Opportunity") which competes, or is likely to compete, directly or indirectly with our Core Business, Sinopec Group shall notify us in writing as soon as reasonably practicable (but in any event not later than 30 days after its awareness of such New Business Opportunity) and provide to us all information which is reasonably necessary for us to consider whether or not to secure such New Business Opportunity

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(“Offer Notice”). We are entitled to decide whether or not to take up such business opportunity in writing within 30 days from receiving the Offer Notice, subject to compliance with applicable laws and regulations and satisfaction of pre-existing contractual obligations assumed by Sinopec Group to third parties; and

- (2) Sinopec Group shall procure its joint ventures and associated enterprises to offer to us an option to acquire any New Business Opportunity which competes, or is likely to compete, directly or indirectly with our Core Business.

If our Company decides not to take up the New Business Opportunity for any reason or fails to respond within 30 days upon receipt of the Offer Notice, Sinopec Group or any of its subsidiaries (other than Sinopec Group’s Listed Subsidiaries) may take up such New Business Opportunity on its own.

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to take up the New Business Opportunity. In assessing whether or not to exercise the option to acquire the New Business Opportunity, our independent non-executive Directors will consider a range of factors including any feasibility study, counterparty risk, estimated profitability, our pipeline and the legal, regulatory and contractual landscape with a view to arriving at a decision which is in the best interests of the Shareholders and our Company as a whole.

### **Options for Acquisitions**

In relation to any New Business Opportunity referred to us by the Parent Group under the Non-Competition Agreement which competes, or is likely to compete, directly or indirectly with our Core Business, if our Company decides not to take up such New Business Opportunity, Sinopec Group or any of its subsidiaries (other than Sinopec Group’s Listed Subsidiaries) may, subsequently, take up such New Business Opportunity on its own.

In respect of the aforesaid matters, Sinopec Group has undertaken to grant our Company an option, pursuant to which the Company may exercise the same at any time during the term of the Non-Competition Agreement, subject to applicable laws and the Hong Kong Listing Rules, to acquire on one or more occasions any equity interest, asset or other interest in respect of the new business as described above in, or to conduct such new business of, non-listed subsidiaries of Sinopec Group by way of, including but not limited to, mandate, lease or subcontracting. However, if any third party has any pre-emptive rights in accordance with applicable laws and/or the relevant articles of association, our option to acquire shall be of lower priority to such pre-emptive rights. In this case, the Parent Group will use its best endeavors to procure the third party to waive its pre-emptive rights.

Sinopec Group shall procure its joint ventures or associated enterprises to comply with the above options granted to us by Sinopec Group.



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The consideration payable for the acquisition of such new business described above shall be determined with reference to the valuation by a third party valuer jointly selected by Sinopec Group and our Company and in accordance with the methods and procedures as required by applicable laws and regulations after negotiation between the parties.

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to exercise the options for acquisitions. In assessing whether or not to exercise the options for acquisitions, our independent non-executive Directors will consider a range of factors including any feasibility study, counterparty risk, estimated profitability, our pipeline and the legal, regulatory and contractual landscape with a view to arriving at a decision which is in the best interests of the Shareholders and our Company as a whole.

### **Pre-emptive Rights**

In relation to any New Business Opportunity referred to us by the Parent Group under the Non-Competition Agreement which competes, or is likely to compete, directly or indirectly with our Core Business, if our Company decides not to take up the New Business Opportunity and Sinopec Group or any of its subsidiaries (other than Sinopec Group's Listed Subsidiaries) may, subsequently, take up such New Business Opportunity on its own.

Sinopec Group has undertaken that, during the term of the Non-Competition Agreement, if it or any of its subsidiaries (other than Sinopec Group's Listed Subsidiaries) intends to transfer, sell, lease, license or otherwise transfer or permit to use any of the above interests to a third party, they shall notify our Company by a written notice (the "Transfer Notice") in advance. The Transfer Notice shall state the terms of the transfer, sale, lease or license and any information which our Company may reasonably require to come to a decision. Our Company shall comply with applicable laws and regulations and the Hong Kong Listing Rules and reply in writing to Sinopec Group or its wholly-owned holding companies within 30 days upon receipt of the Transfer Notice. Sinopec Group or any of its subsidiaries (other than Sinopec Group's Listed Subsidiaries) shall not inform any third party about its intention to transfer, sell, lease or license such business until receipt of a written reply from our Company. If our Company decides not to exercise the pre-emptive rights or if our Company fails to respond within the agreed period, or if our Company does not accept the conditions as set out in the Transfer Notice and issues to Sinopec Group a written notice stating acceptable conditions which, however, are not acceptable to Sinopec Group or its subsidiaries, they are entitled to transfer, sell, lease or license the interest to a third party pursuant to the terms stipulated in the Transfer Notice.

Sinopec Group shall procure its joint ventures or associated enterprises to grant us the above pre-emptive rights.

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to exercise the pre-emptive rights. Upon receipt of the Transfer Notice, our Company will report to our independent non-executive Directors within 10 days from such receipt for their consideration and respond within 30 days upon receipt. In assessing whether or not to exercise

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the pre-emptive rights, our independent non-executive Directors will consider a range of factors including any feasibility study, counterparty risk, estimated profitability, our pipeline and the legal, regulatory and contractual landscape with a view to arriving at a decision which is in the best interests of the Shareholders and our Company as a whole.

### Further Undertakings from Sinopec Group

Sinopec Group has further undertaken that:

- (1) upon request from our independent non-executive Directors, it shall provide all information necessary for their review on the compliance with and the implementation of the Non-Competition Agreement by Sinopec Group and its subsidiaries (other than Sinopec Group's Listed Subsidiaries), joint ventures or associated enterprises;
- (2) it agrees to our Company disclosing the decisions made by our independent non-executive Directors on the compliance with and implementation of the Non-Competition Agreement in our annual reports or announcements;
- (3) it provides a certificate annually on compliance with the terms of the Non-Competition Agreement to our Company and our independent non-executive Directors so as to make relevant disclosure in annual reports.

Our Company will also adopt the following procedures to ensure that the undertakings under the Non-Competition Agreement are observed:

- (1) our Company will provide our independent non-executive Directors with the Offer Notice or the Transfer Notice (as the case may be) in respect of the New Business Opportunity referred to us by Sinopec Group or the pre-emptive rights within 10 days from the receipt of such notices;
- (2) our independent non-executive Directors will report in our annual reports (a) their findings on the compliance by Sinopec Group with the Non-Competition Agreement; and (b) any decision made by our independent non-executive Directors in respect of the options for acquisitions and the pre-emptive rights granted to us and the bases for such decision; and
- (3) our Directors are of the view that our independent non-executive Directors have sufficient experience in assessing whether or not to take up the New Business Opportunity, exercise the options for acquisitions or exercise the pre-emptive rights. If our independent non-executive Directors consider that approval of the independent Shareholders in respect of such opportunities is required under the Hong Kong Listing Rules, they may appoint an independent financial adviser or other professionals to advise, at the expense of our Company, on whether or not to exercise the options for acquisitions or the pre-emptive rights under the Non-Competition Agreement.

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### Termination

The Non-Competition Agreement will become effective and remain in full force until the occurrence of the following events (whichever is earlier):

- (1) Sinopec Group and its subsidiaries, directly and/or indirectly, holding in aggregate less than 30% of the total issued share capital of our Company; or
- (2) our Company ceases to be listed on the Hong Kong Stock Exchange (other than any suspension in trading of the Shares for any reason).

In view of (a) the undertakings by Sinopec Group that it will give priority to supporting the development of our Core Business, (b) the legally binding obligations of Sinopec Group under the Non-Competition Agreement and the options for the New Business Opportunities, the options for acquisitions and the pre-emptive rights granted to our Company thereunder, and (c) the information-sharing and other mechanisms in place as described above to monitor the compliance with the Non-Competition Agreement by Sinopec Group, each of our Directors (including the independent non-executive Directors) is of the view that our Company has taken all appropriate and practicable steps to ensure the compliance by Sinopec Group with its obligations under the Non-Competition Agreement.

### INDEPENDENCE FROM SINOPEC GROUP

Having considered the following factors, we believe that we can conduct our business independently from Sinopec Group and its associates.

#### Operational Independence

We possess sufficient capital, property, equipment, technology and human resources to operate our business independently, and hold qualifications that are necessary for all our current business operations. In addition, we possess the legal title to all patents which are material to our business as currently conducted and we are entitled to license on a non-exclusive basis such intellectual property rights to other third parties.

During the Track Record Period, we provided various goods and services to the Parent Group, mainly including engineering and construction services and R&D Services. For the historical amounts of such transactions, see “Connected Transactions.” In respect of the engineering and construction services provided to Sinopec Group and/or its associates, the Group has been and is expected to continue to be invited to submit bids to Sinopec Group and/or its associates and such bids have been and will continue to be evaluated based on their merits on a fair and equitable basis, which may or may not result in us entering into the relevant project agreements with Sinopec Group and/or its associates. Notwithstanding provision of such goods and services to the Parent Group, our Directors

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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believe that we are able to operate independently from the Parent Group and that the compelling reasons as to why our Company should continue to maintain a strong relationship with the Parent Group are as follows:

- (a) **Industry landscape.** For our operations in the oil refining and chemical engineering industries, our clients are mainly state-owned large-scale oil and gas companies. In China, the petroleum and chemical industry is highly concentrated, with the top three oil and gas companies, namely, China National Petroleum Corporation, Sinopec Group and China National Offshore Oil Corporation dominating the industry. In addition, Sinopec Group is also the largest producer of oil refining and petrochemical products in terms of annual output in the PRC. In other words, Sinopec Group (especially Sinopec Corp.) is one of the largest clients in our industry in the PRC. On the other hand, we ranked first in both 2010 and 2011 among all PRC Exploration and Design Enterprises providing services to oil refining and chemical industries in terms of both the revenue generated from exploration and design activities and completed contract value of EPC Contracting business. For our position in the industry, see “Business.” Therefore, the historical amounts of connected transactions between us and the Parent Group during the Track Record Period reflect the market position of both parties in the respective industries and it is important that we continue to maintain a healthy business relationship with the Parent Group given its dominant market position in China.

Furthermore, given our established relationship with Sinopec Group, its experience with the quality of our services and our market position in the EPC Contracting business, we believe it is commercially sensible for Sinopec Group and/or its associates to continue to purchase services from us. Also, as Sinopec Group is one of the largest clients in our industry in the PRC, we believe it would not be commercially sensible for us to attempt to reduce our level of services to Sinopec Group and/or its associates. Therefore, the business relationship between Sinopec Group and us is a mutually beneficial arrangement.

- (b) **Expansion of our customer base.** We continue to further expand our customer base in the oil refining and chemical industries, both domestically and overseas, and to further diversify our operations in related and emerging sectors. For example, we have established business relationships with CNOCC, CNPC, Shaanxi Yanchang Petroleum (Group) Co., Ltd., Shenhua Group, Sinochem Corporation Group, China National Coal Group, Shell, Bayer AG and Novartis International AG. Relying on advantages such as economies of scale, advanced technology and expertise, and especially our ability to successfully execute large-scale and complex projects, we have enhanced our marketing capabilities to focus on building and reinforcing our image and reputation in the industry for a larger market share.

For the three years ended December 31, 2010, December 31, 2011 and December 31, 2012, the revenues we generated from independent clients were approximately RMB10.13 billion, RMB13.72 billion and RMB19.17 billion, respectively, which represent an increase of 89.24% from 2010 to 2012. The total contract value of our backlog contracts with independent clients was approximately RMB51.05 billion as of December 31, 2012, which represents 67.13% of the total contract value of our total backlog contracts of approximately RMB76.05 billion as of December 31, 2012. In addition, the total contract

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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value of our new contracts with independent clients was approximately RMB22.27 billion for the year ended December 31, 2012, which represents 55.48% of the total contract value of our new contracts of approximately RMB40.14 billion for the year ended December 31, 2012. Based on the above, we expect our revenue from independent clients to continue to increase in the year ending December 31, 2013.

During the three years ended December 31, 2012, we have established a growing international presence by increasing our revenue from overseas projects from 11.8% of our total revenue in 2010 to 16.9% of our total revenue in 2012.

- (c) *Adaptability of our business models.* Our business models can be easily adapted to accommodate business dealings with clients outside of the Parent Group. Our EPC business model is centered around our core competency in engineering design and highlights the crucial role of design in quality control, expense control and progress control during the course of an EPC project. In the PRC, clients are increasingly focused on professional expertise, technological capabilities and comprehensive services as major factors when considering bids. For these reasons, we have built our own brand name and market position in the industries in which we conduct our business, and the percentage revenue of our construction contracting business derived from EPC contracts secured by our design and consulting and engineering, procurement and construction businesses has increased in recent years and is expected to increase in the future. Our marketing team and international team have long been in place and are capable of sourcing, and have sourced, independent clients (including overseas clients).

### Financial Independence

We have established our own finance department with a team of independent financial staff, who are responsible for financial control, accounting, reporting, group credit and internal control functions of our Company independent from Sinopec Group. We can make financial decisions independently and Sinopec Group does not intervene with our use of funds. We have also established an independent audit system, a standardized financial and accounting system and a complete financial management system. In addition, we maintain bank accounts with banks independently and Sinopec Group does not share any bank accounts with us. We have made independent tax registration in accordance with applicable laws, and paid tax independently pursuant to applicable PRC tax laws and regulations, rather than on a combined basis with Sinopec Group or other enterprises under its control.

The relevant project agreements in relation to the Kazakhstan Atyrau Refinery Aromatic Hydrocarbons Project and the relevant framework agreements in relation to the Kazakhstan KPI IPCI Project were entered into in 2009 and 2010, respectively, with Independent Third Parties prior to our Reorganization. Pursuant to the relevant framework agreements, the Kazakhstan KPI IPCI Project is to be implemented in two phases. Notwithstanding that the definitive EPC contract for this project is still under negotiation and has not been entered into, the project owner has instructed us to perform certain “early work” during the OBE phase of the project pursuant to the terms of the relevant framework agreements. In consideration for the prepayments paid to us by the project owners of the above two projects and in respect of the performance of our obligations under the relevant project agreements and the relevant framework agreements, the project owners required us to obtain letters

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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of guarantees from financial institutions in favor of them. We therefore obtained such letters of guarantees from The Export-Import Bank of China (“China EXIM”) and as at the Latest Practicable Date, the outstanding guarantee amount was approximately US\$308.8 million. In accordance with China EXIM’s general requirements for issuing letters of guarantees in respect of overseas projects, such letters would only be issued on the condition that our controlling shareholder, Sinopec Group, would provide counter-guarantees for an equivalent amount. Please refer to “Connected Transactions — Exempt Continuing Connected Transactions — (5) Counter-guarantees provided by Sinopec Group” for the aggregate amount of counter-guarantees provided by Sinopec Group in relation to the Kazakhstan Atyrau Refinery Aromatic Hydrocarbons Project and the Kazakhstan KPI IPCI Project during the Track Record Period. As at the Latest Practicable Date, we are not aware of China EXIM having made any claim against Sinopec Group pursuant to the counter-guarantees provided by Sinopec Group. According to the terms of the counter-guarantees, the counter-guarantees provided by Sinopec Group in favor of China EXIM will be released two years after the relevant guarantees have been released. Based on the terms of the guarantees in relation to the Kazakhstan Atyrau Refinery Aromatic Hydrocarbons Project, such guarantees will be released upon completion or acceptance of the project, currently expected to be around May 2015, and based on the terms of the guarantees in relation to the Kazakhstan KPI IPCI Project, such guarantees will be released in different stages upon termination of our obligations under the relevant “early work” agreements in connection with the design of the power plant and the procurement of raw materials for the power plant, as well as the OBE phase of the project, with the latest being currently expected to be around November 2013. Going forward, we do not generally expect to enter into overseas projects requiring counter-guarantees provided by Sinopec Group as we have become a standalone joint stock company in the PRC and the parent of our operating subsidiaries after the Reorganization and the guarantees issued by us should be generally sufficient to the financial institutions. We have been able to secure overseas projects independently in the past and the provision of Sinopec Group counter-guarantees was a special case. We believe that we will continue to be able to secure new overseas projects independently.

For the overseas projects which we undertook during the Track Record Period, we were sometimes required, as part of the typical bidding qualifications required by our clients, to obtain guarantees for the performance of our contractual obligations from our parent company, Sinopec Group (the “Parent Guarantees”). None of the domestic EPC projects undertaken by us during the Track Record Period required Parent Guarantees. The total contract value of our new contracts was approximately RMB41.21 billion, RMB50.30 billion and RMB40.14 billion for the years ended December 31, 2010, 2011 and 2012, respectively, and the total contract value of the contracts involving Parent Guarantees accounted for approximately 2.79%, 4.26% and nil thereof, respectively. We were not required to pledge any of our deposits or assets or to pay any fees to obtain any such guarantees from Sinopec Group. With respect to the Kazakhstan KPI IPCI Project, we are required to provide Parent Guarantees pursuant to the terms of the relevant framework agreements, but since the definitive agreement in relation to this project is still under negotiation, the amount of the Parent Guarantees provided has not been counted towards the contract value of our new contracts for the year ended December 31, 2012. We believe that the above small proportion of projects requiring parent guarantees does not reflect a dependence on Sinopec Group from a financial perspective. Barring exceptional circumstances, going forward, we do not expect to enter into EPC contracts requiring parent guarantees.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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We do not intend to release the Parent Guarantees before Listing as the relevant overseas projects involving Parent Guarantees are still in progress and any early release of such guarantees may adversely affect the successful and timely execution of these projects. In addition, given Sinopec Group was the parent company of the relevant entities of the Group undertaking the overseas projects, we were required by the owners of these projects to provide the Parent Guarantees as one of the conditions in the project agreements, so any early release of the Parent Guarantees would be subject to consents from the relevant owners of such projects. We believe that any renegotiation with the relevant project owners for early release of the Parent Guarantees would be commercially impracticable, time consuming, unduly burdensome and costly and most importantly could adversely affect our reputation in the market.

Before the Reorganization, the entities of the Group which undertook overseas projects requiring parent guarantees were wholly-owned subsidiaries under Sinopec Group. Sinopec Group is therefore the parent company for the purpose of providing the Parent Guarantees required by the owners of these overseas projects. After the Reorganization, the Company has become a standalone joint stock company in the PRC and the parent company of the operating subsidiaries of the Group. Going forward, we generally expect that guarantees issued by the Company will be sufficient if it is so required by the owners of the projects.

We have sufficient capital to operate our business independently, and we are capable of obtaining financing from third parties without relying on any guarantee or security provided by Sinopec Group or other connected persons. In particular, we have obtained two credit facilities from independent commercial banks in an aggregate amount of RMB3.20 billion without any assistance, guarantee or security from Sinopec Group. See “Financial Information — Liquidity and Capital Resources.” In particular, we have established long-term relationships with relevant PRC commercial banks from which we are able to obtain banking facilities on competitive terms to fund our business operations and expansions. As at the Latest Practicable Date, there was a non-trade amount of RMB2 billion due to our ultimate holding company, please see “Appendix I — Accountant’s Report” to this prospectus. Based on the agreement with our ultimate holding company, we will settle the non-trade amount (which we are not reliant on for our business operations) due to it by December 31, 2013.

Taking into account (i) only a small proportion of overseas EPC projects undertaken by us required guarantees from Sinopec Group, (ii) our ability to secure new overseas EPC projects without parent guarantees, (iii) none of our domestic EPC contract during the Track Record Period required parent guarantees, and (iv) our ability to independently obtain credit facilities from independent commercial banks, the Directors are of the view that the parent guarantees/counter-guarantees provided by Sinopec Group during the Track Record Period would not affect our financial independence from Sinopec Group and that we operate independently from Sinopec Group from a financial perspective.

### **Management Independence**

Our Board of Directors consists of nine Directors. Five of the nine Directors have not held any directorship or senior management position in Sinopec Group or Sinopec Corp., including Mr. YAN Shaochun, our executive Director and President, who does not hold any directorship or senior management position in the Parent Group and will have sufficient time and energy to manage our

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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day-to-day operation. The other four Directors holding positions in Sinopec Corp. are our non-executive Directors. They are not involved in the day-to-day management of our Company, but are primarily responsible for making decisions on important matters such as formulation of our general development strategy and corporate operation strategy as members of the Board of Directors.

Set out below is a table summarizing the positions held by our Directors, and their positions with Sinopec Group and Sinopec Corp.:

Name of Directors	Position with our Company	Directorship or senior management position with Sinopec Group as of the Latest Practicable Date	Directorship or senior management position with Sinopec Corp. as of the Latest Practicable Date
CAI Xiyou (蔡希有)	Non-executive Director and Chairman	None	Director Senior Vice President
ZHANG Kehua (張克華)	Non-executive Director and Vice Chairman	None	Vice President
LEI Dianwu (雷典武)	Non-executive Director	None	Vice President
LING Yiqun (凌逸群)	Non-executive Director	None	Vice President
CHANG Zhenyong (常振勇)	Non-executive Director	None	None
YAN Shaochun (閆少春)	Executive Director and President	None	None
HUI Chiu Chung, Stephen (許照中)	Independent Non-executive Director	None	None
JIN Yong (金涌)	Independent Non-executive Director	None	None
YE Zheng (葉政)	Independent Non-executive Director	None	None

Save as disclosed above, none of our Directors or members of the senior management holds any directorship or senior management position in Sinopec Group or Sinopec Corp. Our Company and the Parent Group are managed by different management teams. Therefore, there are sufficient non-overlapping Directors who are independent and have relevant experience to ensure the proper functioning of the Board.



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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We believe that the Directors and members of the senior management are able to perform their roles in our Company independently and that our Company is capable of managing our business independently from the Parent Group for the following reasons:

- (a) the decision-making mechanism of the Board as set out in the Articles of Association includes provisions to avoid conflicts of interest by providing, among other things, that in the event of conflicts of interest, such as consideration of resolutions in relation to transactions with the Parent Group, the relevant Directors who are connected with the Parent Group will abstain from voting and will not be counted towards the quorum of the relevant meeting. Furthermore, when considering connected transactions, only our independent non-executive Directors will review the relevant transactions;
- (b) the Directors holding positions with the Parent Group are our non-executive Directors. They are not involved in the day-to-day management of our Company, but are primarily responsible for making decisions on important matters such as formulation of our general development strategy and corporate operation strategy as members of the Board of Directors. The day-to-day operation of our Company is managed by our executive Director and senior management team who have extensive experience. They have been our full-time employees for a long period of time and are all independent from the Parent Group;
- (c) none of our Directors or members of the senior management has any shareholding interest in the Parent Group; and
- (d) each of our Directors is aware of his fiduciary duties as a Director, which require, among other things, that he acts for our Company's benefits and best interests.

On the basis outlined above, the Directors are of the view that the Company has its own management team and that it is capable of maintaining independence from the Parent Group.

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## CONNECTED TRANSACTIONS

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### CONNECTED PERSONS

Following the Global Offering (whether or not the Over-allotment Option is exercised), Sinopec Group will hold more than 10% of our issued share capital and will remain as our substantial shareholder. Under Rules 14A.11(1) and (4) of the Hong Kong Listing Rules, Sinopec Group and its associates are our connected persons.

Accordingly, the transactions between our Group and Sinopec Group and/or its associates, which will continue after the listing of the H shares on the Hong Kong Stock Exchange, will constitute our continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

### CONNECTED TRANSACTIONS

We have entered into certain agreements with Sinopec Group, including the Non-Competition Agreement, the Engineering and Construction Services Framework Agreement, the Technology R&D Framework Agreement, the Financial Services Framework Agreement, the General Services Framework Agreement, the Trademark License Agreement, and the Land Use Right and Property Lease Framework Agreement. Sinopec Group also provides safe production insurance and counter-guarantees to us. Transactions under these agreements, the safe production insurance and the counter-guarantees will constitute our connected transactions or continuing connected transactions within the meaning of the Hong Kong Listing Rules.

### NON-RECURRENT TRANSACTION

#### Non-Competition Agreement

We and Sinopec Group entered into the Non-Competition Agreement on December 19, 2012, pursuant to which we are granted an option to acquire the New Business Opportunity (as defined in “Relationship with Controlling Shareholders” of this prospectus), an option for acquisitions and pre-emptive rights. See “Relationship with Controlling Shareholders” for details of the Non-Competition Agreement.

#### Implications under the Hong Kong Listing Rules

Any transaction that might take place after the Global Offering pursuant to the Non-Competition Agreement is in relation to the relevant transactions which have already been entered into before the Global Offering. Therefore, such transactions will not constitute connected transactions or our continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. However, when we decide whether to exercise any option to acquire the New Business Opportunity, any option for acquisitions or pre-emptive right granted under the Non-Competition Agreement, we shall comply with the relevant requirements under Chapter 14A of the Hong Kong Listing Rules.

## CONNECTED TRANSACTIONS

### CONTINUING CONNECTED TRANSACTIONS

#### Summary Table of Our Continuing Connected Transactions

Nature of transaction	Applicable Hong Kong Listing Rules	Waiver sought	Proposed annual cap for the year ending December 31,		
			2013	2014	2015
<i>(RMB'000 other than in respect of the counter-guarantees provided by Sinopec Group)</i>					
<b>Exempt continuing connected transactions</b>					
(1) Trademark License Agreement .....	14A.33(3)	N/A	nil	nil	nil
(2) Land Use Right and Property Lease Framework Agreement....	14A.33(3)	N/A			
Leasing of land use rights and properties by Sinopec Group to us .....			7,500	7,500	7,500
Leasing of land use rights and properties by us to Sinopec Group .....			6,500	6,500	6,500
(3) General Services Framework Agreement ..	14A.33(3)	N/A			
Provision of services by Sinopec Group to us .....			15,000	15,000	15,000
Provision of services by us to Sinopec Group .....			1,000	1,000	1,000
(4) Safe Production Insurance Fund .....	14A.33(3)	N/A	21,000	25,000	30,000
(5) Counter-guarantees provided by Sinopec Group .....	14A.65(4)	N/A	US\$308,800,000	US\$308,800,000	US\$308,800,000

## CONNECTED TRANSACTIONS

Nature of transaction	Applicable Hong Kong Listing Rules	Waiver sought	Proposed annual cap for the year ending December 31,		
			2013	2014	2015
<i>(RMB'000 other than in respect of the counter-guarantees provided by Sinopec Group)</i>					
<b>Continuing connected transactions that require waiver application</b>					
(1) Technology R&D Framework Agreement ..	14A.34	Waiver from announcement requirement			
Provision of services by us to Sinopec Group .....			100,000	120,000	150,000
Provision of services by Sinopec Group to us .....			30,000	50,000	50,000
(2) Financial Services Framework Agreement....	14A.35	Waiver from announcement and independent shareholders' approval requirements			
Service fees in relation to settlement, entrustment loan and other financial services .....			25,600	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
Maximum daily balance of deposits and interest income .....			5,500,000	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
Maximum daily balance of entrustment loans .....			11,000,000	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
(3) Engineering and Construction Services Framework Agreement....	14A.35	Waiver from announcement and independent shareholders' approval requirements			
Provision of services by us to Sinopec Group .....			21,000,000	24,000,000	27,600,000
Provision of services by Sinopec Group to us .....			1,800,000	2,000,000	2,100,000

*Note:*

- (1) We have applied to the Hong Kong Stock Exchange for an interim waiver from strict compliance with the announcement and independent shareholders' approval requirements set out in Chapter 14A of the Hong Kong Listing Rules which will expire on December 31, 2013. Such non-exempt continuing connected transactions under the Financial Services Framework Agreement (together with the proposed annual caps) will be submitted to our independent Shareholders for approval within six months after Listing.

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## CONNECTED TRANSACTIONS

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### EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### Continuing Connected Transactions Exempted under Rules 14A.33(3) and 14A.65(4)

The following transactions (other than the counter-guarantees provided by Sinopec Group which are exempted under Rule 14A.65(4) of the Hong Kong Listing Rules) are made in the ordinary course of business and on normal commercial terms where each of the relevant percentage ratios (other than the profits ratio) calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules will, as our Directors currently expect, not exceed 0.1% on an annual basis. Under Rule 14A.33(3) of the Hong Kong Listing Rules, the transactions are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

#### *(1) Trademark License Agreement*

**Principal terms:** We entered into a trademark license agreement with Sinopec Group on December 19, 2012 (the "Trademark License Agreement"), pursuant to which Sinopec Group has agreed to grant a general license on a non-exclusive basis in respect of certain trademarks of Sinopec Group to us for our use free of charge. Unless with the prior written consent of Sinopec Group, we may not transfer or license such trademarks to any third parties. The Trademark License Agreement is for a term of 3 years commencing on the Listing Date for nil consideration. Unless otherwise agreed in writing by the parties, the Trademark License Agreement will be automatically renewed upon its expiry for another three years for unlimited times, subject to the restrictions and regulations under the Hong Kong Listing Rules.

**Reasons for the transaction:** We have been the operating platform for the oil refining and chemical engineering businesses under Sinopec Group and have been using the trademarks of Sinopec Group for a number of years. As such, in order to maintain the consistency of our image, we will continue to use certain trademarks of Sinopec Group after completion of the Global Offering.

**Historical amounts:** The amounts of transaction carried out for the years ended December 31, 2010, 2011 and 2012 were nil, nil and nil, respectively.

#### *(2) Land Use Right and Property Lease Framework Agreement*

##### *(i) Leasing of land use rights and properties by Sinopec Group to us*

**Principal terms:** We entered into a land use right and property lease framework agreement with Sinopec Group on December 19, 2012 (the "Land Use Right and Property Lease Framework Agreement"), pursuant to which we may lease land use rights and properties from the Sinopec Group and/or its associates.

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## CONNECTED TRANSACTIONS

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The Land Use Right and Property Lease Framework Agreement is valid for a term of 20 years commencing on the Listing Date. Relevant subsidiaries or associated companies of both parties will enter into separate leases which will set out the specific terms and conditions according to the principles provided in the Land Use Right and Property Lease Framework Agreement.

The term of the separate leases entered into under the Land Use Right and Property Lease Framework Agreement shall be for a maximum of 20 years. We may request to renew the term of the lease by issuing a written notice to relevant members of the Parent Group at least one month before expiry of the lease. Relevant members of the Parent Group shall, upon receipt of the said notice, consent to the request for renewal and shall renew the lease with members of our Group before its expiry. The standard rate of rentals upon renewal shall follow the government-prescribed price or where no such government-prescribed price is applicable, it shall then be determined by reference to the then market price or as agreed by both parties after negotiations.

**Existing leases:** SNEC and SAMC Zhejiang Petroleum Branch entered into a building leasing contract on June 27, 2012. The term of the building leasing contract is 20 years commencing from May 1, 2012 until April 30, 2032. Pursuant to the building leasing contract, SAMC Zhejiang Petroleum Branch has leased certain properties with a total area of approximately 12,921 square meters located at Zhenhai District, Ningbo, to SNEC for its use. These properties have been used as dormitories for employees with annual rentals of RMB1,230,000. If full depreciation is provided for the leased properties in accordance with the stipulated depreciation term or if there is any change in expenses such as tax, the annual rental will be adjusted accordingly.

SNEC and SAMC Shanghai Petroleum Branch entered into an asset leasing contract on June 27, 2012. The term of the asset leasing contract is 20 years commencing from May 1, 2012 until April 30, 2032. Pursuant to the asset leasing contract, SAMC Shanghai Petroleum Branch has leased certain land with a total area of approximately 16,258 square meters and certain properties built thereon with a total area of approximately 4,125 square meters located at the Lingqiao Base, 1688 Jiangdong Road, Pudong New District, Shanghai, to SNEC for its use. The land and the properties have been used as factory buildings with annual rentals of RMB543,000. If full depreciation is provided for the leased land and properties in accordance with the stipulated depreciation term or there is any change in expenses such as tax, the annual rental will be adjusted accordingly.

FCC and SAMC Tianjin Petroleum Branch entered into an asset leasing contract on December 21, 2012. The term of the asset leasing contract commenced on January 1, 2012. Pursuant to the asset leasing contract, SAMC Tianjin Petroleum Branch has leased certain land with a total area of approximately 2,423 square meters and certain properties with a total area of approximately 5,373 square meters located to the south of Nanhuan Road and at 200-290 Shengli Street in the Binhai New District (Dagang) in Tianjin to FCC for its use at the annual rental of RMB1,521,859.18. If rental changes in connection with tax rate, a new rental standard will be adopted after agreement has been reached between the parties.

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## CONNECTED TRANSACTIONS

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SNEI and SAMC Jiangsu Petroleum Branch entered into a property leasing contract on January 1, 2013. The term of the property leasing contract is one year commencing from January 1, 2013 until December 31, 2013. Pursuant to the property leasing contract, SAMC Jiangsu Petroleum Branch leases certain properties with a total area of approximately 1,707 square meters located at No. 395, Zhongshan North Road, Nanjing, to SNEI for its use. These properties have been used as office units at the annual rental of RMB934,341.6.

**Reasons for the transaction:** We began to use the above properties before the Track Record Period mainly as dormitories, offices and factory buildings. Any relocation will cause unnecessary disruption.

**Historical amounts:** The rental payments made to Sinopec Group and/or its associates for the years ended December 31, 2010, 2011 and 2012 were RMB2,100,000, RMB1,866,000 and RMB4,589,000, respectively.

**Annual caps:** The maximum aggregate annual amount of rental for the years ending December 31, 2013, 2014, and 2015 shall not exceed the caps set out below:

	<u>Proposed annual cap for the year ending December 31,</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>(RMB'000)</i>		
Total rental .....	7,500	7,500	7,500

**Basis of caps:** In determining the above annual caps, we have considered (i) the rentals of the property leases which are currently undertaken by us, (ii) the possible increases in the rentals of properties in the PRC in the future, and (iii) the potential new property leases to be entered into with Sinopec Group and/or its associates by us after the Global Offering.

*(ii) Leasing of land use rights and properties by us to Sinopec Group*

**Principal terms:** We entered into the Land Use Rights and Property Lease Framework Agreement with Sinopec Group on December 19, 2012, pursuant to which Sinopec Group and/or its associates may lease land use rights and properties from us.

Please refer to the information disclosed in “Exempt Continuing Connected Transactions — Continuing Connected Transactions exempted under Rules 14A.33(3) and 14A.65(4) — (2) Land Use Rights and Property Lease Framework Agreement — (i) Leasing of land use rights and properties by Sinopec Group to us” above for the term of the Land Use Rights and Property Lease Framework Agreement.

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## CONNECTED TRANSACTIONS

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The term of the separate leases entered into under the Land Use Rights and Property Lease Framework Agreement shall be for a maximum of 20 years. Sinopec Group and/or its associates may request to renew the term of the lease by issuing a written notice to us at least one month before expiry of the lease. We shall, upon receipt of the said notice, consent to the request for renewal and shall renew the lease with Sinopec Group and/or its associates before its expiry. The standard rate of rentals upon renewal shall follow the government-prescribed price or where no such government-prescribed price is applicable it shall then be determined by reference to the then market price or as agreed by both parties after negotiations.

**Existing leases:** Shanghai Petrochemical Machine Manufacturing Company (“SPMMC”) and Sinopec Shanghai Petrochemical Company Limited (“SPC”) entered into a factory building leasing contract on April 8, 2011. The term of the factory building leasing contract is 6 years commencing from December 1, 2010 until November 30, 2016. Pursuant to the factory building leasing contract, SPMMC has leased the factory building with a total construction area of approximately 8,427 square meters located at No. 11, Shihuawei Jiulu, Jinshan District, Shanghai to SPC for its expansion of ancillary facilities in connection with reformation of certain projects. The total fees for the leasing contract will be RMB5,854,000, being RMB975,700 per year.

FCC and Engineering and Construction Project Division of Tianjin Crude Oil Commercial Reserve Base of Sinopec Group Pipeline Storage & Transportation Company (“Tianjin Project Division”) entered into a building leasing contract on June 9, 2010. The term of the building leasing contract is from September 16, 2010 to July 31, 2013. Pursuant to the building leasing contract, FCC has leased a building with a total construction area of approximately 2,589 square meters located at Guangxing Road, Dagang District, Tianjin to Tianjin Project Division for its use as offices and dormitories at an annual rent of RMB500,000. If the tax and expenses in relation to lease of properties change during the term of the contract, the rent shall be adjusted accordingly.

SSEC and SPC entered into an asset leasing contract on May 2, 2013. The term of the asset leasing contract is from January 1, 2013 to December 31, 2015. Pursuant to the asset leasing contract, SSEC has leased certain land with a total area of approximately 134,770 square meters, a warehouse with a total construction area of approximately 19,909 square meters and some other ancillary facilities located at Huanjiang Road, Shanghai to SPC at an annual rent of RMB4,000,000.

**Reasons for the transaction:** The factory building owned by SPMMC in Shanghai is in close proximity to SPC and is therefore very convenient for SPC. The factory building leasing contract commenced from 2010 and is intended to last for a term of six years. Any relocation will be timely and costly and will cause unnecessary disruption to SPC’s business.

The construction site of the Tianjin crude oil commercial reserve base project is in close proximity to the said building owned by FCC and is therefore very convenient for Tianjin Project Division. Any relocation will be timely and costly and will cause unnecessary disruption to Tianjin Project Division’s business.

SPC began to use the above properties before the Track Record Period as its warehouse. Any relocation will cause unnecessary disruption to its business.



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## CONNECTED TRANSACTIONS

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**Historical amounts:** The rental payments made by Sinopec Group and/or its associates to us for the years ended December 31, 2010, 2011 and 2012 were RMB600,000, RMB2,921,000 and RMB2,411,000, respectively. The decrease in rental payments received by us in the year ended December 31, 2012 is due to the termination of a short term lease we had with an associate of Sinopec Group at the end of 2011.

**Annual caps:** The maximum aggregate annual amount of rental for the years ending December 31, 2013, 2014, and 2015 shall not exceed the caps set out below:

	<u>Proposed annual cap for the year ending December 31,</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>(RMB'000)</i>		
Total rental .....	6,500	6,500	6,500

**Basis of caps:** In determining the above annual caps, we have considered the rentals of the property leases which are currently undertaken by Sinopec Group and/or its associates and possible increases in the rentals of properties in the PRC in the future.

Our Directors and the Joint Sponsors are of the view that the long term nature of the Land Use Right and Property Lease Framework Agreement enables us to secure premises for our business operation at a fair market price and to avoid unnecessary cost, time and effort and interruption of business caused by relocation in the case of short term leases.

As such, our Directors (including our independent non-executive Directors) and the Joint Sponsors are of the view that a term of 20 years is appropriate for the Land Use Right and Property Lease Framework Agreement and the term is consistent with general business practice for this type of leasing contracts.

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer and consultant, has confirmed that the rentals of the abovementioned existing leasing contracts between us and Sinopec Group and/or its associates are fair and reasonable and represent the prevailing market rates for similar properties that are used for similar purposes at the relevant dates, except that the rentals for the properties leased by SNEC from its connected persons are lower than the prevailing market rates.

### **(3) General Services Framework Agreement**

#### **(i) Provision of general services by Sinopec Group to us**

**Principal terms:** We entered into a general services framework agreement (the “General Services Framework Agreement”) with Sinopec Group on December 19, 2012, pursuant to which Sinopec Group and/or its associates will provide the following types of services to us: cultural, educational, training services and other related or similar services; office and logistics services; and information technology services.

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## CONNECTED TRANSACTIONS

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The General Services Framework Agreement is valid for a term of three years commencing on the Listing Date. Relevant subsidiaries or associated companies of both parties will enter into separate contracts which will set out the specific terms and conditions according to the principles provided in the General Services Framework Agreement.

**Pricing policy:** Please refer to the sub-section headed “Principal Terms of the Framework Agreements” in this section.

**Reasons for the transaction:** Certain of our offices in Beijing are located in a building in which Sinopec Group has been providing ancillary administrative and logistical services, including conference facilities, catering services, property management services and information technology services, to those of its subsidiaries which occupy the building (including us) for a number of years. Given the quality, cost efficiency and convenience of using such ancillary services, it will be beneficial to us to continue purchasing such services from Sinopec Group and/or its associates. In addition, we have been receiving cultural and educational training provided by Sinopec Group and/or its associates since our inception, including foreign language and cultural training courses, international project management courses, occupational skills training courses and management skills training seminars, which we believe to be beneficial to the professional development of our staff.

**Historical amounts:** The amounts of transactions carried out for the years ended December 31, 2010, 2011 and 2012 were nil, nil and RMB629,000, respectively. We did not pay for the general services provided by Sinopec Group and/or its associates until the year ended December 31, 2012 as we were a wholly-owned subsidiary of Sinopec Group before the Reorganization in 2012. The notional transaction amounts were RMB11.0 million, RMB12.3 million and RMB14.3 million for the three years ended December 31, 2010, 2011 and 2012, respectively.

**Annual caps:** The maximum aggregate annual amount of fees for the years ending December 31, 2013, 2014 and 2015 shall not exceed the caps set out below:

	<b>Proposed annual cap for the year ending December 31,</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(RMB'000)</i>		
Total fees.....	15,000	15,000	15,000

**Basis of caps:** In determining the above annual caps, we have considered the following: (i) the annual fee to be paid for the training services and conference facilities provided by Sinopec Group and/or its associates which is estimated to be approximately RMB12,000,000; (ii) the annual fee to be paid for the catering services provided by Sinopec Group and/or its associates which is estimated to be approximately RMB2,000,000; and (iii) the annual fee to be paid for the miscellaneous services (including property management services and information technology services, such as Wi-Fi and general IT support, etc.) provided by Sinopec Group and/or its associates which is estimated to be approximately RMB1,000,000 based on the market rates charged for those services.

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## CONNECTED TRANSACTIONS

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*(ii) Provision of general services by us to Sinopec Group*

**Principal terms:** We entered into the General Services Framework Agreement with Sinopec Group on December 19, 2012, pursuant to which we will provide the following types of services to Sinopec Group and/or its associates: educational and training services; and other services.

Please refer to the information disclosed in “Exempt Continuing Connected Transactions — Continuing Connected Transactions exempted under Rules 14A.33(3) and 14A.65(4) — (3) General Services Framework Agreement — (i) Provision of general services by Sinopec Group to our Company” above for the term of the General Services Framework Agreement.

**Pricing policy:** Please refer to the sub-section headed “Principal Terms of the Framework Agreements” in this section.

**Reasons for the transaction:** Our training center for welders will from time to time provide welding training to certain workers from Sinopec Group and/or its associates which are required for those workers to perform their duties at the relevant entities under Sinopec Group.

**Historical amounts:** The amounts of transactions carried out for the years ended December 31, 2010, 2011 and 2012 were nil, nil and nil, respectively, as no such training was offered to welders of Sinopec Group or its associates during those years. It is expected that such training will be offered by us upon completion of the refurbishment of the training center after the Global Offering.

**Annual caps:** The maximum aggregate annual amount of fees for the years ending December 31, 2013, 2014 and 2015 shall not exceed the caps as set out below:

	<u>Proposed annual cap for the year ending December 31,</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>(RMB'000)</i>		
Total fees.....	1,000	1,000	1,000

**Basis of caps:** In determining the above annual caps, we have mainly considered the estimated income to be generated from the provision of education and training services in our education and training center to Sinopec Group and/or its associates in the future.

**(4) Safe Production Insurance Fund**

With the approval of the MOF, Sinopec Group has established the Safe Production Insurance Fund (the “SPI Fund”). The SPI Fund currently provides insurance coverage on a consolidated basis for certain assets used in our operations against the pecuniary loss resulting from natural disasters and accidents.

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## CONNECTED TRANSACTIONS

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Upon receipt by Sinopec Group of the premium from us, Sinopec Group will refund 20% of the paid premium to us if we pay the semi-annual premium on time according to the SPI Fund Document (the “Refund”). If we fail to pay the semi-annual premium on time, the Refund will be adjusted to 17% of the paid premium. The Refund shall be used by us in dealing with accidents and potential risks and implementing safety measures, in safety education and training, in preventing major accidents and eliminating potential risks, and as rewards to entities and individuals who have made special contributions to safe production.

**Reasons for the transaction:** According to the document jointly issued in 1997 by the MOF and the ministerial level enterprise of Sinopec Group before the industry re-organization in 1998 (Cai Gong Zi 1997 No. 268) relating to the payment of insurance premium by us to Sinopec Group (the “SPI Fund Document”), we are required to pay insurance premium to the SPI Fund twice a year, each amounting to 0.2% of the historical value of our fixed assets and our average month-end inventory value for the previous six months.

Our PRC legal advisor is of the view that, pursuant to the SPI Fund Document, (i) the SPI Fund was established with the approval of the State Council, and the SPI Fund Document was jointly issued by the Ministry of Finance and Sinopec Group; (ii) unless otherwise indicated by the State Council or the Ministry of Finance, the SPI Fund Document shall remain in effect; and (iii) any amendment to the SPI Fund Document shall be subject to the approval of the Ministry of Finance.

**Historical amounts:** The net insurance premium paid in accordance with the SPI Fund Document for the years ended December 31, 2010, 2011 and 2012 were approximately RMB9,549,000, RMB9,830,000 and RMB11,234,000, respectively.

**Annual caps:** The maximum aggregate annual net amount of insurance premium to be paid for the years ending December 31, 2013, 2014 and 2015 shall not exceed the caps set out below:

	<u>Proposed annual cap for the year ending December 31,</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
		<i>(RMB'000)</i>	
Total premium .....	21,000	25,000	30,000

**Basis of caps:** In determining the above annual caps, we have considered the following: (i) the amount of our fixed assets as at December 31, 2012, (ii) the estimated increase of our fixed assets in the future resulting from application of the proceeds from the Global Offering in fixed asset investment, and (iii) the average historical growth of the scale of fixed assets and inventory caused by expansion of our business scale.

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## CONNECTED TRANSACTIONS

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### *(5) Counter-guarantees provided by Sinopec Group*

**Background:** As the project financing for the Kazakhstan Atyrau Refinery Aromatics Hydrocarbons Project and the Kazakhstan KPI IPCI Project were provided by The Export-Import Bank of China (“China EXIM”), we obtained letters of guarantees issued by China EXIM totaling US\$406.2 million with respect to our services in connection with these projects. In accordance with China EXIM’s general requirements for issuing letters of guarantees in respect of overseas projects, such letters would only be issued on the condition that our controlling shareholder, Sinopec Group, would provide counter-guarantees for an equivalent amount. As at the Latest Practicable Date, we are not aware of China EXIM having made any claim against Sinopec Group pursuant to the counter-guarantees provided by Sinopec Group.

**Historical amounts:** The maximum aggregate amount of counter-guarantees for the years ended 31 December 2010, 2011 and 2012 were US\$404,700,000, US\$409,200,000 and US\$408,900,000, respectively.

**Annual caps:** The maximum aggregate annual amount of counter-guarantees for each of the years ending 31 December 2013, 2014 and 2015 shall not exceed the caps set out below:

	<u>Proposed annual cap for the year ending December 31,</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
		<i>(US\$’000)</i>	
Aggregate amount of counter-guarantees .....	308,800	308,800	308,800

**Reason for the transaction:** As the Kazakhstan Atyrau Refinery Aromatics Hydrocarbons Project and the Kazakhstan KPI IPCI Project are still in progress, we cannot release the counter-guarantees provided by Sinopec Group to China EXIM in favor of us before Listing as any early release of such counter-guarantees will breach the requirements set by China EXIM for the provision of the letters of guarantee to us, which will adversely affect the projects.

Pursuant to Rule 14A.65 of the Hong Kong Listing Rules, the counter-guarantees provided by Sinopec Group in favor of us shall constitute a form of financial assistance provided by our connected person in favor of us. Such counter-guarantees will be exempted from the reporting, announcement and independent shareholders’ approval requirements under Rule 14A.65(4) of the Hong Kong Listing Rules for the following reasons: (i) such financial assistance is on normal commercial terms, and (ii) no security over our assets is granted in respect of such financial assistance.

According to the terms of the counter-guarantees, the above counter-guarantees provided by Sinopec Group in favor of us will be released two years after the relevant guarantees have been released.

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## CONNECTED TRANSACTIONS

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### CONTINUING CONNECTED TRANSACTIONS WHICH REQUIRE WAIVER APPLICATIONS

#### 1. Continuing connected transaction which is subject to the reporting, annual review and announcement requirements but exempted from the independent shareholders' approval requirement

The following transaction is entered into during the ordinary course of business on normal commercial terms where, as our Directors currently expect, each of the applicable “percentage ratios” (except for the profit ratio) calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules will not exceed 5% on an annual basis or will be less than 25% on an annual basis and the annual consideration is less than HK\$10,000,000. Under Rule 14A.34 of the Hong Kong Listing Rules, the following transaction will be subject to the reporting, announcement and annual review requirements under Chapter 14A of the Hong Kong Listing Rules but will be exempted from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

##### *(1) Technology R&D Framework Agreement*

##### *(i) Provision of Technology R&D services by us to Sinopec Group*

**Principal terms:** We entered into a technology R&D framework agreement with the Sinopec Group on December 19, 2012 (the “Technology R&D Framework Agreement”), pursuant to which we will provide technology development; technology consulting; technology services; technology licensing; application for, maintenance, licensing and transfer of patents, and other technology research and development services (the “Technology R&D Services”) to Sinopec Group and/or its associates.

The Technology R&D Framework Agreement is valid for a term of three years commencing on the Listing Date. Relevant subsidiaries or associated companies of both parties will enter into separate contracts which will set out the specific terms and conditions according to the principles provided in the Technology R&D Framework Agreement.

**Pricing policy:** Please refer to the sub-section headed “Principal Terms of the Framework Agreements” in this section.

**Reasons for the transaction:** We provide technology research and development services to our clients in relation to technologies in the oil refining and chemical industries, which is in line with normal industry practice as we have on-the-ground knowledge of our clients' needs when providing our engineering and construction services to them. Sinopec Group and/or its associates will, as our clients, receive technology R&D services provided by us from time to time.

**Historical amounts:** The revenue generated from our provision of Technology R&D services to Sinopec Group and/or its associates for the years ended December 31, 2010, 2011 and 2012 were approximately RMB183,810,000, RMB128,560,000 and RMB143,469,000, respectively.

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## CONNECTED TRANSACTIONS

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**Annual caps:** The maximum aggregate annual amount of fees for the years ending December 31, 2013, 2014 and 2015 shall not exceed the caps set out below:

	Proposed annual cap for the year ending December 31,		
	2013	2014	2015
	<i>(RMB'000)</i>		
Total fees.....	100,000	120,000	150,000

**Basis of caps:** In determining the above annual caps, we have considered the following: (i) it is expected that we will undertake an average of over 100 technology research and development projects every year for Sinopec Group and/or its associates; (ii) the average contract value of each project is expected to be in line with the historical average for similar projects of RMB1,000,000 to RMB2,000,000; (iii) such projects are carried out and revenues in relation thereto are recognized over an average of three years; and (iv) the business volume in certain R&D areas is expected to grow in the future, including R&D in ethylene, clean fuel products and coal substitute for petroleum resources, based on the types of projects undertaken and expected to be undertaken by Sinopec Group and/or its associates.

*(ii) Provision of Technology R&D services by Sinopec Group to us*

**Principal terms:** We entered into the Technology R&D Framework Agreement with Sinopec Group on December 19, 2012, pursuant to which Sinopec Group and/or its associates will provide Technology R&D Services to us.

Please refer to the information disclosed in “Continuing connected transactions which require waiver applications — 1. Continuing connected transaction which is subject to the reporting, annual review, and announcement requirements but exempted from the independent shareholders’ approval requirement — (1) Technology R&D Framework Agreement — (i) Provision of Technology R&D Services by us to Sinopec Group” above for the term of the Technology R&D Framework Agreement.

**Reasons for the transaction:** We primarily focus on engineering application and engineering amplification of the oil processing technologies, whilst Sinopec Group primarily focuses on research in oil refining and petrochemical processing technologies and analysis in laboratory parameters of such technologies. As part of our strengths and strategies, we have established close cooperative relationships with some of our clients (including Sinopec Group and/or its associates) to jointly develop new technologies and methods to facilitate the application of such technologies. These technologies will sometimes be licensed by us (with the permission of such clients) to our clients in the oil refining and chemical industries. In connection with those technologies and methods which we have developed with Sinopec Group and/or its associates, certain portions of the total license fees which we receive from our clients will be paid by us to the relevant research and development institutions under Sinopec Group as fees for Technology R&D Services received from Sinopec Group and/or its associates.

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## CONNECTED TRANSACTIONS

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**Pricing policy:** Please refer to the sub-section headed “Principal Terms of the Framework Agreements” in this section.

**Historical amounts:** The expenditure we incurred for the purchase of Technology R&D services from Sinopec Group and/or its associates for the years ended December 31, 2010, 2011 and 2012 were nil, nil and nil, respectively, as we were a wholly-owned subsidiary of Sinopec Group before the Reorganization in 2012 and the license fee sharing arrangement between us and Sinopec Group and/or its associates in relation to the jointly developed technologies and methods was only finalized after the completion of the Reorganization and not implemented during the Track Record Period. The notional transaction amount was immaterial to the Company.

**Annual caps:** The maximum aggregate annual amount of fees for the years ending December 31, 2013, 2014 and 2015 shall not exceed the caps set out below:

	<u>Proposed annual cap for the year ending December 31,</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>(RMB'000)</i>		
Total fees.....	30,000	50,000	50,000

**Basis of caps:** In determining the above annual cap for the year ending December 31, 2013, we have considered the estimated expenditure for the purchase of certain Technology R&D Services from research and development institutions under Sinopec Group which is expected to be around RMB10,000,000 for an ethylene project and around RMB20,000,000 for three oil refining projects. In determining the above annual caps for the years ending December 31, 2014 and 2015, we have considered the increase of our expenditure in purchasing Technology R&D Services from research and development institutions under Sinopec Group resulting from the expected increase in the demand of our technologies in the areas of development of catalyst and additives for oil refining, development of refining process and development of energy conservation and emission reduction.

### **2. Continuing connected transactions which are subject to the reporting, annual review, announcement and independent shareholders’ approval requirements**

The following transactions are entered into during the ordinary course of business on normal commercial terms where, as our Directors currently expect, each of the applicable “percentage ratios” (except for the profit ratio) calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules will exceed 5% on an annual basis and the annual consideration will exceed HK\$10,000,000. Under Rules 14A.34 and 14A.35 of the Hong Kong Listing Rules, such transactions will constitute our non-exempt continuing connected transactions, and are subject to the requirements of reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.



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## CONNECTED TRANSACTIONS

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### *(1) Financial Services Framework Agreement*

**Principal terms:** We entered into a financial services framework agreement with Sinopec Group on December 19, 2012 as amended by a supplemental agreement on April 22, 2013 (the “Financial Services Framework Agreement”), pursuant to which Sinopec Finance and Sinopec Century Bright will provide financial services to us, such financial services primarily include deposits, loans, entrustment loans, settlement services, financial and financing consulting, credit certification, insurance agency, exchange settlement, bond underwriting, foreign exchange business, and related consultancy and agency financial services.

The Financial Services Framework Agreement is valid for a term of three years commencing on the Listing Date. We will enter into separate contracts with Sinopec Finance and Sinopec Century Bright, which will set out the specific terms and conditions according to the principles provided in the Financial Services Framework Agreement.

### **Background information on Sinopec Finance and Sinopec Century Bright**

#### *Sinopec Finance*

Sinopec Finance is a non-banking financial institution incorporated in the PRC in 1988 and is subject to the *Administrative Measures on Finance Companies within Group Enterprises* (《企業集團財務公司管理辦法》) and other relevant regulations promulgated by the PBOC and CBRC. Sinopec Finance is 51% owned by Sinopec Group and 49% owned by Sinopec Corp. The establishment of such non-banking financial institutions is subject to approval by the CBRC and its operation is subject to the ongoing supervision of the CBRC. Non-banking financial institutions shall comply with applicable regulations relating to interests rates issued by the PBOC and CBRC.

In the PRC, finance companies within group enterprises are only permitted under applicable PRC laws and regulations to provide financial services to enterprises within the same parent group. Therefore, Sinopec Finance only provides financial services to members of the Sinopec Group, including us.

As a non-banking financial institution, Sinopec Finance is subject to various regulatory and capital adequacy requirements, including capital adequacy ratios, loan-to-deposit ratios, limit on interbank loans and deposit reserve thresholds. The CBRC issued a regulatory guideline 《企業集團財務公司管理辦法》 in July 2004 (and as amended in December 2006) (the “CBRC Guideline”) with respect to the establishment and ongoing regulation of such non-banking financial institutions. The CBRC Guideline provided, among other things, that “*when applying for establishment of a finance company, the board of directors of the parent company shall undertake in writing that, if, in an emergency, the finance company faces difficulties in meeting its payment obligations, the parent company will increase the capital of the finance company as required to solve such payment difficulties. Such undertaking shall be contained in the articles of association of the finance company.*” Sinopec Group provided such undertaking to the CBRC on December 18, 2004 (the “Parent Undertaking”). The Parent Undertaking provides that, pursuant to the CBRC Guideline, Sinopec Group undertakes that if, in an emergency, Sinopec Finance faces difficulties in meeting its payment obligations, it will increase the capital of Sinopec Finance as required to solve such payment difficulties.

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## CONNECTED TRANSACTIONS

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As at December 31, 2012, Sinopec Finance had total assets of RMB124.5 billion, shareholders' equity of RMB15.8 billion, registered capital of RMB10 billion and a capital adequacy ratio of 26.84%. With respect to bonds issued by Sinopec Finance in 2009, China Lianhe Credit Rating Co., Ltd. confirmed in July 2012 that it will maintain a credit rating of AAA on the bonds, with a stable outlook.

As at the Latest Practicable Date, the business scope of Sinopec Finance as set out in its business license includes: (i) providing financial and financing consultancy, credit certification and related consultancy and agency services to members of the group; (ii) assisting members of the group in settlement; (iii) providing guarantees to members of the group; (iv) providing entrustment loan and entrusted investment services; (v) providing bill acceptance and discount services to members of the group; (vi) processing the settlement of internal transfers between accounts and providing solution plans for relevant settlement and clearing; (vii) taking deposits from members of the group; (viii) providing loan and finance leases to members of the group; (ix) conducting inter-borrowings among finance companies; (x) issuing corporate bonds of finance companies upon approval; (xi) underwriting the corporate bonds issued by members of the group; (xii) making equity investments in financial institutions; (xiii) making investments in negotiable securities; (xiv) providing consumer credits, buyers' credits and finance lease services to products of members of the group; and (xv) approved insurance agency services (valid through September 29, 2014).

### *Sinopec Century Bright*

Sinopec Century Bright is a company incorporated in Hong Kong with limited liability. It is licensed under the Money Lenders Ordinance (Cap. 163 of the Laws of Hong Kong). It is approved by the SAFE as an offshore settlement center for centralized cash management for members of the Sinopec Group in year 2007. As at December 31, 2012, Sinopec Century Bright had total assets of US\$23.95 billion and net assets of US\$1.93 billion. In March 2013, Sinopec Century Bright obtained an A1 rating from Moody's with a stable outlook and an A long-term corporate credit rating with a stable outlook and an A-1 short-term credit rating from Standard & Poor.

Sinopec Century Bright only provides financial services to members of the Sinopec Group (including us). Sinopec Century Bright is used as an interim/short term deposit platform by us particularly to settle trade payables and receivables in respect of overseas projects.

### **Commercial rationale and benefits of the deposits and entrustment loans**

#### *Deposits*

- (a) *Centralized cash management.* It is our policy to centralize our cash management function. As the terms offered by the Sinopec Finance Companies are no less favorable than the

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## CONNECTED TRANSACTIONS

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deposit interest rates published by the PBOC (in the case of Sinopec Finance) or independent commercial banks in Hong Kong (in the case of Sinopec Century Bright) for deposits of a similar type for the same period, the terms of placing deposits with the Sinopec Finance Companies are no less favorable to us than placing deposits with independent commercial banks. In addition, the centralized deposit of funds with the Sinopec Finance Companies will enable us to use the Sinopec Finance Companies as a primary clearing and settlement platform, provide us with access to a centralized cash pool (both onshore and offshore), giving us the flexibility to make timely withdrawals from time to time to meet our funding needs and reduce the need for us to obtain third party financing, which will in turn help us to achieve a lower cost of funding and maximize cost and operational efficiencies.

- (b) *Clearing and settlement platform.* In our ordinary course of business, as Sinopec Group is our single largest client, we transact with numerous subsidiaries/affiliated companies of Sinopec Group. In line with Sinopec Group's internal group policy, such subsidiaries/affiliated companies generally maintain settlement accounts with the Sinopec Finance Companies. The centralized maintenance of deposits by us with the Sinopec Finance Companies will facilitate clearing with other members of the Sinopec Group (some of whom are our clients), reduce the time required for transit and turnaround of funds and is generally more administratively efficient than settlement through independent banks. It would not be efficient for Sinopec Group (and its affiliates) and us to separately maintain bank accounts with independent banks for clearing and settlement.
- (c) *Familiarity with our business.* As the Sinopec Finance Companies only provide financial services to members of the Parent Group, they have over the years acquired extensive knowledge of our industry. In the context of our Group, the Sinopec Finance Companies are familiar with our capital structure, business operations, funding needs and cash flow pattern, which enables them to better anticipate our business needs. As a result, the Sinopec Finance Companies are well-positioned to provide us with bespoke and cost efficient services which would not be easy for independent commercial banks to replicate.
- (d) *Flexibility to us.* We have the sole discretion to deposit and withdraw our deposits with the Sinopec Finance Companies from time to time. There is no restriction on our ability to deposit our cash with independent commercial banks in or outside the PRC now or in the future should we so wish. Currently, we maintain deposits with independent commercial banks in and outside the PRC and expect to continue to do so depending on our contractual and other requirements. We choose to deposit our cash with the Sinopec Finance Companies as it helps us centralize our treasury management function.

Taking into account the no less favorable interest rates and other commercial benefits to our Group, we consider that the maintenance of deposits with the Sinopec Finance Companies is beneficial to our Shareholders as a whole.

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## CONNECTED TRANSACTIONS

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### *Entrustment loans*

- (a) *Lack of comparable alternative investment options.* Due to the nature of our business, we receive significant amounts of prepayments from clients from time to time, which may not be immediately required for our operational needs. Such prepayments are in effect advance payments from our clients, which we will apply towards performance of the underlying contracts as appropriate (such as purchase of raw materials and equipment, and payment of our sub-contractors) and are only temporarily idle. Therefore, we need to invest such surplus cash conservatively as it is an advance/deposit from our clients. Given our need to fund match within a relatively short time whilst maintaining flexibility to pay our trade payables from time to time, there is a lack of comparable alternative investment options. From our perspective, the provision of entrustment loans to Sinopec Group is a safe, cost efficient and flexible option for investing such cash surplus, which may not otherwise be available in the open market. We have explored alternative investment options in the open market but in view of the counterparty risk, the cost and time required for negotiations and the lack of flexibility, such alternatives are not reasonably available to us. Given our investment needs, there is a lack of comparable alternative investment options. We consider that providing entrustment loans to Sinopec Group is a sound, low risk investment option due to the top-tier credit rating of Sinopec Group and clean repayment history, generating a higher return for us than deposits which would have been the only other investment option for us given the investment policy with respect to such funds.
- (b) *Credit rating of Sinopec Group.* The borrower of the entrustment loans is Sinopec Group. Pursuant to the terms of the entrustment loans, Sinopec Group has the sole obligation to repay principal and interest (and any late payment interest). In May 2012, Sinopec Group obtained an A+ long term corporate credit rating from Standard & Poor with a stable outlook and an Aa3 credit rating from Moody's. As at Latest Practicable Date, Sinopec Group had a registered capital of RMB231,620,585,000. Sinopec Group ranked 5th in Fortune Global 500 in both 2011 and 2012. We therefore consider that lending to Sinopec Group is a low risk investment option. During the Track Record Period, Sinopec Group has not defaulted under any of the entrustment loans provided by us. Taking into account the creditworthiness of Sinopec Group and clean repayment history during the Track Record Period, the entrustment loans are generally unsecured.
- (c) *No negative impact on our working capital sufficiency.* As we will only provide entrustment loans to Sinopec Group when we have surplus cash, such loans did not in the past, nor are they expected to in the future, pose any cash flow pressure on members of our Group. We have adequate internal resources and a strong credit profile to support our daily operations. As at December 31, 2012, we had cash and cash equivalent of RMB4.82 billion.
- (d) *Efficient and flexible cash management.* Provision of entrustment loans to Sinopec Group will allow us to invest our surplus cash efficiently within a relatively short timeframe. Our entrustment loans to Sinopec Group generally do not exceed one year (the majority are for a period of one year or six months), enabling us to deploy our financial resources efficiently and flexibly. Upon the expiry of the entrustment loans, we will receive the principal amount and the interest payment in relation to such entrustment loans from Sinopec Finance. Any

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new loans to Sinopec Group will be subject to normal approval procedures in the usual way. Furthermore, whilst we have historically provided entrustment loans to Sinopec Group and expect to continue to do so in the future, we are not under any legal or other obligation to provide entrustment loans to Sinopec Group. Pursuant to the entrustment loan agreements, we are entitled to early terminate the loans (without penalty) at our option in which case current deposit interest rate will apply.

- (e) *Normal commercial terms.* The interest rate on entrustment loans is not regulated in the PRC. We understand that there is no market standard rate for entrustment loans as the interest rate is determined through arm's length negotiations between the parties based on relative bargaining power, risk profile, security value, among other things. We generally use the prevailing base deposit rate published by the PBOC as a reference point with an upward adjustment taking into account the amount and term of the loan. In addition, we will refer to the list of interest rates which specifies the ranges of interest rates for different entrustment loan amounts and terms. Such list has been agreed by Sinopec Group and the Board after arm's length negotiations and will be reviewed and renegotiated by the parties periodically. Based on such list, the Chief Financial Officer and our finance department will decide the interest rates of the entrustment loan agreements to be entered into between Sinopec Group and us. If the interest rate in respect of any specific entrustment loan is proposed to exceed/fall below the agreed range specified in the list, such entrustment loan shall be subject to approval by the Board. Any approvals obtained from the Board will then be reviewed by our independent non-executive Directors before the publication of the next annual report and their views will also be disclosed therein. During the Track Record Period, the interest rates on our entrustment loans to Sinopec Group ranged from 4.2% to 5.0% per annum (except for three very immaterial loans which were at 3.76% per annum). For new entrustment loans entered into in 2013, the interest rates ranged from 4.2% to 4.5%. Based on a comparison of such interest rates against the yield of certain principal-guaranteed wealth management products currently available in the PRC market ranging from 3.2% to 3.7% per annum, the interest rates on our entrustment loans are generally higher than yield on principal-guaranteed wealth management products available in the PRC market. In addition, Sinopec Group and Sinopec Corp. issued several short term bonds during the year ended December 31, 2012, which were generally for a period of 6 months or 9 months. The interest rates on such short term bonds ranged from 3.11% to 4.15% per annum except that the interest rate in respect of a short term bond issued by Sinopec Corp. in January 2012 was 4.38% per annum. Based on a comparison of the interest rates on entrustment loans and the interest rates on such short term bonds issued by Sinopec Group and Sinopec Corp., the interest rates on entrustment loans are generally higher than the interest rates on short term bonds issued by Sinopec Group and Sinopec Corp.

In summary, taking into account (i) that the interest rates on our entrustment loans are higher than yield on principal-guaranteed investment products available in the open market; (ii) Sinopec Group's strong credit rating and clean repayment history; (iii) the potential significant drain on our time and resources to seek alternative borrowers and a lack of

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## CONNECTED TRANSACTIONS

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comparable alternative investment options compatible with our needs; and (iv) that we can early terminate our entrustment loans at our option (in which case the current deposit interest rate will apply), we consider that the provision of entrustment loans to Sinopec Group is in the interests of the Company and our Shareholders as a whole.

**Price determination:** The Financial Services Framework Agreement provides that the services shall be provided in accordance with the following pricing principles:

- (a) the interest rate applicable to our deposits with the Sinopec Finance Companies will not be lower than: (i) (applicable to deposits with Sinopec Finance only) the minimum interest rate published by PBOC for deposits of a similar type for the same period; (ii) the interest rate for deposits of a similar type for the same period placed by other members of Sinopec Group; and (iii) the interest rate for deposits of a similar type for the same period offered by independent commercial banks to us.
- (b) the interest rates applicable to our entrustment loans to Sinopec Group through Sinopec Finance shall be (i) on normal commercial terms, (ii) no less favorable than interest rates for comparable entrustment loans provided by other members of Sinopec Group to Sinopec Group through Sinopec Finance, and (iii) generally not lower than the loan interest rates for the same period published by the PBOC (taking into account any permissible downward adjustment).
- (c) the service fees for settlement, entrustment loan and other financial services shall not be higher than (i) fees charged by independent commercial banks or financial institutions; and (ii) fees charged to other members of Sinopec Group for similar services.

**Historical amounts:** The fees in relation to settlement, entrustment loan and other financial services paid to the Sinopec Finance Companies for the years ended December 31, 2010, 2011 and 2012 were approximately RMB25,420,000, RMB35,510,000 and RMB46,745,723, respectively; the maximum daily amount of deposits and interest income arising from such deposits with the Sinopec Finance Companies were RMB4.69 billion, RMB4.72 billion and RMB4.50 billion, respectively; the maximum daily balance of entrustment loans arranged through Sinopec Finance were RMB15 billion, RMB17.46 billion and RMB14.7 billion, respectively.

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**Annual caps:** The annual caps for the years ending December 31, 2013 and 2014 are set out below:

	Proposed annual cap for the year ending December 31,		
	2013	2014	2015
	<i>(RMB'000)</i>		
Service fees in relation to settlement, entrustment loan and other financial services .....	25,600	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
Maximum daily balance of deposits and interest income .....	5,500,000	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
Maximum daily balance of entrustment loans .....	11,000,000	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>

*Note:*

- (1) We have applied to the Hong Kong Stock Exchange for an interim waiver from strict compliance with the announcement and independent shareholders' approval requirements set out in Chapter 14A of the Hong Kong Listing Rules which will expire on December 31, 2013. Such non-exempt continuing connected transactions under the Financial Services Framework Agreement (together with the proposed annual caps) will be submitted to our independent Shareholders for approval within six months after Listing.

### **Basis of caps:**

*Caps for service fees.* In determining the above annual cap for the service fees in relation to settlement, entrustment loan and other financial services, we have mainly considered: (i) the estimated service fees in relation to entrustment loans with reference to the maximum daily balance of entrustment loans for the year ending December 31, 2013 and the average historical amounts of service fees for entrustment loans, (ii) the estimated cash settlement handling fees with reference to our projected business volume for the year ending December 31, 2013 and the historical ratio of cash settlement amount to handling fees, and (iii) other financial and consulting services to be provided under the Financial Services Framework Agreement.

*Caps for deposits and interest income.* In determining the maximum daily balance of deposits and interest income for the year ending December 31, 2013, we have mainly considered: (i) cash and cash equivalent of the Group as at December 31, 2012 of RMB4.82 billion together with interest income; and (ii) part of net cash inflow which will be deposited into the Sinopec Finance Companies.

*Caps for entrustment loans.* In determining the maximum daily balance of entrustment loans for the year ending December 31, 2013, we have mainly considered: (i) the balance of entrustment loans as at December 31, 2012 of RMB8.14 billion; and (ii) our expected net cash inflow during the year (including prepayments from backlog and new contracts). We do not plan to lend any proceeds raised from the Global Offering to Sinopec Group through the provision of entrustment loans.

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## CONNECTED TRANSACTIONS

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When determining whether funds are placed as deposits with the Sinopec Finance Companies or loaned to Sinopec Group through the provision of entrustment loans, we will take into account the following factors based on principles of maximum return, cost control and risk control: (i) the funding plan which specifies our long term and short term funding needs, operational needs and capital expenditure requirements, (ii) our investment needs with reference to the interest rates offered for deposits and entrustment loans, (iii) the amount of cash inflow from business operations, and (iv) the service fees charged and terms of entrustment loan.

### **Internal Control and Corporate Governance Measures**

Although there is no limit on the percentage of our total liquid and/or surplus funds to be deposited with the Sinopec Finance Companies or loaned to Sinopec Group, we consider that for the reasons explained above, such policy is in the interests of our Shareholders as a whole. We have further adopted the following measures with respect to transactions under the Financial Services Framework Agreement in order to further safeguard the interests our independent Shareholders:

#### *(1) Independent Shareholder approval*

Our Directors are of the view that the interests of our Company and our Shareholders are best served by having the financial services between us and the Sinopec Finance Companies continued through to Listing and beyond under the Financial Services Framework Agreement.

We understand that our independent Shareholders have an interest to ensure that the terms of the Financial Services Framework Agreement (including the proposed annual caps) are fair and reasonable, on normal commercial terms and in the interests of our Company and our Shareholders as a whole.

We therefore propose to submit the Financial Services Framework Agreement (together with the proposed annual caps) to independent Shareholders for approval within six months after Listing. Appropriate disclosure of the historical and ongoing transactions between us and the Sinopec Finance Companies which will continue under the Financial Services Framework Agreement has been made in this prospectus, enabling potential investors to form an informed view of the transactions. A waiver expiring on December 31, 2013 has been granted by the Hong Kong Stock Exchange. If independent Shareholders' approval cannot be obtained within six months after Listing, we will not continue with financial services under the Financial Services Framework Agreement to the extent they constitute non-exempt continuing connected transactions under Rule 14A.35 of the Hong Kong Listing Rules. In such event, it is not expected that we will suffer any adverse legal consequences, subject to loss of interest.

#### *(2) Independent financial system*

We have established an independent finance department with a team of independent financial staff, headed by the Chief Financial Officer. We have adopted a sound and independent audit system



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## CONNECTED TRANSACTIONS

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and a comprehensive financial management system. We maintain accounts with independent banks. Sinopec Group does not share any bank account with us nor does it control the use of any of our bank accounts. We have independent tax registrations and have paid tax independently pursuant to applicable PRC laws and regulations.

(3) *Risk management measures*

- The Sinopec Finance Companies and Sinopec Group will provide sufficient information including various financial indicators (as well as annual and interim financial statements) at the end of every quarter to enable us to monitor and review the financial condition of the Sinopec Finance Companies and Sinopec Group. The Sinopec Finance Companies and Sinopec Group shall notify us, subject to compliance with applicable laws and regulations, should any of them be subject to any judicial, legal or regulatory proceedings or investigations which are reasonably likely to have a material impact on the financial condition of any of them. If we consider that there is any material adverse change in the financial condition of any of the Sinopec Finance Companies and Sinopec Group, we will take appropriate measures (including early uplift of deposits, termination of entrustment loans and a moratorium on further deposits and entrustment loans) to protect our financial position.
- In addition to our internal monitoring, the Sinopec Finance Companies are also required to monitor the maximum daily balance of the deposits and entrustment loans (in the case of Sinopec Finance only) on a daily basis to ensure that the aggregate outstanding amounts do not exceed the applicable annual caps. Each of the Sinopec Finance Companies will provide to us a monthly report on the status of our deposits and entrustment loans (as applicable) so as to enable us to monitor and ensure that the relevant annual caps under the Financial Services Framework Agreement have not been exceeded. Should the balance at the end of any day exceed the maximum daily balance of deposits and interest income prevailing from time to time, the excess funds will be transferred to our designated bank accounts with an independent commercial bank. The Chief Financial Officer will also be notified at the same time once the maximum daily balance has been so exceeded. With respect to entrustment loans, before entry of any new loan, we will check that the maximum daily balance will not be exceeded.
- We will, from time to time at our sole discretion, request for the deposits with the Sinopec Finance Companies and the entrustment loans through Sinopec Finance to Sinopec Group to be withdrawn or early terminated (either in full or in part) to assess and ensure the liquidity and safety of its deposits and entrustment loans.
- Pursuant to the Parent Undertaking, Sinopec Group has undertaken, unconditionally and irrevocably, that it shall provide capital injection to Sinopec Finance in case of any payment difficulties arising from its operations. Such undertaking provides indemnification for our deposits with Sinopec Finance under the Financial Services Framework Agreement.
- Sinopec Group has confirmed to us that none of the entrustment loans, deposits or related funds it borrowed or otherwise received from us during the Track Record Period have been

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## CONNECTED TRANSACTIONS

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used to directly or indirectly finance or facilitate, or for the benefit of, any sanctioned business. Sinopec Group has further undertaken to us that it will not use any proceeds of any entrustment loans, deposits or related funds it may borrow or otherwise receive from us in the future to directly or indirectly finance or facilitate, or for the benefit of, any sanctioned business. We will consider to disclose in our annual reports, when necessary, Sinopec Group's compliance with such undertaking. Based on the above and after consulting with our legal advisors, we believe that by making entrustment loans to and depositing certain funds with Sinopec Group, we should not be deemed to have knowingly participated in or facilitated sanctioned business and therefore it is unlikely, though not impossible, that we would be subject to sanctions enforcement even if Sinopec Group were to conduct any sanctioned business.

(4) *Internal control measures*

- We have adopted a Cash Management Policy (資金管理辦法) and an Internal Bank Management Policy (內部銀行管理辦法). Such policies provide that our cash should be centrally managed in order to maximize the benefits of a cash pool. Our Finance Department is responsible for administering the Cash Management Policy. All cash inflow and outflow of our Group should be considered in light of a unified budget. An online capital management information system has been put in place to monitor the bank accounts of all our members. When providing entrustment loans to connected persons (whether through Sinopec Finance or otherwise), we will consider the interest rate, service fees, term and use of loan and creditworthiness of the ultimate borrower based on principles of maximum return, cost control and risk control. The entrustment loan agreements (setting out interest rate, service fees, term and use of loan) are first approved by the Finance Department, then the Chief Financial Officer and ultimately by our Chairman. If our Chairman has a potential conflict of interest, our President will approve. In addition, the Chief Financial Officer and his office (together with the Board Secretary) will be responsible for closely monitoring such ongoing continuing connected transactions and will elevate to the Board for consideration as appropriate.
- Our management will prepare risk assessment reports of the funds deposited with the Sinopec Finance Companies and entrustment loans to Sinopec Group every quarter which will be submitted to the Board for consideration. The contents of such risk assessment reports include the total balance and maximum daily balance of the deposits and entrustment loans for the reporting period, a summary of the interest rates of the deposits with the Sinopec Finance Companies and the entrustment loans made to Sinopec Group during the reporting period, and the terms thereof. It will also report to the Board every six months with respect to the deposits and entrustment loans under the Financial Services Framework Agreement including compliance with annual caps and any potential change in the risk profile of the Sinopec Finance Companies and Sinopec Group.
- In particular, our independent non-executive Directors will independently scrutinize the implementation and enforcement of the transactions under the Financial Services Framework Agreement. Only independent non-executive Directors may vote in respect of matters under the Financial Services Framework Agreement. If the majority of the

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independent non-executive Directors reasonably consider that it would be in our interests to reduce the level of deposits with the Sinopec Finance Companies or entrustment loans to Sinopec Group, we will take appropriate steps to implement the decision of our independent non-executive Directors. Any material findings in the risk assessment reports, the views of our independent non-executive Directors on the deposits and entrustment loans under the Financial Services Framework Agreement (including their views on how the terms of the Financial Services Framework Agreement have been complied with) and their decisions on any matters in relation thereto will be disclosed in our annual and interim reports.

- During our annual audit, we would engage our auditors to review the connected transactions between us and Sinopec Group to ensure that the transactions under the Financial Services Framework Agreement have been conducted in accordance with the Hong Kong Listing Rules and have fulfilled the relevant disclosure requirements.

The Internal Control Consultant is satisfied that the risk management and internal control measures adopted by us will be effectively implemented by our Group and are adequate and effective for us to monitor the status and ensure the safety of the deposits placed with and entrustment loans made to the Sinopec Finance Companies and Sinopec Group (as the case may be). After considering the risk management and internal control measures adopted and on the basis of the Internal Control Consultant's relevant confirmations as well as the relevant due diligence work conducted, the Joint Sponsors are of the view that the above measures are reasonably adequate and will reasonably effectively help us to monitor the transactions relating to deposits and entrustment loans contemplated under the Financial Services Framework Agreement in all material respects. Our Directors are also of the view (having considered the Internal Control Consultant's view) that the measures set forth above are reasonably adequate and will reasonably effectively help us to monitor the transactions relating to deposits and entrustment loans contemplated under the Financial Services Framework Agreement in all material respects.

### ***(2) Engineering and Construction Services Framework Agreement***

#### ***(i) Provision of engineering and construction services by us to Sinopec Group***

**Principal terms/Reasons for the transaction:** We entered into an engineering and construction services framework agreement with Sinopec Group on December 19, 2012 (the "Engineering and Construction Services Framework Agreement"), pursuant to which we will provide the following engineering and construction services to the Sinopec Group and/or its associates: engineering consulting (solution research, project proposal, feasibility study and early stage project consulting); project management; project supervision; contracting; engineering design; construction; testing and inspection and repair services; equipment manufacturing services; procurement services and equipment leasing; technology licensing, technology transfer and engineering technology services; labor supply service; and other engineering supporting services.

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The Engineering and Construction Services Framework Agreement is valid for a term of three years commencing on the Listing Date. Relevant subsidiaries or associated companies of both parties will enter into separate contracts which will set out the specific terms and conditions according to the principles provided in the Engineering and Construction Services Framework Agreement.

**Pricing policy:** Please refer to the sub-section headed “Principal Terms of the Framework Agreements” in this section.

**Historical amounts:** The revenue generated from our provision of engineering and construction services to the Sinopec Group and/or its associates for the years ended December 31, 2010, 2011 and 2012 were approximately RMB19,583,908,000, RMB16,747,544,000 and RMB19,212,814,000, respectively.

**Annual Caps:** The maximum aggregate annual amount of fees for the years ending December 31, 2013, 2014, and 2015 shall not exceed the caps set out below:

	Proposed annual cap for the year ending December 31,		
	2013	2014	2015
	<i>(RMB'000)</i>		
Total fees.....	21,000,000	24,000,000	27,600,000

**Basis of caps:** In determining the annual caps for the year ending December 31, 2013, we have mainly considered the following: (i) the value of our backlog contracts with Sinopec Group and/or its associates of approximately RMB25 billion as of December 31, 2012 and the engineering, consulting and EPC Contracting projects with a total contract value of approximately RMB14.43 billion as of December 31, 2012 in respect of which we have received letters of intent from Sinopec Group and/or its associates but was not included in our backlog as of December 31, 2012 or new contract value in 2012, (ii) the estimated contract value of the new contracts to be signed between us and Sinopec Group and/or its associates with reference to the possible new projects to be undertaken by Sinopec Group and/or its associates, and (iii) the projected revenue to be recognized from (i) and (ii) above. In determining the annual caps for the years ending December 31, 2014 and 2015, we have mainly considered the projected year-to-year increase in the revenue expected to be generated by us from the provision of engineering and construction services to Sinopec Group and/or its associates.

*(ii) Provision of engineering and construction services by Sinopec Group to us*

**Principal terms/Reasons for the transaction:** We entered into the Engineering and Construction Services Framework Agreement with Sinopec Group on December 19, 2012, pursuant to which Sinopec Group and/or its associates will provide the following services to us in respect of our engineering and construction services business: supply of equipment and materials; procurement services and equipment leasing; technology licensing, technology transfer and engineering technology services; labor supply service; other supporting services.

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## CONNECTED TRANSACTIONS

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Please refer to the information disclosed in “Continuing connected transactions which require waiver application — 2. Continuing connected transactions which are subject to the reporting, annual review, announcement and independent shareholders’ approval requirements — (2) Engineering and Construction Services Framework Agreement — (i) Provision of engineering and construction services by our Company to Sinopec Group” above for the term of the Engineering and Construction Services Framework Agreement.

**Pricing policy:** Please refer to the sub-section headed “Principal Terms of the Framework Agreements” in this section.

**Historical amounts:** The expenditure we incurred for the purchase of services from Sinopec Group and/or its associates for the years ended December 31, 2010, 2011 and 2012 were approximately RMB943,838,000, RMB345,257,000 and RMB767,460,000, respectively. The expenditure decreased from the year ended December 31, 2010 to the years ended December 31, 2011 and 2012 as the procurement for a major natural gas purification project in Sichuan was carried out in the year ended December 31, 2010.

**Annual caps:** The maximum aggregate annual amount of fees for the years ending December 31, 2013, 2014, and 2015 shall not exceed the caps set out below:

	<b>Proposed annual cap for the year ending December 31,</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(RMB'000)</i>		
Total fees.....	1,800,000	2,000,000	2,100,000

**Basis of caps:** In determining the above annual caps, we have mainly considered the market practice that (i) certain percentage of the contract value will be used for procurement in an EPC project, (ii) the relevant project owners may specify suppliers who can be the project owners themselves or another third party, and (iii) the expenditures that will be incurred for procurement from specified suppliers in a certain year will depend on the value of the contracts which requires procurement in that year and the percentage of contract value used for total procurement in relation to specified suppliers which may vary from project to project.

In particular, in relation to the annual cap for the year ending December 31, 2013, we have mainly considered the following: (i) the contract value of EPC projects with Sinopec Group and/or its associates requiring procurement in that year (including the backlog contracts as at December 31, 2012 and certain expected new contracts to be entered into) is estimated to be approximately RMB10 billion and the procurement process of such projects will be mainly carried out in the year ending December 31, 2013 and (ii) the projected value of procurement in relation to such EPC projects which is specified to be sourced from Sinopec Group and/or its associates and is calculated based on a historical average proportion of approximately 15% to 25% of the contract value of a connected EPC project which will be used for procurement from Sinopec Group and/or its associates.

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## CONNECTED TRANSACTIONS

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In relation to the annual caps for the years ending December 31, 2014 and 2015, we have mainly considered the following: (i) the expected contract value of EPC projects with Sinopec Group and/or its associates requiring procurement in the years ending December 31, 2014 and 2015 (including the backlog contracts from the relevant previous financial year and the expected new contracts to be entered into in the relevant financial year), (ii) the projected increase in our expenditure for the purchase of engineering and construction services from Sinopec Group and/or its associates due to the continued expansion and development of our business and the expected consistent flow of connected EPC projects, (iii) the proportion of the expenditure to be paid by us for the procurement from Sinopec Group and/or its associates to the amount of revenue to be generated by us in the provision of engineering and construction services to Sinopec Group and/or its associates is estimated to be approximately 7% to 9%, and (iv) the projected value of procurement in relation to such EPC projects which is specified to be sourced from Sinopec Group and/or its associates and is calculated based on a historical average proportion of approximately 15% to 25% of the contract value of a connected EPC project which will be used for procurement from Sinopec Group and/or its associates.

### PRINCIPAL TERMS OF THE FRAMEWORK AGREEMENTS

Each of the General Services Framework Agreement, the Technology R&D Framework Agreement, the Financial Services Framework Agreement and the Engineering and Construction Services Framework Agreement (collectively, the “Framework Agreements”) contains uniform binding principles, guidelines and terms and conditions, pursuant to which the relevant supplier will provide the products or services contemplated therein to the relevant recipient.

The principal terms of the Framework Agreements are set out below:

#### Price determination

The pricing of the relevant products and services provided under the Framework Agreements shall be determined in accordance with the following principles in ascending order:

- (1) government-prescribed price and government-guided price: if at any time, the government-prescribed price is applicable to any particular product or service, such product or service shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government-guided price;
- (2) tender and bidding price: where tender and bidding process is necessary under applicable laws, regulations and rules, the price ultimately determined in accordance with the tender and bidding process (applicable to the Engineering and Construction Services Framework Agreement only);
- (3) market price: the price of the same or similar products, technology or services provided by an Independent Third Party during the ordinary course of business on normal commercial terms; and

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## CONNECTED TRANSACTIONS

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- (4) agreed price: to be determined by adding a reasonable profit over a reasonable cost.

### **Termination**

Before the termination of the relevant Framework Agreement, the relevant parties may, according to the Hong Kong Listing Rules, negotiate and sign a new Framework Agreement or extend or renew such Framework Agreement to ensure the normal running of the production operations of the relevant parties after expiration of the term of the relevant Framework Agreement.

### **WAIVER APPLICATION FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

Under Rule 14A.34 of the Hong Kong Listing Rules, the transactions under paragraph 1 of the sub-section headed “Continuing connected transactions which require waiver application” will constitute connected transactions which are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Hong Kong Listing Rules. Under Rules 14A.34 and 14A.35 of the Hong Kong Listing Rules, each of the transactions under paragraph 2 of the sub-section headed “Continuing connected transactions which require waiver application” will constitute connected transactions which are subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the above non-exempt continuing connected transactions are expected to continue on a recurring and continuing basis, our Directors consider that compliance with the above announcement and/or independent shareholders’ approval requirements would be impractical, we would incur unnecessary administrative costs and would be unduly burdensome to us.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver to us under Rule 14A.42(3) of the Hong Kong Listing Rules from compliance with the announcement and/or independent shareholders’ approval requirements in respect of the above non-exempt continuing connected transactions.

In the event of any future amendments to the Hong Kong Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this prospectus, we will take immediate steps to ensure compliance with such new requirements within reasonable time.

The waiver granted by the Hong Kong Stock Exchange for the non-exempt continuing connected transactions under the Financial Services Framework Agreement will expire on December 31, 2013. The waiver for the non-exempt continuing connected transactions under the General Services Framework Agreement, the Technology R&D Framework Agreement and the Engineering and Construction Services Framework Agreement will expire on December 31, 2015.

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## **CONNECTED TRANSACTIONS**

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### **CONFIRMATION FROM OUR DIRECTORS**

Our Directors (including our independent non-executive Directors) are of the view that the non-exempt continuing connected transactions as set out above have been and will be entered into during our ordinary and usual course of business on normal commercial terms, and are fair and reasonable and in the interest of us and our Shareholders as a whole, and that the proposed annual caps for these transactions are fair and reasonable and in the interests of us and our Shareholders as a whole.

### **CONFIRMATION FROM THE JOINT SPONSORS**

The Joint Sponsors are of the view that (i) the non-exempt continuing connected transactions described in the sub-section headed “Continuing connected transactions which require waiver application” are entered into during our ordinary and usual course of business on normal commercial terms, and are fair and reasonable and in the interest of us and our Shareholders as a whole; and (ii) the proposed annual caps (where applicable) of such non-exempt continuing connected transactions mentioned above are fair and reasonable and in the interest of us and our Shareholders as a whole.



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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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### BOARD OF DIRECTORS

The Board consists of nine Directors, including one executive Director, five non-executive Directors and three independent non-executive Directors. The functions and duties of the Board include but are not limited to: convening Shareholders' general meetings and reporting the Board's work at the Shareholders' general meetings; implementing the resolutions passed at the Shareholders' general meetings; determining our business plans and investment plans; preparing annual budget proposals and final accounts proposals; preparing plans for profit distribution and recovery of losses; preparing plans for the increase or decrease in registered capital; and exercising other power, functions and duties as conferred by the Articles of Association.

The following table presents certain information of our Directors.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Duties</u>	<u>Date of Appointment</u>
CAI Xiyou (蔡希有)	51	Chairman of the Board and non-executive Director	Responsible for formulating the Company's corporate and business strategies; and making major corporate and operational decisions of the Company	August 24, 2012
ZHANG Kehua (張克華)	59	Vice Chairman of the Board and non-executive Director	Assisting the Chairman of the Board in formulating the Company's corporate and business strategies; and making major corporate and operational decisions of the Company	August 24, 2012
LEI Dianwu (雷典武)	50	Non-executive Director	Participating in formulating the Company's corporate and business strategies	August 24, 2012
LING Yiqun (凌逸群)	50	Non-executive Director	As above	August 24, 2012
CHANG Zhenyong (常振勇)	55	Non-executive Director	As above	August 24, 2012

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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Name	Age	Position	Duties	Date of Appointment
YAN Shaochun (閔少春)	48	Executive Director and President	Participating in formulating and implementing the Company's corporate and business strategies; making major corporate and operational decisions of the Company; and being fully responsible for the daily management of the Company	April 10, 2013
HUI Chiu Chung, Stephen (許照中)	65	Independent non-executive Director	Participating in the decision-making of the Company's significant events; and advising on issues such as corporate governance, connected transactions, audit and remuneration of the Directors and senior management	December 17, 2012, effective on April 11, 2013
JIN Yong (金涌)	77	Independent non-executive Director	As above	December 17, 2012, effective on April 11, 2013
YE Zheng (葉政)	48	Independent non-executive Director	As above	December 17, 2012, effective on April 11, 2013

There is no other information relating to the relationship of any of our Directors and Supervisors with other Directors, Supervisors and members of the senior management that should be disclosed pursuant to Rule 13.51(2) or paragraph 41(3) of Appendix 1A of the Hong Kong Listing Rules.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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### Directors

**Mr. CAI Xiyou (蔡希有)**, aged 51, is the Chairman of the Board and a non-executive Director of the Company, who is also a director and senior vice president of Sinopec Corp. Mr. Cai worked in Plant 6 of Jinzhou Petroleum (錦州石油六廠) and Jinzhou Oil Refinery of Jinzhou Petrochemical Corporation of China Petrochemical Corporation (中國石油化工總公司錦州石油化工公司錦州煉油廠) (“Jinzhou Refinery”) from August 1982 to December 1987, and in Hainan Jinhe Petrochemical Industry and Trading Company (海南錦和石化工貿公司) and the transportation and sales office of China Petrochemical Corporation Jinzhou Petrochemical Corporation (中國石油化工總公司錦州石油化工公司) (“Jinzhou Petrochemical”) from October 1990 to June 1995. He served as deputy manager of Sinopec Jinzhou Petrochemical Corporation (中國石化錦州石油化工公司) from June 1995 to May 1996; deputy general manager of West Pacific Petrochemical Company Ltd. DALIAN from May 1996 to March 1998; deputy manager of Sinopec Marketing Company (中國石化銷售公司) from December 1998 to June 2001; standing deputy manager of Sinopec Marketing Company from June 2001 to December 2001; director and general manager of China International United Petroleum & Chemicals Co., Ltd. (UNIPPEC) (中國國際石油化工聯合有限責任公司) from December 2001 to December 2005; vice president of Sinopec Corp. from April 2003 to November 2005. Mr. Cai has been a senior vice president of Sinopec Corp. since November 2005, and a director of Sinopec Corp. since May 2009. He also served as director of Sinopec Engineering (Group) Company Limited (中石化煉化工程(集團)有限公司) from June 2012 to August 2012, and has been appointed as Chairman of the Board and non-executive Director of the Company since August 2012. Mr. Cai graduated from Fushun Petroleum Institute (撫順石油學院) (now known as “Liaoning Shihua University (遼寧石油化工大學)”) with a bachelor’s degree in oil production and processing engineering automation in December 1982 and obtained an MBA degree from China Industry and Science Dalian Training Centre (中國工業科技管理大連培訓中心) in October 1990. Mr. Cai was recognized as a professor-level senior economist by Sinopec Group in November 2007.

**Mr. ZHANG Kehua (張克華)**, aged 59, is the Vice Chairman of the Board and a non-executive Director of the Company, who is also a vice president of Sinopec Corp. and director general of the Engineering Department of Sinopec Corp. Mr. Zhang started his career in the oil refining and chemical engineering industries in December 1969. Mr. Zhang worked in the Second Engineering Team and the Second Engineering Office of Sinopec Third Construction Company (中石化第三建設公司) from November 1983 to November 1986; deputy director and director of the Management Office of Sinopec Third Construction Company from November 1986 to February 1993; assistant to manager of Sinopec Third Construction Company from February 1993 to February 1994; deputy manager of Sinopec Third Construction Company (中國石化第三建設公司) from February 1994 to April 1996; deputy director general of Engineering & Construction Department of China Petrochemical Corporation (中國石油化工總公司) and deputy manager of Sinopec Engineering Incorporation (中國石化工程建設公司) from April 1996 to December 1998; deputy director general of the Engineering & Construction Department of Sinopec Group from December 1998 to September 2002; and director general of the Engineering & Construction Department of Sinopec Group from September 2002 to June 2007. Mr. Zhang has been serving as vice president of Sinopec Corp. since May 2006, director general of the Engineering Department of Sinopec Corp. since June 2007, and Vice-Chairman of the Board and non-executive Director of the Company since August 2012. Mr. Zhang graduated from Shanghai Chemical Institute

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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(上海化工學院) in chemical machinery in January 1980, and from Hangzhou Institute of Electronic Engineering (杭州電子工業學院) in mechatronic engineering in December 1993. He obtained a master degree in management from University of Petroleum (石油大學) in December 2000. Mr. Zhang was recognized as a professor-level senior engineer by Sinopec Group in December 2007.

**Mr. LEI Dianwu (雷典武)**, aged 50, is a non-executive Director of the Company, who is also a vice president of Sinopec Corp., director general of the Development & Planning Department of Sinopec Corp., and director of Sinopec Xinjiang Energy & Chemical Limited (中國石化新疆能源化工有限公司) (“Sinopec Xinjiang Energy”). Mr. Lei worked in the Chemical Plant 2 of the China Petrochemical Corporation Daqing Petrochemical Plant Complex (中國石油化工總公司大慶石油化工總廠化工二廠), China Petrochemical Corporation Yangzi Petrochemical Corporation (中國石油化工總公司揚子石油化工有限公司) (changed to Sinopec Yangzi Petrochemical Corporation (中國石化揚子石油化工有限公司) in 1992). (“Yangzi Petrochemical Corporation”) and Yangzi BASF Ethylbenzene Series Company Limited (揚子巴斯夫苯乙烯系列有限公司) from August 1984 to October 1995. He served as vice manager of Yangzi Petrochemical Corporation from October 1995 to December 1997; director general of Planning & Development Department of China Eastern United Petrochemical (Group) Co., Ltd. (中國東聯石化集團公司) from December 1997 to May 1998; deputy manager of Yangzi Petrochemical Corporation from May 1998 to August 1998; deputy general manager of Sinopec Yangzi Petrochemical Co., Ltd. (中國石化揚子石油化工有限公司) from August 1998 to January 2000; deputy director general of the Development & Planning Department of Sinopec Group from March 1999 to February 2000; deputy director general of the Development & Planning Department of Sinopec Corp. from February 2000 to March 2001; and director general of the Development & Planning Department of Sinopec Corp. from March 2001. He has been serving as vice president of Sinopec Corp. since May 2009, director of Sinopec Xingjiang Energy since February 2012, and non-executive Director of the Company since August 2012. Mr. Lei graduated from East China Petroleum Institute (華東石油學院) with a bachelor’s degree in engineering for basic organic chemical engineering in July 1984. Mr. Lei was recognized as a professor-level senior engineer by Sinopec Group in November 2012.

**Mr. LING Yiqun (凌逸群)**, aged 50, is a non-executive Director of the Company, who is also a vice president of Sinopec Corp. director general of the Refining Department of Sinopec Corp., the executive director and general manager of Sinopec Refinery & Marketing Limited (中國石化煉油銷售有限公司), and director of Saudi Yanbu Refinery Joint Venture (沙特延布煉廠合資公司) (“Yanbu Refinery”). Mr. Ling worked in the refinery of Beijing Yanshan Petrochemical Company (北京燕山石化公司煉油廠) and the Refining Division of Beijing Yanshan Petrochemical Company Limited (北京燕山石化有限公司) from November 1983 to February 2000. He served as deputy director general of the Refining Department of Sinopec Corp. from February 2000 to June 2003. He has been a director general of the Refining Department of Sinopec Corp. since June 2003, vice president of Sinopec Corp. since July 2010, the executive director and general manager of Sinopec Refinery & Marketing Limited since May 2012, non-executive Director of the Company since August 2012, and director of Yanbu Refinery since September 2012. Mr. Ling graduated from the East China Petroleum Institute with a bachelor’s degree in engineering for refinery engineering in July 1983 and obtained an MBA degree from Renmin University of China (中國人民大學) in January 1997. Mr. Ling was recognized as a professor-level senior engineer by Sinopec Group in December 2002.

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**Mr. CHANG Zhenyong (常振勇)**, aged 55, is a non-executive Director of our Company, who is also a deputy chief engineer and a director general of the Chemicals Department of Sinopec Corp., vice chairman of Zhongtian Hechuang Energy Co., Ltd. (中天合創能源有限責任公司) (“Zhongtian Hechuang”), vice chairman of Sinopec Great Wall Energy and Chemical Engineering Co., Ltd. (中國石化長城能源化工有限公司) (“Sinopec Great Wall”) and director of Sinopec Xinjiang Energy. Mr. Chang worked in the chemical branch factory of Tianjin Petroleum and Chemical Fiber Plant (天津石油化纖廠) and the chemical factory of China Petrochemical Corporation Tianjin Petrochemical Corporation (中國石油化工總公司天津石油化工公司) (later changed to Sinopec Tianjin Petrochemical Corporation (中國石化天津石油化工公司) in 1992) (“Tianjin Petrochemical”) from February 1982 to September 1997; served as deputy manager of Tianjin Petrochemical from September 1997 to December 2001; deputy manager and manager of SINOPEC Tianjin Company (中國石化股份天津分公司) from February 2000 to January 2006; director general of the Production and Operation Management Department of Sinopec Corp. from November 2005 to January 2008; manager of Sinopec Qilu Petrochemical Company (中國石化齊魯石油化工公司) and manager of SINOPEC Qilu Company (中國石化股份齊魯分公司) from December 2007 to December 2008; general manager of Sinopec Qilu Petrochemical Company and general manager of SINOPEC Qilu Company from December 2008 to July 2010; and employee representative supervisor of the Fourth Supervisory Committee of Sinopec Corp. from April 2010 to December 2010. Mr. Chang has been working as a deputy chief engineer and director general of the Chemicals Department of Sinopec Corp. since July 2010, director of Sinopec Xinjiang Energy since February 2012, and non-executive Director of the Company, vice chairman of Zhongtian Hechuang and vice chairman of Sinopec Great Wall since August 2012. Mr. Chang graduated from Tianjin University (天津大學) with a bachelor’s degree in engineering for basic organic chemicals in February 1982 and obtained an MBA degree from China Europe International Business School in May 1998. Mr. Chang was recognized as a professor-level senior engineer by Sinopec Group in December 2002.

**Mr. YAN Shaochun (閻少春)**, aged 48, is the executive Director and President of the Company. Mr. Yan worked in the Technical Office of BDI from August 1986 to October 1998. He also served as associate dean of BDI from October 1998 to July 1999; director of the BDI Design and Execution Center of Sinopec Engineering Incorporation from July 1999 to December 2000; director of the Technology Division of Sinopec Engineering Incorporation from December 1999 to April 2000; director of the Project Execution Center of Sinopec Engineering Incorporation from December 2000 to June 2004; deputy general manager of Sinopec Engineering Incorporation from May 2001 to June 2004; manager of Luoyang Petrochemical Engineering Corporation of Sinopec Group (中國石化集團洛陽石油化工工程公司) (“Sinopec Group LPEC”) from June 2004 to December 2008; general manager of Sinopec Group LPEC from December 2008 to April 2012; and executive director and general manager of LPEC and SGEC from April 2012 to September 2012. He was the Vice President of the Company from August 2012 to September 2012, the Standing Vice President of the Company from September 2012 to April 2013, and the executive Director and President of the Company since April 2013. Mr. Yan graduated from Fushun Petroleum Institute (now known as “Liaoning Shihua University”) with a bachelor’s degree in petroleum process engineering in July 1986. Mr. Yan was recognized as a professor-level senior engineer by Sinopec Group in December 2005.

**Mr. HUI Chiu Chung (許照中)**, *J.P.*, aged 65, is an independent non-executive Director of our Company. Mr. Hui is currently the chairman and chief executive officer of Luk Fook Financial Services Limited. He also serves as an independent non-executive director of Zhuhai Holdings

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Investment Group Limited (Stock Code: 908), Gemdale Properties and Investment Corporation Limited (Stock Code: 535), Lifestyle International Holdings Limited (Stock Code: 1212), Chun Wo Development Holdings Limited (Stock Code: 711), Hong Kong Exchanges and Clearing Limited (Stock Code: 388), China South City Holdings Limited (Stock Code: 1668) and a non-executive director of Luk Fook Holdings (International) Limited (Stock Code: 590), whose shares are listed on the Hong Kong Stock Exchange.

Mr. Hui has over 40 years of experience in the securities and investment industry. He was the managing director of UOB Kay Hian (Asia) Limited (大華繼顯(亞洲)有限公司) from 2002 to 2005; group managing director of OSK Asia Holdings Limited (僑豐金融集團有限公司) (“OSK”) from August 2005 to March 2007; chief executive officer of OSK from March 2007 to March 2011; and the vice chairman of OSK Asia Holdings Hong Kong Limited (僑豐金融集團(香港)有限公司) from April to September 2011. He has for years been serving as a council member and vice chairman of The Stock Exchange of Hong Kong Limited, a member of the Advisory Committee and the Committee on Real Estate Investment Trusts of the Hong Kong Securities and Futures Commission, a director of the Hong Kong Securities Clearing Company Limited, a member of the Listing Committee of the Hong Kong Exchanges and Clearing Limited, an appointed member of the Securities and Futures Appeal Tribunal, a member of the Standing Committee on Company Law Reform, and an appointed member of the Hong Kong Institute of Certified Public Accountants Investigation Panel. He became a fellow member of the Hong Kong Securities and Investment Institute and the Hong Kong Institute of Directors in 2011 and 2002, respectively.

**Mr. JIN Yong (金涌)**, aged 77, is an independent non-executive Director of our Company, who is also the dean of the chemical engineering science and technology research institute of Tsinghua University (清華大學), a professor of the chemical engineering department of Tsinghua University, an executive officer of China Society of Particuology and an executive officer of Chemical Industry and Engineering Society of China. Mr. Jin worked in University of Science and Technology of China (中國科學技術大學) (“USTC”) as an assistant teacher in electrical engineering research office from October 1959 to February 1960. He also served as a teacher engaging in advanced studies in the chemical research office in Tianjin University from February 1960 to February 1961, and worked in USTC as a teacher in the chemistry department from February 1961 to May 1973. Since 1973, Mr. Jin has been a lecturer, associate professor, professor and doctorate candidates tutor at the chemical engineering department of Tsinghua University. Mr. Jin graduated from Ural State Technical University with a bachelor’s degree in 1959 and became an academian of the Chinese Academy of Engineering in 1997.

**Mr. YE Zheng (葉政)**, aged 48, is an independent non-executive Director of our Company, who has been a practicing director of Mazars CPA Limited (瑪澤會計師事務所有限公司) since November 2006. He worked in Shanghai Municipal Finance Bureau (上海市財政局) from October 1982 to January 1989. Mr. Ye has over 17 years of experience in audit, internal control and consultancy. He served as an auditor in Ernst & Young (安永會計師事務所) from October 1995 to April 2000; an audit manager in KPMG (畢馬威會計師事務所) from May 2000 to December 2001; a senior audit manager in Grant Thornton (均富會計師事務所) from January 2002 to July 2005 and a director in Ernst & Young from August 2005 to October 2006. Mr. Ye obtained a bachelor’s degree in accounting and finance in May 1993, and a master degree in business administration in December 1994, both from California State University, Long Beach. Mr. Ye became a member of the American Institute of

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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Certified Public Accountants in September 1998 and a member of the Hong Kong Institute of Certified Public Accountants in May 2003. In view of Mr. Ye's academic experience and expertise in the field of accounting, the Company considers that Mr. Ye possesses appropriate accounting and financial management expertise for the purposes of Rule 3.10 of the Hong Kong Listing Rules.

Except as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there are no other matters relating to the appointment of Directors that need to be brought to the attention of the Shareholders, nor is there any information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules, including matters relating to directorships held by Directors in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus.

### SUPERVISORY COMMITTEE

The Supervisory Committee consists of seven members. The functions and duties of the Supervisory Committee include but are not limited to: reviewing and verifying financial reports, business reports and profit distribution plans prepared by the Board, and, if in doubt, appointing certified public accountants and practicing auditors to re-examine our Company's financial information; monitoring the financial activities of our Company; requesting the Directors, the general manager and members of the senior management to rectify any actions which damage the interests of our Company; and exercising other powers, functions and duties as conferred by the Articles of Association.

The following table presents certain information of our Supervisors.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Duties</u>	<u>Date of Appointment</u>
GUAN Qingjie (官慶傑)	53	Chairman of the Supervisory Committee	Presiding over the functions of the Supervisory Committee; supervising the Company's operation and financial activities	August 24, 2012
ZHANG Jixing (張吉星)	50	Supervisor	Supervising the Company's operation and financial activities	August 24, 2012
ZOU Huiping (鄒惠平)	52	Supervisor	As above	August 24, 2012
GENG Limin (耿禮民)	58	Supervisor	As above	August 24, 2012
ZHU Jinbao (朱金保)	57	Employee representative Supervisor	As above	August 24, 2012

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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Name	Age	Position	Duties	Date of Appointment
WANG Renli (王忍利)	53	Employee representative Supervisor	As above	August 24, 2012
WANG Yuejie (王曰傑)	49	Employee representative Supervisor	As above	August 24, 2012

There is no other information relating to the relationship of any of our Directors and Supervisors with other Directors, Supervisors and members of the senior management that should be disclosed pursuant to Rule 13.51(2) or paragraph 41(3) of Appendix 1A of the Hong Kong Listing Rules.

### Supervisors

**Mr. GUAN Qingjie (官慶傑)**, aged 53, is the Chairman of Supervisory Committee of the Company. Mr. Guan worked at the Planning Section of Jinzhou Refinery from July 1983 to December 1989. He also served as deputy director of the Planning Division and deputy director of the Finance Division of Jinzhou Petrochemical from December 1989 to November 1993; deputy chief accountant of Jinzhou Petrochemical from November 1993 to June 1995; chief accountant of Jinzhou Petrochemical from June 1995 to October 1997; deputy director general of the Assets Management and Administration Department of Sinopec Group (formerly known as China Petrochemical Corporation) from October 1997 to February 2000; deputy director general of the Enterprise Reform Department of Sinopec Group from February 2000 to December 2000; deputy head of the Asset Operation and Finance Section under Corporate Restructuring Office of Sinopec Group from December 2000 to September 2001; deputy director general of the Refining and Chemical Engineering Enterprise Management Department of Sinopec Group from September 2001 to May 2007; and deputy director general of the Operation and Management Division of SAMC from March 2006 to July 2010. He was deputy director general of the Capital Operation Department of each of Sinopec Group and Sinopec Corp. as well as deputy general manager of SAMC from July 2010 to June 2012, and has been the Chairman of the Supervisory Committee of the Company since August 2012. Mr. Guan graduated from Liaoning Institute of Finance and Economics (遼寧財經學院) with a bachelor's degree in economics in July 1983. Mr. Guan was recognized as a senior accountant by Sinopec Group in March 1996.

**Mr. ZHANG Jixing (張吉星)**, aged 50, is a Supervisor of the Company, who is also director general of the Legal Affairs Department of each of Sinopec Group and Sinopec Corp. and supervisor of Sinopec Petroleum Engineering Technology Service Co., Ltd. (中石化石油工程技術服務有限公司) ("Sinopec Petroleum Engineering"). Mr. Zhang served as legal assistant and legal counsel of the Legal and Consulting Division of China Petrochemical International Company (中國石化國際事業公司) ("Sinopec International") from July 1985 to September 1988; business and financial manager of SINOCON Petroleum Company Inc. (中康石油有限公司) from September 1988 to September 1991; business and financial manager of Sinopec Europa Handels GmbH (實華(歐洲)商業有限公司) from September 1991 to January 1993; deputy manager of Economic and Trade Consulting Company of China Petrochemical International Company (中國石化國際事業公司經貿諮詢公司) from January 1993 to August 1993; deputy director of the Third Petrochemical Division of Sinopec International



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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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from August 1993 to August 1995; head of the Legal Division of Sinopec International from August 1993 to February 2000; director of the Third Petrochemical Division of Sinopec International from August 1995 to December 1998; director of the Chemical Project Division of Sinopec International from December 1998 to February 2000; deputy director general of the Foreign Affairs Department of Sinopec Corp. and deputy director general of Foreign Affairs Bureau of Sinopec Group from February 2000 to April 2010; deputy director general of Office of Hong Kong, Macau and Taiwan Affairs at Sinopec Group from September 2009 to April 2010; and director general of the Legal Affairs Division of SAMC from April 2010 to July 2010. Mr. Zhang has been director general of the Legal Affairs Department of each of Sinopec Group and Sinopec Corp. since April 2010, Supervisor of the Company since August 2012 and supervisor of Sinopec Petroleum Engineering since December 2012. Mr. Zhang graduated from Jilin University (吉林大學) with a bachelor's degree in laws in international law in July 1985. Mr. Zhang was recognized as a professor-level senior economist by Sinopec Group in November 2007.

**Mr. ZOU Huiping (鄒惠平)**, aged 52, a Supervisor of the Company, who is also director general of the Auditing Department of Sinopec Corp and supervisor of Sinopec Corp. Mr. Zou worked in the General Office of Jiangxi Provincial Audit Office (江西省審計局) from July 1986 to December 1993. He also served as accountant and director of the Treasury Section of the Finance Division of Guangzhou Petrochemical General Plant (廣州石化總廠) (“Guangzhou Plant”) from December 1993 to May 1995; deputy director and director of the Finance Division of Guangzhou Plant from May 1995 to November 1998; chief accountant in Sinopec Group Guangzhou Petrochemical General Plant (中國石化集團廣州石油化工總廠) from November 1998 to February 2000; deputy director general of the Finance & Assets Department of Sinopec Group from February 2000 to December 2001; deputy director general of the Finance & Planning Department of Sinopec Group from December 2001 to March 2006; and director general of the Finance & Assets Division of SAMC in March 2006. He has been director general of the Auditing Department of Sinopec Corp. since March 2006, supervisor of Sinopec Corp. since May 2006, and Supervisor of the Company since August 2012. Mr. Zou graduated from Jiangxi Institute of Finance and Economics (江西財經學院) with a bachelor's degree in economics in July 1986. Mr. Zou was recognized as a professor-level senior accountant by Sinopec Group in November 2005.

**Mr. GENG Limin (耿禮民)**, aged 58, is a Supervisor of the Company, who is also a supervisor of Sinopec Corp. and director general of the Supervisory Bureau of Sinopec Corp., vice team leader of Discipline Inspection Group for CPC Leading Group and director general of Supervisory Bureau of Sinopec Group. Mr. Geng started his career in the oil refining and chemical engineering industries in January 1972. Mr. Geng worked at the External Liaison Office and the Human Resources Division of the Command Office of Daqing Ethylene Engineering Project (大慶乙烯指揮部) from October 1981 to April 1987; the Cadre Division of Daqing Petrochemical General Plant (大慶石化總廠) and the Corporate Cadre Division of the HR Department of China Petrochemical Corporation from April 1987 to February 1993. He also served as deputy director of the Corporate Cadre Division of the Human Resources & Education Department of China Petrochemical Corporation from February 1993 to December 1998; director of the Corporate Cadre Division of the Human Resources & Education Department of Sinopec Group from December 1998 to February 2000; deputy director general of the Supervisory Bureau of Sinopec Corp. and deputy director general of Supervisory Bureau of Sinopec Group from February 2000 to January 2007; and deputy secretary of CPC Committee, secretary of Discipline Inspection Group as well as trade union chairman of Sinopec Chemical Products Sales

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Company (中國石化股份化工銷售分公司) from January 2007 to August 2008. He has been director general of Supervisory Bureau of Sinopec Corp., vice team leader of Discipline Inspection Group for CPC Leading Group and director general of Supervision Bureau of Sinopec Group since August 2008; supervisor of Sinopec Corp. since May 2009; and a Supervisor of the Company since August 2012. Mr. Geng graduated from Daqing Petroleum School (大慶石油學校) in October 1981, majoring in English, and from the school of law of Beijing Humanities Correspondence University (北京人文函授大學) in December 1987. Mr. Geng was recognized as a professor-level senior administration engineer by Sinopec Group in November 2012.

**Mr. ZHU Jinbao (朱金保)**, aged 57, is an employee representative Supervisor of the Company, who is also a deputy secretary of CPC Committee, secretary of Discipline Inspection Group and trade union chairman of SNEI. Mr. Zhu worked at various departments of the Nitrogen Fertilizer Plant of Nanjing Chemical Industries Co., Ltd (南化公司氮肥廠) from August 1985 to March 1992. He also served as deputy head of the Organization Division of CPC Committee of Nanjing Chemical Industries Co., Ltd (“Nanjing Chemicals”) from March 1992 to January 1997; vice chairman of the trade union of Nanjing Chemicals from January 1997 to December 1999; secretary of CPC Committee of Nanjing Chemical Design Institute (南化設計院) (later changed to Sinopec Group Nanjing Designing Institute (中國石化集團南京設計院) in 2002) from December 1999 to March 2004; secretary of CPC Committee and secretary of Discipline Inspection Committee of Sinopec Group Nanjing Designing Institute (中國石化集團南京設計院) from March 2004 to July 2010; deputy secretary of CPC Committee and trade union chairman of Sinopec Group Nanjing Engineering & Construction Incorporation (中國石化集團南京工程有限公司) (“Sinopec Group Nanjing”) from July 2010 to April 2012; and secretary of Discipline Inspection Group of Sinopec Group Nanjing from October 2011 to April 2012. He has been deputy secretary of CPC Committee, secretary of Discipline Inspection Committee and trade union chairman of SNEI since April 2012, and an employee representative Supervisor of the Company since August 2012. Mr. Zhu graduated from Jiangsu Radio and TV University (江蘇廣播電視大學) in August 1985, majoring in electronics. Mr. Zhu was recognized as a senior administration engineer by Sinopec Group in December 2001.

**Mr. WANG Renli (王忍利)**, aged 53, is an employee representative Supervisor of the Company, who is also a deputy secretary of CPC Committee, secretary of Discipline Inspection Committee and trade union chairman of FCC. Mr. Wang started his career in the oil refining and chemical engineering industries in December 1976. Mr. Wang held various positions in the Metal Structure Factory of Sinopec Fourth Construction Company (中石化第四建設公司) from July 1988 to December 1996, including the position of deputy factory manager. He also served as secretary of the CPC Committee and secretary of the Discipline Inspection Committee of the Third Engineering Company of Sinopec Fourth Construction Company (中國石化第四建設公司) from December 1996 to October 1998; deputy manager of Sinopec Group Fourth Construction Company (中國石化集團第四建設公司) (“Sinopec Group FCC”) from October 1998 to January 2006; and deputy secretary of CPC Committee, secretary of Discipline Inspection Committee and trade union chairman of Sinopec Group FCC from January 2006 to April 2012. He has been deputy secretary of CPC Committee, secretary of Discipline Inspection Committee and trade union chairman of FCC since April 2012, and an employee representative Supervisor of the Company since August 2012. Mr. Wang graduated from Party School of CPC Tianjin Municipal Committee (中共天津市委黨校) in June 1988, majoring in political economics; and graduated from Correspondence Institute of Party School of the Central Committee of CPC (中共中央黨校函授學院) majoring in economy administration in December 1996. Mr. Wang was recognized as a senior administration engineer by Sinopec Group in October 2007.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. WANG Yuejie (王曰傑)**, aged 49, is an employee representative Supervisor of the Company, who is also a trade union chairman of SEI. Mr. Wang held various positions in Beijing Petrochemical Engineering Company (北京石油化工工程公司) (“Beijing Petrochemical”) from August 1984 to October 1998, including the positions of engineer, deputy director of the Manager’s Office, director of the Machinery and Equipment Office, head of the Organization Division and head of the Procurement Division. He also served as deputy manager of Beijing Petrochemical from October 1998 to July 1999; deputy director of BPEC Design and Execution Center of Sinopec Engineering Incorporation (中國石化工程建設公司) from July 1999 to December 2000; director of General Manager Office at Sinopec Engineering Incorporation from February 2000 to December 2002; trade union chairman of Sinopec Engineering Incorporation from December 2002 to April 2012; and trade union chairman of SEI since April 2012. He has been an employee representative Supervisor of the Company since August 2012. Mr. Wang graduated from East China Petroleum Institute with a bachelor’s degree in petrochemical machinery in July 1984 and obtained a master degree in management from Beijing Normal University (北京師範大學) in June 2001. Mr. Wang was recognized as a senior engineer by Sinopec Engineering Incorporation in October 1993.

Except as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there are no other matters relating to the appointment of Supervisors that need to be brought to the attention of the Shareholders, nor is there any information relating to our Supervisors that is required to be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules, including matters relating to directorships held by Supervisors in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus.

### SENIOR MANAGEMENT

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Duties</b>	<b>Date of Appointment</b>
YAN Shaochun (閔少春)	48	President	Fully responsible for the daily operation and management of the Company; participating in formulating and implementing the Company’s overall corporate and business strategies	April 10, 2013
XIAO Gang (肖剛)	54	Vice President	Participating in the daily operation and management as well as major decision-making of the Company; and responsible for operation of the subsidiaries	August 24, 2012

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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Name	Age	Position	Duties	Date of Appointment
FAN Jixian (樊繼賢)	50	Vice President	As above	August 24, 2012
WU Derong (吳德榮)	52	Vice President	As above	August 24, 2012
SHAO Jianxiong (邵建雄)	54	Vice President	As above	August 24, 2012
XIANG Wenwu (向文武)	47	Vice President	As above	August 24, 2012
LI Guoqing (李國清)	55	Vice President	As above	August 24, 2012
WANG Guoliang (王國良)	53	Vice President	As above	December 17, 2012
TIAN Jianjun (田建軍)	56	Vice President	As above	August 24, 2012
LI Xusheng (李旭昇)	50	Vice President	Participating in the daily operation and management as well as major decision-making of the Company; and responsible for the Company's development plans and audit work	September 6, 2012
JIA Yiqun (賈益群)	45	Chief Financial Officer	Participating in the daily operation and management as well as major decision-making of the Company; and responsible for finance work and investor relationship	August 24, 2012
SANG Jinghua (桑菁華)	45	Board Secretary/ Company Secretary	Participating in the daily operation and management as well as major decision-making of the Company; and responsible for the daily work of the Board Secretariat and investor relationship	August 24, 2012/December 17, 2012

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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Please refer to the sub-section headed “Directors” for biographical details of Mr. YAN Shaochun.

**Mr. XIAO Gang (肖剛)**, aged 54, is a Vice President of the Company, who is also the executive director and general manager of FCC. Mr. Xiao started his career in the oil refining and chemical engineering industries in July 1976. Mr. Xiao served as office secretary and deputy director of the Research Institute of Beijing Yanshan Petrochemical Corporation (北京燕山石化公司) from July 1986 to November 1991; office secretary of Sinopec Engineering Incorporation from November 1991 to June 1996; deputy director of the Office of the Engineering & Construction Department of China Petrochemical Corporation from June 1996 to April 1997; deputy director of the General Office of Engineering & Construction Department, deputy director of the General Office and General Planning Division of the Engineering Department of China Petrochemical Corporation from April 1997 to January 2000; deputy director and director of the General Planning Division, and director of Planning & Finance Division under Engineering & Construction Management Department of Sinopec Group from January 2000 to March 2004; secretary of CPC Committee and secretary of Discipline Inspection Committee of Sinopec Group Second Construction Company (中國石化集團第二建設公司) from March 2004 to January 2006; manager of Sinopec Group FCC from January 2006 to December 2008; and general manager of Sinopec Group FCC from December 2008 to April 2012. Mr. Xiao has been the executive director and general manager of FCC since April 2012 and the Vice President of the Company since August 2012. Mr. Xiao graduated from Beijing Open University (北京廣播電視大學) in July 1986, majoring in industrial enterprise management. Mr. Xiao was recognized as a professor-level senior economist by Sinopec Group in December 2010.

**Mr. FAN Jixian (樊繼賢)**, aged 50, is a Vice President of the Company, who is also the executive director and general manager of TCC. Mr. Fan served as technician and assistant engineer of First Installation Office of China Petrochemical Tenth Construction Company (中石化第十建設公司) (“China Petrochemical TCC”) from August 1983 to October 1989; deputy team leader of the Fourth Engineering Team of the Installation Corporation of China Petrochemical TCC from October 1989 to February 1992; deputy manager of the Installation Corporation of China Petrochemical TCC from February 1992 to December 1992; deputy manager and manager of First Installation Corporation of China Petrochemical TCC from December 1992 to August 1999; manager of Southern Branch Corporation of Sinopec Group Tenth Construction Company (中國石化集團第十建設公司) (“Sinopec Group TCC”) from August 1999 to March 2001; deputy manager of Sinopec Group TCC from March 2001 to October 2006; manager of Sinopec Group TCC from October 2006 to December 2008; and general manager of Sinopec Group TCC from December 2008 to April 2012. He has been working as the executive director and general manager of TCC since April 2012 and Vice President of the Company since August 2012. Mr. Fan graduated from Henan Economics Institute (河南財經學院) in enterprise management in July 1997 and obtained an MBA degree from Shandong University (山東大學) in December 2011. Mr. Fan was recognized as a senior engineer by Sinopec Group TCC in September 2005.

**Mr. WU Derong (吳德榮)**, aged 52, is a Vice President of the Company, who is also the chairman of the board and general manager of SSEC. Mr. Wu worked in the Shanghai Pharmaceutical Designing Institute (上海醫藥設計院) (“SPDI”) from August 1982 to March 1996. He served as assistant to dean of SPDI, director of the Third Office and director of the Design Division of SPDI from March 1996 to February 1998; deputy dean of SPDI, director of the Design Division and director of the Project Division of SPDI from February 1998 to December 2000; deputy dean of Sinopec Group Shanghai

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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Pharmaceutical Industry Design Institute (中國石化集團上海醫藥工業設計院) (“Sinopec SPIDI”) and director of Project Division from December 2000 to December 2001; deputy dean of Sinopec SPIDI from December 2001 to January 2003; deputy general manager of Sinopec Group Shanghai Engineering Co., Ltd. (中國石化集團上海工程有限公司) (“Sinopec Group Shanghai”) from January 2003 to October 2006; and chairman of the board and general manager of Sinopec Group Shanghai from October 2006 to April 2012. Mr. Wu has been the chairman of the board and general manager of SSEC since April 2012 and Vice President of the Company since August 2012. Mr. Wu graduated from East China University of Science and Technology (華東化工學院) with a bachelor’s degree in engineering for chemical engineering in July 1982. Mr. Wu was recognized as a professor-level senior engineer by Shanghai Municipal Human Resources Bureau in June 2001.

**Mr. SHAO Jianxiong (邵建雄)**, aged 54, is a Vice President of the Company, who is also the executive director and general manager of SNEC. Mr. Shao started his career in December 1975 and his career in the oil refining and chemical engineering industries started in August 1982. Mr. Shao worked in the Oil Refinery of Zhenhai Petrochemical General Plant (鎮海石油化工總廠) and Sinopec Zhenhai Refining & Chemical Co., Ltd. (中國石化鎮海煉油化工股份有限公司) (“Sinopec Zhenhai Limited”) from January 1984 to July 1995. He served as deputy manager of repairing company, deputy director of manufacturing division (deputy director of general command center), manager of repairing company and manager of maintenance and installation company of Sinopec Zhenhai Limited from July 1995 to December 2000; deputy chief engineer of Sinopec Zhenhai Limited from December 2000 to March 2003; deputy general manager of Sinopec Zhenhai Limited from January 2003 to September 2006; deputy manager of SINOPEC Zhenhai Refining & Chemical Branch Company (中國石化股份鎮海煉化分公司) from September 2006 to October 2006; director and executive deputy general manager of Sinopec Group Ningbo Engineering Co., Ltd. (中國石化集團寧波工程有限公司) (“Sinopec Group Ningbo”) from October 2006 to June 2007; and executive director and general manager of Sinopec Group Ningbo from June 2007 to April 2012. Mr. Shao has been the executive director and general manager of SNEC since April 2012 and Vice President of the Company since August 2012. Mr. Shao graduated from Zhejiang Industrial College (浙江工學院) with a bachelor’s degree in engineering for chemical machinery in July 1982. Mr. Shao was recognized as a professor-level senior engineer by Sinopec Group in November 2010.

**Mr. XIANG Wenwu (向文武)**, aged 47, is a Vice President of the Company, who is also the executive director and general manager of SNEI. Mr. Xiang worked in the Mechanical Engineering Office of China Petrochemical Corporation Second Construction Company (中國石油化工總公司第二建設公司) (“China Petrochemical Corporation SCC”) from July 1988 to September 1993. He served as deputy chief accountant of China Petrochemical Corporation SCC from August 1995 to May 1998; deputy manager of the First Engineering Company of China Petrochemical Corporation SCC from November 1997 to February 1999; deputy chief economist of China Petrochemical Corporation SCC from May 1998 to June 1999; manager of marketing division of Sinopec Group Second Construction Company (中國石化集團第二建設公司) (“Sinopec Group SCC”) from February 1999 to June 1999; deputy manager of Sinopec Group SCC from June 1999 to March 2004; manager of Sinopec Group SCC from March 2004 to December 2008; general manager of Sinopec Group SCC from December 2008 to July 2010; and executive director and general manager of Sinopec Group Nanjing from December 2009 to April 2012. Mr. Xiang has been the executive director and general manager of SNEI since April 2012 and Vice President of the Company since August 2012. Mr. Xiang graduated from Dalian Railway University (大連鐵道學院) with a bachelor’s degree in engineering for diesel

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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locomotive and device in July 1988 and obtained an MBA degree from Dalian University of Technology (大連理工大學) in August 1996, and received a doctorate degree in system engineering from Southeast University (東南大學) in November 2007. Mr. Xiang was recognized as a professor-level senior economist by Sinopec Group in December 2003.

**Mr. LI Guoqing (李國清)**, aged 55, is a Vice President of the Company, who is also the executive director and general manager of SEI. Mr. Li started his career in June 1975 and his career in the oil refining and chemical engineering industries started in February 1982. Mr. Li worked in the Instrument and Electricity Office of China Petrochemical Corporation Luoyang Petrochemical Engineering Corporation (中國石油化工總公司洛陽石油化工工程公司) (“China Petrochemical Luoyang”) from February 1982 to September 1997; director of the Project Management Division of Sinopec Group LPEC from September 1997 to December 2001; deputy manager of Sinopec Group LPEC from December 2001 to January 2003; director of the Designing Management Division of the Engineering and Construction Department of Sinopec Group from January 2003 to April 2005; deputy director general of the Engineering and Construction Administration Department of Sinopec Group from April 2005 to June 2007; and deputy director general of the Engineering Department of Sinopec Corp. from June 2007 to June 2012. Mr. Li has been the executive director and general manager of SEI since June 2012 and Vice President of the Company since August 2012. Mr. Li graduated from Fuzhou University (福州大學) with a bachelor’s degree in engineering for industrial electrical engineering and automation in October 1982. Mr. Li was recognized as a professor-level senior engineer by Sinopec Group in November 2008.

**Mr. WANG Guoliang (王國良)**, aged 53, is a Vice President of the Company, who is also the executive director and general manager of LPEC and SGEC. Mr. Wang held several positions in the Refinery of China Petrochemical Luoyang from July 1983 to September 1997. He served as deputy manager of China Petrochemical Luoyang (later changed to Sinopec Group LPEC in 1998) from September 1997 to November 2001; secretary of the CPC Committee of Sinopec Group LPEC from November 2001 to May 2003; deputy manager of Sinopec Group LPEC from May 2003 to December 2008; deputy general manager of Sinopec Group LPEC from December 2008 to April 2012, and deputy general manager of LPEC and SGEC from April 2012 to September 2012. Mr. Wang has been the executive director and general manager of LPEC and SGEC since September 2012, and Vice President of our Company since December 2012. Mr. Wang graduated from Fushun Petroleum Institute majoring in petroleum analysis in August 1983. He obtained a master degree in physical chemistry from Lanzhou Institute of Chemical Physics at Chinese Academy of Sciences (中國科學院蘭州化學物理研究所) in May 1994, and a doctorate degree of science in physical chemistry from the Graduate University of Chinese Academy of Sciences (中國科學院研究生院) in March 2003. Mr. Wang was recognized as a professor-level senior engineer by Sinopec Group in November 2001.

**Mr. TIAN Jianjun (田建軍)**, aged 56, is a Vice President of the Company, who is also the executive director and general manager of SFCC. Mr. Tian started his career in May 1974 and his career in the oil refining and chemical engineering industries started in July 1976. Mr. Tian worked in the Lanhua Chemical and Construction Corporation (蘭化化建公司) (“Lanhua Chemical”) from December 1984 to May 1995. He served as deputy manager of Lanhua Chemical from May 1995 to July 1999; deputy manager of Sinopec Group Fifth Construction Company (中國石化集團第五建設公司) from July 1999 to December 2002; manager of Sinopec Group Fifth Construction Company from December 2002 to December 2008; and general manager of Sinopec Group Fifth Construction

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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Company from December 2008 to April 2012. He has been the executive director and general manager of SFCC since April 2012 and Vice President of the Company since August 2012. Mr. Tian graduated from Lanhua Workers' University (蘭化職工大學) majoring in chemical machinery in July 1983 and Gansu University of Technology (甘肅工業大學) majoring in construction engineering in June 2001. He obtained an MBA degree from China University of Petroleum, Beijing (中國石油大學(北京)) in June 2007. Mr. Tian was recognized as a senior engineer by Sinopec Group in December 2004.

**Mr. LI Xusheng (李旭昇)**, aged 50, is a Vice President of the Company, who is also the chief accountant of SEI. Mr. Li worked in the Finance Division of the Engineering Department of China Petrochemical Corporation and Sinopec Fushun Project Department from July 1985 to June 1996. He served as deputy director of the Finance Division of the Engineering Department of China Petrochemical Corporation from June 1996 to December 1998; deputy director and director of the Finance Division of Sinopec Engineering Incorporation (中國石化工程建設公司) from December 1998 to December 2008; chief accountant of Sinopec Engineering Incorporation from December 2008 to April 2012; and chief accountant of SEI since April 2012 and Vice President of the Company since September 2012. Mr. Li obtained a bachelor's degree in infrastructure finance from Shanghai Finance and Economics Institute (上海財經學院) in July 1985 and a master degree in management science and engineering from China University of Petroleum, Beijing in January 2007. Mr. Li was recognized as a senior accountant by Sinopec Engineering Incorporation in March 1998.

**Mr. JIA Yiqun (賈益群)**, aged 45, is the Chief Financial Officer of the Company. Mr. Jia worked in the SINOPEC Research Institute of Petroleum Engineering (中國石化股份石油化工科學研究院) ("SINOPEC Research Institute") from July 1990 to April 1999. He served as deputy director of the Foreign Affairs Office of SINOPEC Research Institute from April 1999 to July 1999; deputy director-level officer of the Export Division of Sinopec International from July 1999 to September 1999; deputy manager of the Economic and Trade Consulting Company of Sinopec International from September 1999 to January 2000; deputy director of the International Cooperation Office under the Foreign Affairs Bureau of Sinopec Group from January 2000 to April 2003; and deputy chief representative of the Hong Kong Representative Office of Sinopec Corp. from April 2003 to June 2012. He has been the Chief Financial Officer of the Company since August 2012. Mr. Jia obtained a bachelor's degree in chemical engineering from Tianjin University in July 1990 and an MBA degree from Dalian University of Technology in July 1999. Mr. Jia was recognized as a senior engineer by Sinopec Group in November 1999 and obtained the qualifications of chartered financial analyst issued by CFA Institute in September 2006.

**Mr. SANG Jinghua (桑菁華)**, aged 45, is the Board Secretary and Company Secretary of the Company. Mr. Sang worked in the Shijiazhuang Refinery (石家莊煉油廠) and China Petrochemical Corporation Northern China Imported Crude Oil Transfer and Connection Engineering Preparation Team from July 1990 to June 2001. He served as the supervisor of Financial Information Division under the Board Secretariat of Sinopec Corp. from June 2001 to November 2001; deputy director of Financial Information Division under the Board Secretariat of Sinopec Corp. from November 2001 to November 2003; director of Financial Information Division (known as the Securities Affairs Division from July 2010) under the Board Secretariat of Sinopec Corp. from November 2003 to September 2012, and securities representative of Sinopec Corp. from May 2012 to January 2013. He has been the



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## **DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES**

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Board Secretary of our Company since August 2012 and the Company Secretary of our Company since December 2012. Mr. Sang graduated from Dalian University of Technology with a bachelor's degree in engineering for macromolecule chemical engineering in July 1990. Mr. Sang was recognized as a senior engineer by China Petrochemical Corporation Shijiazhuang Refinery in June 2001.

Except as disclosed herein, none of the senior management of our Company held any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus.

### **BOARD SECRETARY/COMPANY SECRETARY**

**Mr. SANG Jinghua (桑菁華)** is the Board Secretary and Company Secretary of our Company. See “— Senior Management” for the biographical details of Mr. SANG Jinghua.

Pursuant to Rule 3.28 of the Hong Kong Listing Rules, an issuer must appoint as its company secretary an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary.

Taking into account his employment with Sinopec Group, Sinopec Corp. and our Company, Mr. Sang has over 20 years of experience in the same industry and type of business carried out by our Group. Mr. Sang joined Sinopec Group in 1990. From 1999, he worked in the Restructuring Office of Sinopec Group, where he was closely involved in the reorganization of Sinopec Corp. in preparation for its listing on the Hong Kong Stock Exchange (and other stock exchanges). From February 2000 to September 2012, Mr. Sang worked in the Securities Affairs Division (formerly known as the Financial Information Division) of the Board Secretariat of Sinopec Corp. (the “Securities Affairs Division”) and was appointed director of the Securities Affairs Division in November 2003, and securities representative of Sinopec Corp. in May 2012. In August 2012, Mr. Sang was appointed Board Secretary of our Company. Having worked in the Board Secretariat of Sinopec Corp. for over 10 years, he is familiar with corporate secretarial and compliance matters applicable to a H-share company listed on the Hong Kong Stock Exchange and how such matters may be managed taking into account the internal control systems and corporate culture of the Sinopec Group.

One of the primary responsibilities of the Securities Affairs Division is to ensure Sinopec Corp's ongoing compliance with the Hong Kong Listing Rules, the Companies Ordinance, the Securities and Futures Ordinance, the Code on Takeovers and Mergers and such other Hong Kong laws and regulations which may be applicable to a H-share company listed on the Hong Kong Stock Exchange and its directors and officers, including compliance with periodic financial reporting, disclosure of price sensitive information and notifiable and connected transactions requirements.

In addition, through attendance and participation in training seminars organized by the Hong Kong Stock Exchange and other professional organizations over the past 10 years, Mr. Sang has kept abreast of developments in the Hong Kong legal and regulatory compliance sphere. Following the Listing, Mr. Sang and our Board Secretariat will continue to have direct access to our Company's Hong Kong legal advisers and compliance adviser, who will provide all necessary support to our Company to ensure compliance with applicable laws and regulations.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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Through his day-to-day involvement in the continuing compliance matters of Sinopec Corp. for over 10 years, Mr. Sang has obtained a firm understanding of the laws and regulations applicable to a H-share company listed on the Hong Kong Stock Exchange and its directors and officers and therefore has the relevant experience to act as our Company Secretary.

### BOARD COMMITTEES

#### Audit Committee

We have established the audit committee with written terms of reference adopted on April 22, 2013 in compliance with Rule 3.21 of the Hong Kong Listing Rules and paragraph C.3 of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules. The primary responsibilities of our audit committee are to supervise our internal control, financial information disclosure and financial reporting matters, which include, among other things:

- proposing appointment, re-appointment or removal of external auditors;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- reviewing the financial information of our Company;
- overseeing the financial reporting system and internal control procedures of our Company;
- enhancing the communication between internal auditors and external auditors; and
- reviewing arrangements which the Group's employees can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

The audit committee comprises Mr. YE Zheng (葉政), Mr. HUI Chiu Chung, Stephen (許照中) and Mr. JIN Yong (金涌). Mr. YE Zheng (葉政) is the chairman of the audit committee.

#### Remuneration Committee

We have established the remuneration committee with written terms of reference adopted on April 22, 2013, in compliance with Rule 3.25 of the Hong Kong Listing Rules and paragraph B.1 of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules. The primary responsibilities of our remuneration committee include, among others, the following:

- researching and recommending to the Board on our Company's remuneration structure and policy for all Directors, Supervisors and senior management;
- determining, with delegated responsibility from the Board, or recommending to the Board the remuneration packages of individual executive Directors and members of the senior management;

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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- recommending to the Board on the remuneration of the non-executive Directors;
- reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- monitoring the implementation of remuneration policies of Directors, Supervisors and senior management.

The remuneration committee comprises Mr. HUI Chiu Chung, Stephen (許照中), Mr. ZHANG Kehua (張克華), Mr. JIN Yong (金涌) and Mr. YE Zheng (葉政). Mr. HUI Chiu Chung, Stephen (許照中) is the chairman of the remuneration committee.

### Nomination Committee

We have established the nomination committee with written terms of reference adopted on April 22, 2013 in compliance with paragraph A.5 of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules. The primary responsibilities of our nomination committee include, among others, the following:

- reviewing the structure, size and composition of the Board annually and making recommendations on any proposed changes to the Board to complement our Company's corporate strategy;
- identifying individuals suitably qualified to become Directors, selecting or recommending to the Board on the selection of individuals nominated for directorships or providing advice to the Board in respect thereof; and
- making recommendations to the Board on the appointment or re-appointment of Directors and the succession planning for Directors (in particular the Chairman and the President of our Company).

The nomination committee comprises Mr. CAI Xiyou (蔡希有), Mr. HUI Chiu Chung, Stephen (許照中), Mr. YAN Shaochun (閔少春), Mr. JIN Yong (金涌) and Mr. YE Zheng (葉政). Mr. CAI Xiyou (蔡希有) and Mr. HUI Chiu Chung, Stephen (許照中) are the chairman and vice chairman of the nomination committee, respectively.

### Strategy and Development Committee

We have established the strategy and development committee with written terms of reference adopted on April 22, 2013. The primary responsibilities of our strategy and development committee include, among others, the following:

- researching and recommending on the medium to long term strategic and development plans of our Company;

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## **DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES**

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- researching and recommending on significant capital expenditure, investment and financing projects of our Company; and
- researching and recommending on significant matters relating to the development of our Company.

The strategy and development committee comprises Mr. ZHANG Kehua (張克華), Mr. JIN Yong (金涌), Mr. YAN Shaochun (閆少春), Mr. LEI Dianwu (雷典武), Mr. LING Yiqun (凌逸群) and Mr. CHANG Zhenyong (常振勇). Mr. ZHANG Kehua (張克華) and Mr. JIN Yong (金涌) are the chairman and vice chairman of the strategy and development committee, respectively.

### **DIRECTORS' AND SUPERVISORS' COMPENSATION**

For the three years ended December 31, 2010, 2011 and 2012, the aggregate amount of fees, salaries, allowances, discretionary payments, bonuses and contribution to pension schemes paid by our Company to our Directors and Supervisors were approximately RMB1,645,000, RMB2,038,000 and RMB2,769,000, respectively. It is estimated that under the arrangements currently in force, the aggregate compensation payable to the Directors and Supervisors for the year ending December 31, 2013, will be approximately RMB776,849 and RMB2,274,799 respectively. We have maintained relevant liability insurance for Directors.

The remuneration paid by our Company to the top five highest paid individuals (including Directors and Supervisors) for the three years ended December 31, 2010, 2011 and 2012 were approximately RMB2,656,000, RMB3,141,000 and RMB3,737,000, respectively.

During the Track Record Period, no remuneration was paid by our Company to, or receivable by, our Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining our Company. No compensation was paid by our Company to, or receivable by, our Directors, past Directors, Supervisors, past Supervisors or the five highest paid individuals for the loss of any office in connection with the management of the affairs of any subsidiary of our Company during the Track Record Period.

During the Track Record Period, none of our Directors waived any emoluments. Except as disclosed above, no other payments have been paid, or are payable, by our Company or any of our subsidiaries to our Directors, Supervisors or the five highest paid individuals during the Track Record Period.

### **EMPLOYEE INCENTIVE PLAN**

In order to motivate and incentivize our management and other key employees, we may adopt certain employee incentive plans from time to time, subject to compliance with applicable laws and regulations and the obtaining of any relevant regulatory approvals.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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### EMPLOYEES

As of December 31, 2012, we had 19,599 employees. Since our inception, we have not experienced any strikes or other labor disputes which materially affected our business activities. We consider our labor relations to be good. The remuneration package of our employees mainly includes salaries, discretionary bonuses and contributions to mandatory social security funds. As required by PRC regulations, we participate in various defined pension schemes for our employees, including those organized by provincial or municipal governments as well as supplemental pension schemes. Bonuses are generally discretionary and based on the overall performance of our business. For the years ended December 31, 2010, 2011 and 2012, we incurred staff costs of approximately RMB3.22 billion, RMB4.01 billion and RMB4.52 billion, respectively.

### COMPLIANCE ADVISOR

We have appointed CMB International Capital Limited as our compliance advisor pursuant to Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules. Pursuant to Rule 3A.23 of the Hong Kong Listing Rules, the compliance advisor will advise us in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction under the Hong Kong Listing Rules, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our Group's business activities, developments or results of operation deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Hong Kong Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares or any other matters under Rule 13.10 of the Hong Kong Listing Rules.

Pursuant to Rule 19A.06 of the Hong Kong Listing Rules, CMB International Capital Limited will, in a timely manner, inform us of any amendment or supplement to the Hong Kong Listing Rules that are announced by the Hong Kong Stock Exchange. CMB International Capital Limited will also inform us of any amendment or supplement to applicable laws and guidelines.

The term of the appointment will commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Hong Kong Listing Rules in respect of our financial results for the first full financial year commencing after the Listing.

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## SUBSTANTIAL SHAREHOLDERS

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### SUBSTANTIAL SHAREHOLDERS

To the best of the knowledge of our Directors, the following person(s) will, immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised), have an interest or short position in the Shares or underlying shares which are required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% 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 the Company:

Shareholder	Number of shares held after the Global Offering	Nature of interest	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering <sup>(1)</sup>	Approximate percentage of shareholding in the total share capital of the Company after the Global Offering <sup>(2)</sup>
Sinopec Group <sup>(3)</sup>	2,967,200,000 Domestic Shares	Beneficial owner/Interest of controlled corporation	100%	67.01%

*Notes:*

- (1) The calculation is based on the percentage of shareholding in Domestic Shares (excluding 132,800,000 H Shares to be converted from Domestic Shares and held by NSSF) (as applicable) of the Company after the Global Offering.
- (2) The calculation is based on the total number of 4,428,000,000 Shares in issue immediately after the Global Offering.
- (3) Immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Sinopec Group will directly or indirectly hold 2,967,200,000 Domestic Shares, representing 100% of the domestic share capital and approximately 67.01% of the total share capital of the Company, respectively. SAMC is a wholly-owned subsidiary of Sinopec Group and will hold 59,344,000 Domestic Shares, representing 2% of the domestic share capital and approximately 1.34% of the total share capital of the Company, respectively. Pursuant to the SFO, Sinopec Group is also deemed to be interested in the Domestic Shares held by SAMC.

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## SUBSTANTIAL SHAREHOLDERS

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To the best of the knowledge of our Directors, the following person(s) will, assuming the Over-allotment Option is fully exercised, have an interest or short position in the Shares or underlying shares which are required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% 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 the Company:

Shareholder	Number of shares held after the Global Offering	Nature of interest	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering <sup>(1)</sup>	Approximate percentage of shareholding in the total share capital of the Company after the Global Offering <sup>(2)</sup>
Sinopec Group <sup>(3)</sup>	2,947,280,000 Domestic Shares	Beneficial owner/Interest of controlled corporation	100%	63.69%

*Notes:*

- (1) The calculation is based on the percentage of shareholding in Domestic Shares (excluding 152,720,000 H Shares to be converted from Domestic Shares and held by NSSF) (as applicable) of the Company after the Global Offering.
- (2) The calculation is based on the total number of 4,627,200,000 Shares in issue immediately after the Global Offering.
- (3) Immediately after the completion of the Global Offering (assuming the Over-allotment Option is fully exercised), Sinopec Group will directly or indirectly hold 2,947,280,000 Domestic Shares, representing 100% of the domestic share capital and approximately 63.69% of the total share capital of the Company, respectively. SAMC is a wholly-owned subsidiary of Sinopec Group and will hold 58,945,600 Domestic Shares, representing 2% of the domestic share capital and approximately 1.27% of the total share capital of the Company, respectively. Pursuant to the SFO, Sinopec Group is also deemed to be interested in the Domestic Shares held by SAMC.

For persons who are directly and/or indirectly interested in 10% 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 members of the Company, please refer to the paragraph headed “Disclosure of Interests” in Appendix VII to this prospectus.

Save as disclosed herein, our Directors are not aware of any other person(s) who will, immediately after the Global Offering, have an interest or short position in the Shares or underlying shares which are required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% 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 our Company.

We are not aware of any arrangement which may result in any change of control in our Company in the future.

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## SHARE CAPITAL

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As of the date of this prospectus, the registered share capital of our Company is RMB3,100,000,000, divided into 3,100,000,000 Domestic Shares with a nominal value of RMB1.00 each.

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately after the Global Offering will be as follows:

Number of Shares	Description of Shares	Approximate percentage to total share capital
2,967,200,000	Domestic Shares <sup>(1)</sup>	67.01%
132,800,000	H Shares converted from Domestic Shares and held by NSSF	3.00%
<u>1,328,000,000</u>	H Shares issued and sold under the Global Offering	<u>29.99%</u>
<u>4,428,000,000</u>		<u>100%</u>

*Note:*

- (1) These Domestic Shares are held by Sinopec Group and SAMC which may be converted into H Shares. See “— Conversion of Our Unlisted Shares into H Shares.”

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately after the Global Offering will be as follows:

Number of Shares	Description of Shares	Approximate percentage to total share capital
2,947,280,000	Domestic Shares <sup>(1)</sup>	63.69%
152,720,000	H Shares converted from Domestic Shares and held by NSSF	3.30%
<u>1,527,200,000</u>	H Shares issued and sold under the Global Offering	<u>33.01%</u>
<u>4,627,200,000</u>		<u>100%</u>

*Note:*

- (1) These Domestic Shares are held by Sinopec Group and SAMC which may be converted into H Shares. See “— Conversion of Our Unlisted Shares into H Shares.”



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## SHARE CAPITAL

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### PUBLIC FLOAT REQUIREMENTS

Rules 8.08(1)(a) and (b) of the Hong Kong Listing Rules require there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has one class of securities or more apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Hong Kong Stock Exchange) at the time of listing must be at least 25% of the issuer's total issued share capital. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital and must have an expected market capitalization at the time of listing of not less than HK\$50 million.

Based on the information in the above tables, our Company will meet the public float requirement under the Hong Kong Listing Rules after the completion of the Global Offering (whether or not the Over-allotment Option is exercised in full). We will make appropriate disclosure of our public float and confirm the sufficiency of our public float in successive annual reports after Listing.

The above tables assume the Global Offering becomes unconditional and is completed.

### OUR SHARES

Our Domestic Shares and H Shares are both ordinary shares in the share capital of our Company. H Shares may only be subscribed for and traded in Hong Kong dollars. Domestic Shares, on the other hand, may only be subscribed for and transferred in Renminbi. Apart from certain qualified domestic institutional investors in the PRC, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be subscribed for by and transferred between legal or natural persons of the PRC, qualified foreign institutional investors or qualified foreign strategic investors. We must pay all dividends in respect of H Shares in Hong Kong dollars and all dividends in respect of Domestic Shares in Renminbi.

Our Promoters hold all existing Domestic Shares as promoter shares (as defined in the Company Law). Under the Company Law, promoter shares may not be sold within a period of one year from August 28, 2012, on which we were organized as a joint stock limited liability company. This lock-up period will expire on August 27, 2013. The Company Law further provides that in relation to the public share offering of a company, the shares of the company which have been issued prior to the offering shall not be transferred within one year from the date of the listing on any stock exchange. However, based on the Provisional Procedures for the Reduction of State Owned Shareholdings and the Raising of Social Security Funds (《減持國有股籌集社會保障資金管理暫行辦法》) issued by the State Council, our PRC legal advisor has advised that any transfer of the Shares issued to the NSSF before the Listing will not be subject to such transfer restriction. Upon the approval of the State Council or its authorized regulatory departments and with the consent of the Hong Kong Stock Exchange, the Domestic Shares may be converted into H Shares.

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## SHARE CAPITAL

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Except as described in this prospectus and in relation to the dispatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarized in Appendix VI to this prospectus, our Domestic Shares and our H Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time. Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months from the Listing Date. We have not approved any share issue plan other than the Global Offering.

### CONVERSION OF OUR UNLISTED SHARES INTO H SHARES

#### Conversion of Unlisted Shares

We have two classes of ordinary shares, H Shares and Domestic Shares. Our Domestic Shares are unlisted Shares which are currently not listed or traded on any stock exchange. Upon completion of the Global Offering, all unlisted Shares are Domestic Shares held by Sinopec Group and SAMC and therefore, the scope of our unlisted Shares is the same as the scope of our Domestic Shares. The term “unlisted Shares” is used to describe whether certain Shares are listed on a stock exchange and is not unique to PRC laws. Given the above, our PRC legal advisor, King & Wood Mallesons, has advised us that the use of the term “unlisted Shares” in the Articles of Association does not contravene and are not inconsistent with any PRC laws and regulations (including the Special Regulations and Mandatory Provisions).

According to the stipulations by the State Council’s securities regulatory authority and the Articles of Association, our unlisted Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares any requisite internal approval processes shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council’s securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

Approval of the Hong Kong Stock Exchange is required if any of our unlisted Shares are to be converted into and traded as H Shares on the Hong Kong Stock Exchange. Based on the methodology and procedures for the conversion of our unlisted Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our unlisted Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of shares for entry on the H Share register. As any listing of additional shares after our initial listing on the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong.

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## SHARE CAPITAL

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No Shareholder voting by class is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for listing of the converted shares on the Hong Kong Stock Exchange after our initial Listing is subject to prior notification by way of announcement to inform our Shareholders and the public of any proposed conversion.

### **Mechanism and Procedure for Conversion**

After all the requisite approvals have been obtained, the following procedure will need to be completed in order to effect the conversion: the relevant unlisted Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct our H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on (a) our H Share Registrar lodging with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates and (b) the admission of the H Shares to trade on the Hong Kong Stock Exchange in compliance with the Hong Kong Listing Rules, the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our Promoters currently proposes to convert any of the unlisted Shares held by it into H Shares, except for the unlisted Shares to be converted and transferred by Sinopec Group and SAMC to the NSSF in connection with the Global Offering.

### **TRANSFER OF SHARES ISSUED PRIOR TO LISTING DATE**

The Company Law provides that in relation to the Hong Kong public offering of a company, the shares issued by a company prior to the Hong Kong public offering shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to this statutory restriction and not be transferred within a period of one year from the Listing Date. However, the Shares to be transferred by Sinopec Group and SAMC to the NSSF in accordance with relevant PRC regulations regarding the disposal of state-owned shares are not subject to such statutory restrictions.

### **TRANSFER OF STATE-OWNED SHARES**

In accordance with relevant PRC regulations regarding the disposal of state-owned shares, each of Sinopec Group and SAMC is required to transfer to the NSSF such number of unlisted Shares as in aggregate would be equivalent to 10% of the number of the Offer Shares (132,800,000 H Shares assuming the Over-allotment Option is not exercised, and 152,720,000 H Shares assuming the Over-allotment Option is exercised in full). At the time of the listing of our H Shares on the Hong Kong Stock Exchange, such unlisted Shares will be converted into H Shares on a one-for-one basis. These H Shares will not be part of the Global Offering but will be considered as part of the Shares to be held by public investors for the purpose of Rule 8.08 of the Hong Kong Listing Rules. We will not receive any proceeds from the transfer by Sinopec Group and SAMC to the NSSF of such unlisted Shares or any subsequent disposal of such H Shares by the NSSF.

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## SHARE CAPITAL

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The transfer of state-owned shares by Sinopec Group and SAMC to the NSSF was approved by SASAC on September 22, 2012. The conversion of those shares into H Shares was approved by the CSRC on March 21, 2013. We have been advised by our PRC legal advisor that the transfer and the conversion, and the holding of H Shares by the NSSF following such transfer and conversion, have been approved by the relevant PRC authorities and are legal under PRC law.

### REGISTRATION OF SHARES NOT LISTED ON OVERSEAS STOCK EXCHANGE

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 Business Days upon listing.

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## FINANCIAL INFORMATION

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### OVERVIEW

We are the leading oil refining, petrochemical and new coal chemical engineering company in the PRC. According to ICIS Consulting, we ranked first both in 2010 and 2011 among all PRC Exploration and Design Enterprises providing services to oil refining and chemical industries based on total revenue, and we ranked among the top 10 global contractors in 2011 based on revenue generated from services provided to oil refining and chemical industries. Leveraging 60 years of industry experience and continual innovation in specialized technologies, we have developed the strongest execution capabilities in the PRC with respect to engineering and constructing large-scale oil refining, petrochemical and new coal chemical complexes and are highly competitive in the international engineering market.

With a team of high-caliber professionals, comprehensive technologies and extensive experience in oil refining and chemical engineering, we provide a variety of services including licensing, engineering, consulting, EPC Contracting, construction and equipment manufacturing to clients in a broad range of industries including oil refining, petrochemicals, new coal chemicals, inorganic chemicals, pharmaceutical chemicals, clean energy, storage and transportation, environmental engineering and utilities. Since the beginning of the 21st century, we have participated in the engineering and construction of key national energy and chemical industry bases across the PRC. We have completed numerous landmark projects, including the PRC's first single-train oil refining complex with an annual processing capacity of ten million tons, first ethylene complex with an annual production capacity of one million tons and first direct coal liquefaction facility, as well as the world's first commercial olefin production project that uses methanol produced from coal. We have also undertaken a number of notable projects overseas. Leveraging our proprietary technologies and strong performance record, we have established an extensive and stable client base.

We conduct the following four key businesses:

- **Engineering, consulting and licensing:** The engineering, consulting and licensing segment is the central part of our business. According to data from the MOHURD and a survey conducted by ICIS Consulting, we ranked first in both 2010 and 2011 among all PRC Exploration and Design Enterprises providing services to oil refining and chemical industries based on revenue generated from exploration and design activities.
- **EPC Contracting:** We provide EPC services, as well as other types of EPC Contracting services. According to data from the CEDA and a survey conducted by ICIS Consulting, we ranked first in both 2010 and 2011 among all PRC Exploration and Design Enterprises providing services to oil refining and chemical industries based on completed contract value of EPC Contracting business.
- **Construction:** We are one of the largest service providers of construction contracting and specialized construction in the oil refining and chemical industries in the PRC. We provide

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construction services for new construction, modification and expansion projects, and overhaul and maintenance projects in various industries, including the oil refining, petrochemicals, new coal chemicals, pharmaceuticals, clean energy, environmental engineering, power generation, and storage and transportation in the PRC and overseas.

- **Equipment manufacturing:** We are one of the major manufacturers and suppliers of large static equipment used in oil refineries and chemical plants in the PRC. We manufacture various types of large static equipment, which are used in our EPC Contracting and construction projects as well as for sales to our clients.

For the years ended December 31, 2010, 2011 and 2012, our total revenue was RMB29.90 billion, RMB30.60 billion and RMB38.53 billion, respectively. Our profit distributable to shareholders for the same periods was RMB2.89 billion, RMB3.38 billion and RMB3.32 billion, respectively. During the same periods, the value of our new contracts (which represents the aggregate value of the contracts we entered into during a specified period) was RMB41.21 billion, RMB50.30 billion and RMB40.14 billion, respectively. As of December 31, 2012, our backlog (which represents the total estimated contract value of work that remains to be completed pursuant to outstanding contracts as of a certain date, net of estimated value added tax and assuming performance in accordance with the terms of the contract) was RMB76.05 billion.

The following table sets forth the revenue generated from each of our business segments before and after inter-segment elimination and their respective percentage of our total revenue before inter-segment elimination during the periods indicated:

	Year ended December 31,					
	2010		2011		2012	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Engineering, consulting and licensing .....	3,233,316	10.3	3,418,709	10.2	4,121,829	10.1
EPC Contracting .....	16,327,804	51.5	15,005,581	45.0	20,082,442	48.8
Construction .....	11,355,150	35.8	14,118,461	42.4	16,296,826	39.6
Equipment manufacturing .....	<u>760,431</u>	<u>2.4</u>	<u>787,299</u>	<u>2.4</u>	<u>624,960</u>	<u>1.5</u>
Sub-total.....	<u>31,676,701</u>	<u>100.0</u>	<u>33,330,050</u>	<u>100.0</u>	<u>41,126,057</u>	<u>100.0</u>
Inter-segment elimination .....	<u>(1,779,212)</u>		<u>(2,729,373)</u>		<u>(2,599,568)</u>	
Total <sup>(1)</sup> .....	<u>29,897,489</u>		<u>30,600,677</u>		<u>38,526,489</u>	

(1) Total refers to 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 inter-segment sales to the EPC Contracting segment made by the construction and equipment manufacturing segments.

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### **BASIS OF PRESENTATION**

Through the Reorganization, Sinopec Group transferred to us at nil consideration its 100% equity interests in nine subsidiaries which are principally engaged in providing oil refining and chemical engineering services and we transferred certain assets and liabilities unrelated to our core business to Sinopec Group. We were converted into a joint stock limited liability company on August 28, 2012 under the PRC Company Law. Please refer to the section headed “History, Reorganization and Corporate Structure” for details of the Reorganization.

Subsequent to the Reorganization but prior to the completion of the Global Offering, we were wholly-owned and controlled by Sinopec Group. Our consolidated financial statements and operating data, and the discussion and analysis thereof set out in this prospectus, have been prepared on a going concern basis as if the Reorganization had been completed, and the assets and businesses of Sinopec Group that were transferred to us pursuant to the Reorganization had been transferred to us, as of January 1, 2010.

Our consolidated results of operations, cash flows and financial condition presented in this prospectus do not purport to be indicative of what our actual consolidated results of operations, cash flows and financial condition would have been had we been operating our businesses under the current organizational structure from January 1, 2010.

Critical accounting policies adopted in preparation of the financial information presented in this prospectus have been applied consistently for each of the years ended December 31, 2010, 2011 and 2012. The policies of preparation are in compliance with accounting policies and requirements under IFRS, promulgated by the International Accounting Standards Board, and present a true and complete view of our financial condition as of the relevant time during the Track Record Period and our results of operations and cash flows during the relevant periods. A summary of our critical accounting policies is set out in Note 3 to Appendix I — Accountants’ Report to this prospectus.

### **FACTORS AFFECTING RESULTS OF OPERATIONS**

Our results of operations, financial condition and future prospects have been, and will continue to be, affected by a number of factors, including those set out below.

#### **Capital Expenditure in the Oil Refining and Chemical Sectors**

We are principally engaged in providing engineering, consulting and licensing, EPC Contracting, construction and equipment manufacturing services to clients in industries mainly including oil refining, petrochemical and coal chemicals. Our business has benefited from the rapid growth of the PRC economy, and particularly from the new construction, modification, expansion and technological upgrades of oil refining and chemical facilities in the PRC. During the Track Record Period, we participated in a number of representative projects, including the Qingdao Oil Refining Complex with a processing capacity of 10 Mtpa, the Zhenhai Ethylene Complex with a production capacity of 1 Mtpa, the Fujian Refining and Ethylene Complex and the Shenhua Direct Coal Liquefaction Project, among others. According to CICC, during the period from 2006 to 2011, the PRC oil refining engineering market grew at a CAGR of approximately 9.3%, reaching approximately RMB21.56

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billion in 2011; the PRC petrochemical engineering market grew at a CAGR of approximately 25.7%, reaching approximately RMB119.06 billion in 2011; and the PRC new coal chemical engineering market grew at a CAGR of approximately 47.0%, reaching approximately RMB15.80 billion in 2011.

We intend to strengthen our leading position in the PRC oil refining and chemical engineering sector and actively expand our international presence. Our results are affected by the volume of investment in the global oil refining and chemical industries. We expect that future PRC and overseas investment in oil refining and chemical engineering projects will generate significant business opportunities for us. However, capital expenditure in the oil refining and chemical sector is affected by global demand for oil products, chemical products and other related products. If adversely impacted by global economic conditions, refinery operators and petrochemical manufacturers may reduce capital expenditure, thereby reducing demand for our services. Capital expenditure in the oil refining and chemical industries may also be affected by factors such as prevailing prices and expectations about future prices, technological advances, the costs of exploration, production and delivery, domestic and international political, military, regulatory and economic conditions and other similar factors. In the event of a slowdown in the PRC's investment in the oil refining and chemical industries or the presence of other macroeconomic factors which adversely affect the global oil refining and chemical industries, our future plans and our revenue and profitability may be adversely affected. See "Risk Factors — Risks relating to our business and our industry — Demand for our services may be adversely impacted by conditions in the industries in which our clients operate" and "Risk Factors — Risks relating to our business and our industry — The industries in which we and our clients operate are influenced by policies and measures of the PRC government, governments of other countries where we have operations and international and regional organizations, as well as by public opinion. Adjustment or changes to these policies, measures or public opinion could have an adverse impact on our business."

### **Our Prices**

Our prices are affected by the demand for our services and products, which in turn depend on multiple factors including the general level of activity and growth in the industries in which our clients operate. The development of these industries is affected by general economic conditions, government policies, measures and development plans, financing and market conditions, commodities' prices and consumer confidence. See "— Capital Expenditure in the Oil Refining and Chemical Sectors."

Furthermore, our ability to maintain or increase our prices largely depends on our continued improvement of existing technologies and development of new and competitive technologies to meet our clients' demands. Technological innovation and the licensing of our technologies help to improve the quality of our services, speed up our project completion and enhance our market competitiveness, thereby strengthening our pricing power. Currently, we have leading engineering technologies in the oil refining and chemical engineering sector in the PRC, as well as strong R&D capabilities and execution capabilities, which allow us to have strong pricing power in the business areas where we possess core technologies and capabilities. In addition, we provide a full range of services to our clients, extending to financing assistance and commissioning/start-up assistance, which increases our pricing power to a certain extent.



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Despite our strong pricing power in certain areas of our business, our prices are also subject to market competition. See “Risk Factors — Risks relating to our business and our industry — We engage in a highly competitive business, especially in the overseas markets. If we fail to obtain new contracts, we could lose market share and our business, results of operations and financial condition could be materially and adversely affected.”

### Cost of Sales

Materials and equipment, subcontracting and employee benefits constitute significant portions of our cost of sales.

#### *Materials and Equipment*

The principal materials and equipment used in our EPC Contracting and construction businesses include various equipment, electrical components, instruments, steel components and welding materials, among others. Material and equipment costs constitute a substantial portion of our cost of sales.

Where conditions permit, we generally maintain long-term cooperative relationships with major suppliers of materials and equipment, which allows us to enjoy stronger bargaining power. Maintaining such relationships may also help us to reduce our exposure to price fluctuations and ensure the quality of materials and equipment we procure. However, we are sometimes required to work with suppliers who are designated by our clients and with whom we do not have long-term cooperative relationships. In addition, the prices and availability of materials and equipment may vary significantly from period to period due to factors such as consumer demand, production capacity, market conditions and costs of materials. Although we enjoy strong bargaining power over our major suppliers, we cannot completely avoid price fluctuations. As a result, we are exposed to the market risk of price fluctuations, and fluctuations in such prices may cause fluctuations in our cost of sales.

#### *Subcontracting*

We engage subcontractors, when necessary, to ensure project progress and improve the overall project profitability. We select subcontractors primarily based on factors such as their experience, the qualifications of their personnel, their financial conditions, our past cooperation experience with them and their fee proposals, among others. The terms of the contracts we enter into with subcontractors generally mirror those of the contracts we enter into with the project owners. To ensure the quality of services that the subcontractors provide and gain bargaining power over subcontractors, we maintain long-term cooperative relationships with certain qualified subcontractors. We intend to continue to engage subcontractors to support the growth of our businesses. Subcontracting costs are determined by factors such as costs of materials, consumables and labor as well as our bargaining power. Our profitability is subject, in part, to our ability to control our subcontracting costs.

#### *Employee Benefits*

In recent years, our employee benefits have increased as a result of inflation and the intense competition in the PRC labor market for senior technicians and skilled labor. In addition, the

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expansion of our overseas operations has increased our demand for overseas employees, leading to an increase in our total employee benefits. Furthermore, we have to adapt to foreign labor market conditions and any special employment requirements for overseas projects. Fluctuations in employee benefits may lead to fluctuations in our cost of sales.

### *Cost Control*

To effectively control our costs, we have developed and implemented various cost control measures which have been applied by all of our operating subsidiaries in the PRC. Our cost control measures include standardized engineering, standardized procurement and modularized construction, as well as project audit, on-site supervision and project management measures. The effectiveness of these cost control measures affects our cost of sales and our operating results.

### **Taxation**

Our profitability and financial performance are affected by the tax rates applicable to us and the preferential tax treatments that we enjoy. For the years ended December 31, 2010, 2011 and 2012 our effective income tax rate was 21.4%, 20.5% and 22.0%, respectively. Some of our PRC subsidiaries enjoyed, or are currently enjoying, preferential tax treatments applicable to high technology enterprises or pursuant to the Western Region Development Plan. For example, both LPEC and SSEC have been accredited as high technology enterprises, and are entitled to enjoy a reduced tax rate of 15% from 2009 to 2014. The preferential tax treatments enjoyed by certain of our subsidiaries have changed in the past and may change in the future. If changes occur in the preferential tax treatments that we currently enjoy, our results of operations and financial condition could be affected.

Pursuant to the pilot scheme and various notices for imposition of value-added tax issued by the PRC's national and local tax authorities, beginning from January 1, 2012, September 1, 2012, October 1, 2012, November 1, 2012 and December 1, 2012, respectively, the R&D activities and technical services operations of our subsidiaries in Shanghai, Beijing, Jiangsu, Guangdong, Zhejiang and Tianjin, respectively, have been subject to value-added tax at the rate of 6% and are no longer subject to business tax. In addition, revenue derived from offshore service outsourcing business between July 1, 2010 and December 31, 2013 is exempted from business tax for enterprises in the PRC's 21 designated "service outsourcing demonstration cities", including Beijing, Shanghai, Nanjing and Guangzhou. At present, we cannot accurately predict the impact of the above adjustments to tax policy on our financial condition and results of operations.

Furthermore, we pay taxes in foreign countries and territories in which we operate. During the Track Record Period, revenue from our overseas operations increased, and our tax expenditures associated with such overseas operations increased as a result. We expect that our overseas tax expenditures will continue to increase in the coming years.

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### Exchange Rates

We conduct most of our operations in the PRC and the functional currency of our financial statements is Renminbi. During the Track Record Period, we conducted some of our business overseas, and we plan to continue expanding our overseas operations in the future. We expect our foreign currency-denominated revenue and expenses to increase significantly as we further expand our overseas businesses. Fluctuations in exchange rates could affect the pricing of our services and the cost of materials purchased with foreign currencies, which, in turn, could affect our financial condition and results of operations.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES AND JUDGMENTS

Our discussion and analysis of our results of operations and financial condition is based on our audited consolidated financial information prepared in accordance with IFRS. Our results of operations and financial condition are sensitive to the accounting methods, assumptions and estimates used in the preparation of our consolidated financial information. We continually evaluate these estimates and judgments based on historical experience and other factors, including expectations of future events, which we currently believe to be reasonable.

Our principal accounting policies are set out in Note 3 to Appendix I — Accountants' Report, and our critical accounting estimates and assumptions are set out in Note 5 to Appendix I — Accountants' Report to this prospectus.

We make accounting estimates and assumptions concerning the future. Actual results may differ from these estimates as facts, circumstances and conditions change, or as a result of different assumptions. We believe the following critical accounting policies involve the most significant estimates and judgments used in the preparation of our financial statements.

#### *Revenue Recognition*

- *Construction contracts:* When the outcome of a contract can be reliably estimated, revenue is recognized by the “percentage of completion” method. Depending on the nature of the contract, the stage of completion is based on (a) percentage of work performed to date as a percentage of total contract value, or (b) the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for such contract. When the outcome of a contract cannot be reliably estimated, revenue is recognized only to the extent of incurred contract costs which are likely to be recoverable and such contract costs are recognized as an expense in the year in which they are incurred. Because of the nature of the activities undertaken in our business, the date on which the contract activity is entered into and the date on which the activity is completed usually fall into different accounting periods. We review and revise the estimates of contract revenue and contract costs (including material costs) in the budget for each contract as the contract is being performed. Our management regularly reviews the progress of the contract performance and corresponding costs. If circumstances arise that may change the original estimates of revenues, costs or time

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required for completion, estimates are revised accordingly. These revisions may result in increases or decreases in estimated revenues and/or costs and are reflected in the consolidated statement of comprehensive income for the year in which the circumstances that give rise to the revision become known to our management.

- *Services rendered:* Revenue for services rendered, which mainly include technological development, engineering, consultation and supervision, is recognized when the services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the entity.
- *Sales of products:* Revenue from sales of products are recognized when all significant risks and rewards of ownership of the goods have been transferred to the client, the client has accepted the products and the collectability of the related receivables is reasonably assured.

### *Useful Lives of Property, Plant and Equipment*

We determine the estimated useful lives and related depreciation charges for our property, plant and equipment. This estimate is based on projected wear and tear incurred during the useful lives of property, plant and equipment. This could change significantly as a result of technical renovations and competitor action in response to severe industry cycles. Our management will revise the depreciation charge where useful lives or residual values vary from those previously estimated, or write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Except for construction-in-progress (“CIP”), property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any, except for certain property, plant and equipment, the value of which is stated at deemed cost less accumulated depreciation and accumulated impairment loss. Historical cost includes expenditure directly attributable to the acquisition of the items, including the purchase price, import duties, non-refundable purchase taxes and any costs directly attributable to bringing the asset to its working condition and transporting it to the appropriate location for its intended use.

Subsequent costs are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to us and the cost of the asset can be measured reliably. The carrying amount of a replaced asset is derecognized. All other repair and maintenance costs are included in the consolidated statement of comprehensive income during the financial year in which they are incurred.

Depreciation is calculated on a straight-line basis to write off the cost of each asset to its residual value over its estimated useful life, as follows:

<u>Asset type</u>	<u>Useful life</u>
Buildings	12-40 years
Machinery and equipment	10-20 years
Transportation equipment	8-18 years
Furniture, office and other equipment	4-10 years

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CIP relates to buildings and plants under construction and is stated at cost less accumulated impairment loss. Cost includes costs of construction of buildings, costs of plants and other direct costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for their intended use. When the relevant assets are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as described above.

The carrying amount of an asset is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. Gains or losses on disposals are determined by comparing the proceeds on disposal with the carrying amount and are included within “other gains or losses — net” in the consolidated statement of comprehensive income.

### *Provision for Impairment of Trade Receivables*

We determine provisions for impairment of trade receivables based on the credit history of the client and current market conditions. Our management reassesses the adequacy of provisions on a regular basis by reviewing each individual account based on past credit history, any prior knowledge of debtor insolvency or other credit risks which might not be publically accessible information and market volatility that might have a significant impact which might not be easily ascertained.

### *Current Taxation and Deferred Taxation*

We are subject to income tax in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain, including transactions in the ordinary course of business, asset transfers and corporate restructuring. Judgment is required in determining the provision for income tax with respect to our activities in each jurisdiction. Where the final tax treatment of any transaction is different from the amount initially recorded, such discrepancy could result in material adjustments to the income tax and deferred tax provisions in the periods in which such determinations are made.

The estimate of deferred income tax assets requires estimations regarding future taxable profits and the applicable income tax rates for corresponding years. Any change in future income tax rates and the timing of such change would affect income tax expense or benefit, as well as deferred income tax balance. Any realization of deferred income tax assets also depends on the realization of sufficient profitability (taxable profit). Deviation of future profitability from the estimate could result in material adjustments to the carrying amount of deferred income tax assets. Deferred tax assets relating to certain temporary differences and tax losses are recognized when our management considers it probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. If our management’s determination is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the years in which such changes of estimates occur.

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### *Pension Obligations*

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

One of the assumptions used in determining the net cost (income) for provisions is the discount rate. We determine the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, we consider the interest rates of corporate securities which have maturities approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based, in part, on current market conditions. Additional information is disclosed in Note 32 in Appendix I — Accountants' Report to this prospectus.

### *Provision for Legal Claims*

We may be involved in legal proceedings in the ordinary course of business. Where our management considers that any proceeding will more likely than not result in us compensating third parties, a provision is recognized for the best estimate of the amount expected to be paid. Where our management considers that it is more likely than not that proceedings will not result in us compensating third parties or where it is not considered possible to provide a sufficiently reliable estimate of the amount expected to be paid, no provision is made for any potential liability under the proceeding except to the extent that the circumstances and uncertainties involved are disclosed as contingent liabilities. The assessment of the likely outcome of legal proceedings and the amount of any potential liability involves significant judgment.

### *Tax Matters Pursuant to the Reorganization*

In connection with the Reorganization, we transferred the Other Operations and the Other Assets to Sinopec Group. We determined that the tax obligation of such Reorganization remained uncertain and, as such, we did not make provisions for the tax obligation. In the event that the tax obligation arising from the Reorganization could result in material adjustments to our income tax expense, Sinopec Group has provided a guarantee to us that Sinopec Group will bear all such taxes.

## CONSOLIDATED RESULTS OF OPERATIONS

The following summary of our operating results is extracted from Appendix I — Accountants' Report as set out in this prospectus. Please read the following summary together with the Accountants' Report and the notes thereto.

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

	Year ended December 31,					
	2010		2011		2012	
	(RMB'000)	Percentage of total revenue (%)	(RMB'000)	Percentage of total revenue (%)	(RMB'000)	Percentage of total revenue (%)
<b>Revenue</b> .....	29,897,489	100.0	30,600,677	100.0	38,526,489	100.0
Cost of sales .....	(25,358,790)	(84.8)	(25,526,341)	(83.4)	(32,998,383)	(85.7)
<b>Gross profit</b> .....	4,538,699	15.2	5,074,336	16.6	5,528,106	14.3
Other income .....	74,958	0.3	78,896	0.2	85,392	0.2
Selling and marketing expenses .....	(68,881)	(0.3)	(75,364)	(0.2)	(90,546)	(0.2)
Administrative expenses .....	(680,349)	(2.3)	(815,260)	(2.7)	(947,076)	(2.5)
Research and development costs .....	(411,752)	(1.4)	(504,323)	(1.6)	(547,561)	(1.4)
Other operating expenses .....	(146,110)	(0.5)	(38,352)	(0.1)	(154,559)	(0.4)
Other gains / (losses) — net .....	31,518	0.1	4,659	0.0	(41,733)	(0.1)
<b>Operating profit</b> .....	3,338,083	11.1	3,724,592	12.3	3,832,023	9.9
Finance income .....	465,390	1.6	671,856	2.2	525,965	1.4
Finance expenses .....	(145,918)	(0.5)	(143,293)	(0.5)	(121,300)	(0.3)
<b>Finance income — net</b> .....	319,472	1.1	528,563	1.7	404,665	1.1
Share of profits of joint ventures .....	2,005	0.0	738	0.0	1,753	0.0
Share of profits / (losses) of associates .....	18,454	0.0	(9,935)	(0.0)	13,626	0.0
<b>Profit before taxation</b> .....	3,678,014	12.3	4,243,958	14.0	4,252,067	11.0
Income tax expense .....	(787,543)	(2.6)	(868,846)	(2.8)	(934,798)	(2.4)
<b>Profit for the year</b> .....	<u>2,890,471</u>	<u>9.7</u>	<u>3,375,112</u>	<u>11.0</u>	<u>3,317,269</u>	<u>8.6</u>
Fair value (losses) / gains on available-for-sale financial assets .....	(12,141)	0.0	(11,663)	0.0	851	0.0
Gains on revaluation of retirement benefit plans obligations .....	29,897	0.1	183,193	0.6	292,645	0.8
Share of other comprehensive income of joint ventures .....	—	—	—	—	93	0.0
Share of other comprehensive income of associates .....	(3,724)	0.0	(4,712)	0.0	—	—
<b>Total comprehensive income for the year</b> .....	<u><u>2,904,503</u></u>	<u><u>9.8</u></u>	<u><u>3,541,930</u></u>	<u><u>11.8</u></u>	<u><u>3,610,858</u></u>	<u><u>9.4</u></u>

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### Description of Selected Items of Results of Operations

#### *Revenue*

We generate revenue from our four business segments, namely (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 our business segments before and after inter-segment elimination and their respective percentage of our total revenue before inter-segment elimination during the periods indicated:

	Year ended December 31,					
	2010		2011		2012	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Engineering, consulting and licensing .....	3,233,316	10.3	3,418,709	10.2	4,121,829	10.1
EPC Contracting .....	16,327,804	51.5	15,005,581	45.0	20,082,442	48.8
Construction .....	11,355,150	35.8	14,118,461	42.4	16,296,826	39.6
Equipment manufacturing.....	760,431	2.4	787,299	2.4	624,960	1.5
Sub-total.....	<u>31,676,701</u>	<u>100.0</u>	<u>33,330,050</u>	<u>100.0</u>	<u>41,126,057</u>	<u>100.0</u>
Inter-segment elimination.....	<u>(1,779,212)</u>		<u>(2,729,373)</u>		<u>(2,599,568)</u>	
Total <sup>(1)</sup> .....	<u><u>29,897,489</u></u>		<u><u>30,600,677</u></u>		<u><u>38,526,489</u></u>	

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- (1) Total refers to 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 inter-segment sales to the EPC Contracting segment made by the construction and equipment manufacturing segments. Additional information relating to inter-segment sales is disclosed in Note 7 to Appendix I — Accountants' Report to this prospectus.



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

	Year ended December 31,					
	2010		2011		2012	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Oil Refining.....	10,764,656	36.0	12,300,524	40.2	12,556,490	32.6
Petrochemicals .....	8,223,663	27.5	11,193,314	36.6	15,036,189	39.0
New coal chemicals .....	1,536,489	5.1	2,581,830	8.4	4,928,056	12.8
Other industries <sup>(1)</sup> .....	9,372,681	31.4	4,525,009	14.8	6,005,754	15.6
<b>Total .....</b>	<b><u>29,897,489</u></b>	<b><u>100.0</u></b>	<b><u>30,600,677</u></b>	<b><u>100.0</u></b>	<b><u>38,526,489</u></b>	<b><u>100.0</u></b>

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(1) Other industries mainly include inorganic chemicals, pharmaceutical chemicals, clean energy, storage and transportation, environmental engineering and utilities.

We derive our revenue mainly from services provided to clients in oil refining, petrochemical and new coal chemical industries. Our revenue derived from oil refining, petrochemical and new coal chemical industries grew steadily over the Track Record Period. In particular, revenue derived from new coal chemical industry recorded an increasing percentage of our total revenue as we expanded our new coal chemical business. Our revenue derived from other industries fluctuated in the Track Record Period with the execution schedule of large projects, such as the Sichuan Puguang Natural Gas Purification Project.

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We conduct our businesses in the PRC and overseas. The following table sets forth our revenue in the PRC and overseas for the periods indicated:

	Year ended December 31,					
	2010		2011		2012	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
PRC .....	26,364,550	88.2	26,359,631	86.1	32,011,159	83.1
Overseas <sup>(1)</sup> .....	3,532,939	11.8	4,241,046	13.9	6,515,330	16.9
Middle East .....	3,428,952	11.5	3,954,254	12.9	4,294,486	11.1
Central Asia .....	61,987	0.2	200,836	0.7	1,985,842	5.2
Asia Pacific .....	25,383	0.1	65,690	0.2	227,809	0.6
Africa .....	16,165	0.0	—	—	—	—
Americas .....	452	0.0	20,266	0.1	6,690	0.0
Other regions .....	—	—	—	—	503	0.0
<b>Total .....</b>	<b><u>29,897,489</u></b>	<b><u>100.0</u></b>	<b><u>30,600,677</u></b>	<b><u>100.0</u></b>	<b><u>38,526,489</u></b>	<b><u>100.0</u></b>

(1) During the periods indicated, our revenue from overseas was generated primarily from Saudi Arabia, the United Arab Emirates and Iran in the Middle East, Kazakhstan in Central Asia, Singapore, India, Bangladesh, Myanmar, Australia, New Zealand and Malaysia in Asia Pacific, Algeria and Chad in Africa, Cuba in the Americas and the United Kingdom and other countries which were categorized as other regions.

We derive revenue mainly from the business operations in the PRC. In 2010, 2011 and 2012, our business operations in the PRC accounted for 88.2%, 86.1% and 83.1% of our total revenue, respectively. In 2010, 2011 and 2012, our overseas business operations accounted for 11.8%, 13.9% and 16.9% of our total revenue, respectively, mainly deriving from our operations in Middle East and Central Asia regions. Revenue from our overseas business operations increased steadily during the Track Record Period, mainly due to enhancement of our corporate brand in overseas markets, which led to increased overseas business volume. For the years ended December 31, 2010, 2011 and 2012, the total value of our new overseas contracts amounted to RMB4.65 billion, RMB13.36 billion and RMB12.73 billion, respectively.

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### *Cost of Sales*

Our cost of sales primarily includes subcontracting costs, material and equipment costs, employee benefits, project management costs, machinery costs and other costs.

The following table presents a breakdown of our cost of sales for the periods indicated.

	Year ended December 31,					
	2010		2011		2012	
	Percentage of cost of sales		Percentage of cost of sales		Percentage of cost of sales	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
<b>Cost of sales</b>						
Subcontracting costs .....	8,206,076	32.4	9,653,971	37.8	12,465,710	37.8
Material and equipment costs....	11,146,468	44.0	8,199,556	32.1	12,661,527	38.4
Employee benefits.....	2,895,423	11.4	3,576,476	14.0	3,939,700	11.9
Project management costs .....	944,410	3.7	1,371,053	5.4	1,355,323	4.1
Machinery costs.....	716,111	2.8	742,304	2.9	967,048	2.9
Other costs .....	1,450,302	5.7	1,982,981	7.8	1,609,075	4.9
<b>Total</b> .....	<u>25,358,790</u>	<u>100.0</u>	<u>25,526,341</u>	<u>100.0</u>	<u>32,998,383</u>	<u>100.0</u>

Subcontracting costs mainly comprise the expenses we pay to subcontractors. Material and equipment costs mainly include expenses relating to the purchases of various equipment, electrical components, instruments, steel components, welding materials and other materials. Employee benefits mainly include the wages and benefits directly paid to all employees who participate in the execution of our projects. Project management costs mainly include project-related administrative and office expenses. Machinery costs mainly include the leasing expenses of cranes, welding equipment and other machinery. Other costs primarily consist of other project-related expenditures on temporary facilities, depreciation related to our production, taxes and surcharges.

Our subcontracting costs and material and equipment costs constitute a relatively large portion of our cost of sales. In 2010, 2011 and 2012, subcontracting costs accounted for 32.4%, 37.8% and 37.8% of our total cost of sales, respectively, while material and equipment costs accounted for 44.0%, 32.1% and 38.4%, respectively, of our total cost of sales. During the Track Record Period, we increasingly outsourced certain non-core services with lower profit margins to subcontractors to reduce costs while undertaking more business, resulting in an increase of our subcontracting costs as a percentage of our total cost of sales. A major portion of material and equipment costs are usually incurred by our EPC Contracting business, typically at the peak construction stage of our projects when we need to procure substantial amount of equipment and materials. Material and equipment costs as a percentage of our total cost of sales fluctuated during the Track Record Period mainly due to fluctuations of the amount of procurement work we undertook in our EPC Contracting business from time to time as well as the mix of schedules of our EPC Contracting projects. Particularly, material and equipment costs decreased from 2010 to 2011 as a result of the decreasing EPC Contracting

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business volume and fewer projects at the peak construction stage in 2011. Material and equipment costs subsequently increased in 2012 as a result of a significant growth of our EPC Contracting business and a number of large projects entering into their peak construction stage. In addition, during the Track Record Period, we have enhanced cost control measures with respect to materials and equipment, which contributed to the lower material and equipment costs as a percentage of our total cost of sales in 2011 and 2012 as compared to that of 2010. See “ — Year Ended December 31, 2012 Compared to Year Ended December 31, 2011 — Cost of Sales”, “ — Year Ended December 31, 2012 Compared to Year Ended December 31, 2011 — Analysis of Segment Operating Results”, “— Year Ended December 31, 2011 Compared to Year Ended December 31, 2010 — Cost of Sales” and “— Year Ended December 31, 2011 Compared to Year Ended December 31, 2010 — Analysis of Segment Operating Results.”

### *Gross Profit and Gross Profit Margin*

Our gross profit is calculated based on the total revenue less total cost of sales. Gross profit for each business segment is calculated based on the segment revenue less segment cost of sales. The following table sets forth our gross profit and gross profit margin for each business segment for the periods indicated:

	Year ended December 31,								
	2010			2011			2012		
	Percentage		Gross	Percentage		Gross	Percentage		Gross
	of total	gross		of total	gross		of total	gross	
Gross	profit	margin	Gross	profit	margin	Gross	profit	margin	
profit	profit	margin	profit	profit	margin	profit	profit	margin	
(RMB'000)	(%)	(%)	(RMB'000)	(%)	(%)	(RMB'000)	(%)	(%)	
Engineering, consulting and licensing .....	1,586,518	35.0	49.1	1,516,284	29.9	44.4	1,857,763	33.6	45.1
EPC Contracting .....	2,523,450	55.5	15.5	2,889,433	56.9	19.3	2,856,980	51.7	14.2
Construction.....	416,007	9.2	3.7	633,422	12.5	4.5	833,731	15.1	5.1
Equipment manufacturing .....	12,724	0.3	1.7	35,197	0.7	4.5	(20,368)	(0.4)	(3.3)
<b>Total.....</b>	<u>4,538,699</u>	<u>100.0</u>	15.2 <sup>(1)</sup>	<u>5,074,336</u>	<u>100.0</u>	16.6 <sup>(1)</sup>	<u>5,528,106</u>	<u>100.0</u>	14.3 <sup>(1)</sup>

(1) Total gross profit margin is calculated based on total gross profit divided by total revenue, which is the aggregate revenue generated from each business segment after inter-segment elimination. Inter-segment elimination mainly arises from inter-segment sales to the EPC Contracting segment made by the construction and equipment manufacturing segments. Additional information relating to inter-segment sales is disclosed in Note 7 to Appendix I — Accountants’ Report to this prospectus.

Our gross profit is primarily derived from the EPC Contracting and engineering, consulting and licensing businesses. In 2010, 2011 and 2012, gross profit from EPC Contracting business accounted for 55.5%, 56.9% and 51.7%, respectively, of our total gross profit and gross profit from engineering, consulting and licensing business accounted for 35.0%, 29.9% and 33.6%, respectively, of our total

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gross profit. During the Track Record Period, the gross profit margin of our engineering, consulting and licensing business remained at a high level, while the gross profit margin of our EPC Contracting business fluctuated. The fluctuation of the gross profit margin of our EPC Contracting business may be attributable to (i) the fluctuation of the amount of and profit margins of procurement work we undertook, (ii) the mix of projects with varying profit margins and (iii) our occasionally recognizing additional revenue in accordance with price adjustment or incentive contract terms upon project owner's confirmation at the settlement stage of a project. See "— Business — EPC Contracting — Business Process and Contract Terms." For example, we recognized additional revenue from several large projects entering into settlement stage in 2011.

### *Other Income*

Other income mainly includes operating lease rental income on property, plant and equipment, income from write-back of long outstanding payables and others. Others mainly include government grants, non-operating income, sales of materials, indemnification income, inventory gains and other miscellaneous income unrelated to our core business.

	Year ended December 31,		
	2010	2011	2012
	(RMB'000)		
Operating lease rental income on property, plant and equipment .....	35,816	33,387	32,866
Income from write-back of long outstanding payables .....	8,422	2,788	1,482
Others .....	30,720	42,721	51,044
	74,958	78,896	85,392

### *Selling and Marketing Expenses*

Selling and marketing expenses include employee benefits, travel expenses, office expenses, leasing expenses and other expenses arising from selling and marketing activities. Other expenses mainly include advertisement expenses, material consumption, insurance, depreciation, among other miscellaneous expenses related to selling and marketing activities. The following table sets forth our selling and marketing expenses for the periods indicated:

	Year ended December 31,		
	2010	2011	2012
	(RMB'000)		
Employee benefits.....	44,610	48,840	60,249
Travel expenses .....	13,948	13,612	13,112
Office expenses.....	4,263	6,190	8,058
Leasing expenses .....	1,975	1,015	1,431
Others expenses .....	4,085	5,707	7,696
	68,881	75,364	90,546

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### *Administrative Expenses*

Administrative expenses include employee benefits for administrative personnel, business development expenses, travel expenses, as well as ordinary repair and maintenance costs, depreciation and amortization for property, plant and equipment, financial fees and other expenses associated with administrative activities. Other expenses mainly include land use tax, property tax, stamp duty, rental expenses, office expenses, insurance, among other miscellaneous expenses related to administrative activities. The following table sets forth our administrative expenses for the periods indicated:

	Year ended December 31,		
	2010	2011	2012
	(RMB'000)		
Employee benefits.....	280,525	381,436	400,742
Business development expenses.....	38,467	56,918	47,644
Travel and office expenses .....	87,838	110,532	104,517
Ordinary repair and maintenance costs.....	25,673	38,752	91,201
Depreciation and amortization.....	133,235	61,318	68,959
Financial fees .....	26,909	31,497	41,314
Other expenses .....	<u>87,702</u>	<u>134,807</u>	<u>192,699</u>
	<u>680,349</u>	<u>815,260</u>	<u>947,076</u>

### *R&D Costs*

R&D costs are incurred in the research and development of process technology, engineering technology and project management technology. In 2010, 2011 and 2012, our R&D costs amounted to RMB411.8 million, RMB504.3 million and RMB547.6 million, respectively.

### *Other Operating Expenses*

Other operating expenses comprise impairment losses on assets, provisions for pending litigation, exchange losses or gains, rental expenses, and other expenses. Other expenses are miscellaneous expenses including donations, fines and penalties and damages. In 2010, 2011 and 2012, our other operating expenses were RMB146.1 million, RMB38.4 million and RMB154.6 million, respectively, of which expected losses from pending litigation were RMB112.8 million, RMB33.0 million and RMB19.8 million, respectively. See “— Indebtedness and Contingencies — Contingencies” for details regarding the expected losses from pending litigation.

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The following table sets forth our other operating expenses for the periods indicated:

	Year ended December 31,		
	2010	2011	2012
	(RMB'000)		
Impairment losses on assets .....	3,140	52,971	77,888
Provisions for pending litigation .....	112,836	33,000	19,772
Exchange losses/(gains) .....	8,182	(69,952)	6,508
Rental expenses .....	13,634	14,780	25,268
Other expenses.....	8,318	7,553	25,123
	146,110	38,352	154,559

### *Other Net Gains or Losses*

Other net gains or losses mainly comprise gains on disposal of financial assets at fair value through profit or loss, gains or losses on disposal of property, plant and equipment and losses on disposal of land use rights. The following table sets out our other net gains or losses for the periods indicated:

	Year ended December 31,		
	2010	2011	2012
	(RMB'000)		
Gains on disposal of financial assets at fair value through profit or loss <sup>(1)</sup> .....	28,874	—	—
Gains or losses on disposal of property, plant and equipment .....	2,644	4,659	(10,311)
Losses on disposal of land use rights .....	—	—	(31,422)
	31,518	4,659	(41,733)

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(1) Available-for-sale financial assets primarily comprised shares of a listed company on the Shanghai Stock Exchange held by us. As of the Latest Practicable Date, we held a 1.07% equity stake in this listed company.

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### *Finance Income and Finance Expenses*

Our net finance income represented the difference between the finance income and finance expenses. Our finance income mainly comprises interest income from the ultimate holding company and bank interest income. Interest income from the ultimate holding company mainly comprises the interest income through the entrustment loan arrangements with Sinopec Finance. Our finance expenses mainly comprise interest expenses on retirement and other supplemental benefit obligations. The following table sets out our finance income and finance expenses for the periods indicated:

	Year ended December 31,		
	2010	2011	2012
	(RMB'000)		
<b>Finance income</b>			
Interest income from the ultimate holding company .....	418,862	632,030	492,434
Interest income on financial assets at fair value through profit or loss.....	6,113	—	—
Bank interest income .....	<u>40,415</u>	<u>39,826</u>	<u>33,531</u>
	<u>465,390</u>	<u>671,856</u>	<u>525,965</u>
<b>Finance expenses</b>			
Interest expenses to the ultimate holding company and fellow subsidiaries on balances wholly repayable within five years .....	(2,138)	(1,007)	(2,739)
Interest expenses on retirement and other supplemental benefit obligations .....	<u>(143,780)</u>	<u>(142,286)</u>	<u>(118,561)</u>
	<u>(145,918)</u>	<u>(143,293)</u>	<u>(121,300)</u>
	<u>319,472</u>	<u>528,563</u>	<u>404,665</u>

### *Income Tax Expense*

Under the PRC EIT Law, the applicable corporate income tax rate was 25% during the Track Record Period. Pursuant to the PRC EIT Law and the other applicable laws and regulations of the PRC, except for certain of our PRC subsidiaries which enjoyed preferential income tax rates ranging from 15% to 24% during the Track Record Period in accordance with the policies related to development zones or due to their participation in the technology development or development projects in Western China, our other PRC subsidiaries were subject to an income tax rate of 25% for each of 2010, 2011 and 2012. Particularly, two of our PRC subsidiaries enjoyed, or are currently enjoying, preferential tax treatments. LPEC and SSEC are entitled to a reduced tax rate of 15% as they are accredited as high technology enterprises from 2009 to 2014, and subject to PRC governmental authorities' approval



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pursuant to the PRC EIT Law and the other applicable laws and regulations of the PRC, their preferential tax treatments are expected to be renewed in 2014. Taxes in other countries (mainly Saudi Arabia, Nigeria, Singapore and the United Kingdom) were calculated in accordance with the relevant tax laws of the countries in which our overseas subsidiaries operated. Our Group did not enjoy any overseas tax concessions during the Track Record Period.

In 2010, 2011 and 2012, our income tax expense were RMB787.5 million, RMB868.8 million and RMB934.8 million, respectively, and our effective income tax rate was 21.4%, 20.5% and 22.0%, respectively. Changes in the effective income tax rate were mainly due to fluctuations of percentage revenue contribution from certain of our subsidiaries entitled to preferential income tax treatment and changes in the preferential income tax treatment of certain of our subsidiaries. The preferential tax treatments enjoyed by certain of our subsidiaries may change. In case these preferential tax treatments expire and are not renewed in accordance with governmental authorities' approval or amended tax policies, our income tax expenses, profits and financial conditions could be adversely affected.

The following table sets out our income tax expense for the periods indicated.

	Year ended December 31,		
	2010	2011	2012
	(RMB'000)		
Current tax .....	799,756	914,413	928,568
Deferred tax .....	(12,213)	(45,567)	6,230
Income tax expense.....	<u>787,543</u>	<u>868,846</u>	<u>934,798</u>
Effective income tax rate .....	21.4%	20.5%	22.0%

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### Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

#### *Highlights of Operating Results*

The following financial information is extracted from our consolidated statement of comprehensive income for 2012 and 2011.

	Year ended December 31,		Changes
	2011	2012	
	(RMB'000)		(%)
<b>Revenue</b> .....	30,600,677	38,526,489	25.9
Cost of sales .....	(25,526,341)	(32,998,383)	29.3
<b>Gross profit</b> .....	5,074,336	5,528,106	8.9
Other income .....	78,896	85,392	8.2
Selling and marketing expenses.....	(75,364)	(90,546)	20.1
Administrative expenses.....	(815,260)	(947,076)	16.2
Research and development costs .....	(504,323)	(547,561)	8.6
Other operating expenses .....	(38,352)	(154,559)	303.0
Other gains/(losses) — net.....	4,659	(41,733)	N/A
<b>Operating profit</b> .....	3,724,592	3,832,023	2.9
Finance income .....	671,856	525,965	(21.7)
Finance expenses .....	(143,293)	(121,300)	(15.3)
<b>Finance income — net</b> .....	528,563	404,665	(23.4)
Share of profits of joint ventures .....	738	1,753	137.5
Share of profits / (losses) of associates.....	(9,935)	13,626	N/A
<b>Profit before taxation</b> .....	4,243,958	4,252,067	0.2
Income tax expense.....	(868,846)	(934,798)	7.6
Profit for the year .....	3,375,112	3,317,269	(1.7)
<b>Other comprehensive income for the year, net of tax</b>			
Fair value (losses)/gains on available-for-sale financial assets .....	(11,663)	851	N/A
Gains on revaluation of retirement benefit plans obligations.....	183,193	292,645	59.7
Share of other comprehensive income of joint ventures.....	—	93	N/A
Share of other comprehensive income of associates .....	(4,712)	—	N/A
	166,818	293,589	76.0
<b>Total comprehensive income for the year</b> .....	3,541,930	3,610,858	1.9

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*Revenue.* Our total revenue increased by 25.9% to RMB38,526.5 million in 2012 from RMB30,600.7 million in 2011. This increase was due to the increase in revenue from our EPC Contracting business, engineering, consulting and licensing business and construction business, partially offset by a decrease in revenue from our equipment manufacturing business. From 2011 to 2012, revenue from our EPC Contracting business, engineering, consulting and licensing business and construction business increased by 33.8%, 20.6% and 15.4%, respectively, while revenue from our equipment manufacturing business decreased by 20.6%. See “— Analysis of Segment Operating Results.” Additionally, from 2011 to 2012, revenue derived from oil refining, petrochemical, new coal chemical and other industries increased by 2.1%, 34.3%, 90.9% and 32.7%, respectively, as we expanded our business and increased our business volume.

*Cost of Sales.* Our cost of sales increased by 29.3% to RMB32,998.4 million in 2012 from RMB25,526.3 million in 2011. This increase was mainly due to increases in our subcontracting costs, material and equipment costs, employee benefits and machinery costs, which primarily reflected the growth of our overall business volume during this period.

*Gross Profit.* Our gross profit increased by 8.9% to RMB5,528.1 million in 2012 from RMB5,074.3 million in 2011. Our gross profit margin decreased from 16.6% in 2011 to 14.3% in 2012 mainly due to the decrease in the gross profit margins of our EPC Contracting and equipment manufacturing businesses, partially offset by the increased gross profit margins of our engineering, consulting and licensing business and our construction business. See “— Analysis of Segment Operating Results.”

*Other Income.* Our other income increased by 8.2% to RMB85.4 million in 2012 from RMB78.9 million in 2011 mainly due to an increase in the income derived from an one-off government grant.

*Selling and Marketing Expenses.* Our selling and marketing expenses increased by 20.1% to RMB90.5 million in 2012 from RMB75.4 million in 2011 mainly due to the increase in employee benefits as we intensified our marketing effort by increasing compensation of our staff and boosting professional marketing team as well as the increase in office expenses and other expenses in 2012.

*Administrative Expenses.* Our administrative expenses increased by 16.2% to RMB947.1 million in 2012 from RMB815.3 million in 2011 mainly due to the increase in employee benefits and ordinary repair and maintenance costs, as well as the increase in other expenses as we purchased more properties and expanded our business in 2012 thereby incurring higher property tax and stamp duty. The increase of our ordinary repair and maintenance cost was mainly a result of our incurring additional costs to improve utilities of our offices and dormitories.

*R&D Costs.* Our R&D costs increased by 8.6% to RMB547.6 million in 2012 from RMB504.3 million in 2011 mainly due to our increased research and development activities.

*Other Operating Expenses.* Our other operating expenses increased from RMB38.4 million in 2011 to RMB154.6 million in 2012 mainly due to an exchange loss of RMB6.5 million in 2012 compared to an exchange gain of RMB70.0 million in 2011. See “— Year Ended December 31, 2011

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Compared to Year Ended December 31, 2010 — Highlights of Operating Results — Other Operating Expenses” for details of the exchange gain in 2011. The increase in our other operating expenses was also due to increased impairment losses on assets, as well as increases in rental expenses and other expenses.

*Other Net Gains/(Losses).* Our other net gains/(losses) decreased from a net gain of RMB4.7 million in 2011 to a net loss of RMB41.7 million in 2012. The decrease was mainly due to our recognition of losses on disposal of land use rights of RMB31.4 million in 2012 for LPEC’s disposal of land use rights in Luoyang, whereas we had no such losses in 2011. In addition, we recognized losses on disposal of property, plant and equipment of RMB10.3 million in 2012 whereas we recognized gains on disposal of property, plant and equipment of RMB4.7 million in 2011.

*Operating Profit.* As a result of the foregoing, our operating profit increased by 2.9% to RMB3,832.0 million in 2012 from RMB3,724.6 million in 2011.

*Net Finance Income.* Our net finance income decreased by 23.4% to RMB404.7 million in 2012 from RMB528.6 million in 2011. This decrease was mainly due to the decrease of the amount of entrustment loans provided by us to Sinopec Group through Sinopec Finance.

*Income Tax Expense.* Our income tax expense increased by 7.6% to RMB934.8 million in 2012 from RMB868.8 million in 2011, mainly due to an increase in profit before taxation to RMB4,252.1 million in 2012 from RMB4,244.0 million in 2011, as well as an increase in our effective income tax rate due to fluctuations of percentage revenue contributions from certain of our subsidiaries entitled to preferential income tax treatment. Our effective income tax rate was 20.5% in 2011 and 22.0% in 2012.

*Profit for the Year.* As a result of the foregoing, our profit decreased by 1.7% to RMB3,317.3 million in 2012 from RMB3,375.1 million in 2011. Our profit margin decreased from 11.0% in 2011 to 8.6% in 2012.

*Total Comprehensive Income for the Year.* As a result of the foregoing and contributions from our other comprehensive income in 2012, our total comprehensive income increased by 1.9% to RMB3,610.9 million in 2012 from RMB3,541.9 million in 2011.

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### Analysis of Segment Operating Results

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

	Segment revenue		Gross profit		Gross profit margin		Segment operating profit		Segment operating profit margin	
	Year ended December 31,		Year ended December 31,		Year ended December 31,		Year ended December 31,		Year ended December 31,	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
	(RMB'000)		(RMB'000)		(% )		(RMB'000)		(% )	
Engineering, consulting and licensing .....	3,418,709	4,121,829	1,516,284	1,857,763	44.4	45.1	1,039,373	1,239,912	30.4	30.1
EPC Contracting .....	15,005,581	20,082,442	2,889,433	2,856,980	19.3	14.2	2,460,120	2,305,347	16.4	11.5
Construction .....	14,118,461	16,296,826	633,422	833,731	4.5	5.1	171,819	317,904	1.2	2.0
Equipment manufacturing .....	787,299	624,960	35,197	(20,368)	4.5	(3.3)	4,824	(41,435)	0.6	(6.6)
<b>Subtotal</b> .....	<b>33,330,050</b>	<b>41,126,057</b>	<b>5,074,336</b>	<b>5,528,106</b>			<b>3,676,136</b>	<b>3,821,728</b>		
Inter-segment elimination <sup>(3)</sup> .....	(2,729,373)	(2,599,568)								
<b>Total</b> .....	<b>30,600,677</b>	<b>38,526,489</b>	<b>5,074,336</b>	<b>5,528,106</b>	<b>16.6<sup>(1)</sup></b>	<b>14.3<sup>(1)</sup></b>	<b>3,676,136</b>	<b>3,821,728</b>	<b>12.0<sup>(2)</sup></b>	<b>9.9<sup>(2)</sup></b>

(1) Total gross profit margin is calculated based on the total gross profit divided by total revenue, which is the aggregate revenue generated from each business segment after inter-segment elimination.

(2) Total segment operating profit margin is calculated based on total segment operating profit divided by total revenue, which is the aggregate revenue generated from each business segment after inter-segment elimination.

(3) Inter-segment elimination mainly arises from inter-segment sales to the EPC Contracting segment made by the construction and equipment manufacturing segments. Additional information relating to inter-segment sales is disclosed in Note 7 to Appendix I — Accountants' Report to this prospectus.

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### *Engineering, Consulting and Licensing Business*

Results of operations from our engineering, consulting and licensing business are as follows:

	Year ended December 31,			
	2011		2012	
	Percentage of segmental revenue		Percentage of segmental revenue	
	(RMB'000)	(%)	(RMB'000)	(%)
<b>Revenue</b> .....	3,418,709	100.0	4,121,829	100.0
Cost of sales .....	<u>(1,902,425)</u>	<u>(55.6)</u>	<u>(2,264,066)</u>	<u>(54.9)</u>
<b>Gross profit</b> .....	1,516,284	44.4	1,857,763	45.1
Selling and marketing expenses .....	(12,954)	(0.4)	(19,580)	(0.5)
Administrative expenses.....	(135,355)	(4.0)	(177,081)	(4.3)
Research and development costs .....	(316,829)	(9.3)	(346,282)	(8.4)
Other incomes and expenses ....	<u>(11,773)</u>	<u>(0.3)</u>	<u>(74,908)</u>	<u>(1.8)</u>
<b>Operating profit</b> .....	<u><u>1,039,373</u></u>	<u><u>30.4</u></u>	<u><u>1,239,912</u></u>	<u><u>30.1</u></u>

*Revenue.* Revenue from our engineering, consulting and licensing business segment increased by 20.6% to RMB4,121.8 million in 2012 from RMB3,418.7 million in 2011 mainly due to the increase in business volume.

*Cost of Sales.* Cost of sales in our engineering, consulting and licensing business segment increased by 19.0% to RMB2,264.1 million in 2012 from RMB1,902.4 million in 2011 generally in line with our increased business volume.

*Gross Profit.* Gross profit from our engineering, consulting and licensing business segment increased by 22.5% to RMB1,857.8 million in 2012 from RMB1,516.3 million in 2011 as the increase in revenue outpaced the increase in cost of sales for this segment. The gross profit margin of our engineering, consulting and licensing business segment remained at high level and increased slightly from 44.4% in 2011 to 45.1% in 2012.

*Selling and Marketing Expenses.* Selling and marketing expenses in our engineering, consulting and licensing business segment increased by 51.2% to RMB19.6 million in 2012 from RMB13.0 million in 2011 mainly due to our increased marketing efforts.

*Administrative Expenses.* Administrative expenses in our engineering, consulting and licensing business segment increased by 30.8% to RMB177.1 million in 2012 from RMB135.4 million in 2011 mainly due to the increases in employee benefits, property tax and stamp duty as we expanded our operations.

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*R&D Costs.* R&D costs in our engineering, consulting and licensing business segment increased by 9.3% to RMB346.3 million in 2012 from RMB316.8 million in 2011 mainly due to our efforts to enhance our research and development capabilities.

*Operating Profit.* As a result of the foregoing, operating profit of our engineering, consulting and licensing business segment increased by 19.3% to RMB1,239.9 million in 2012 from RMB1,039.4 million in 2011. Our operating profit margin decreased slightly from 30.4% in 2011 to 30.1% in 2012.

### *EPC Contracting Business*

Results of operations from our EPC Contracting business are as follows:

	Year ended December 31,			
	2011		2012	
	(RMB'000)	Percentage of segmental revenue (%)	(RMB'000)	Percentage of segmental revenue (%)
<b>Revenue</b> .....	15,005,581	100.0	20,082,442	100.0
Cost of sales .....	(12,116,148)	(80.7)	(17,225,462)	(85.8)
<b>Gross profit</b> .....	2,889,433	19.3	2,856,980	14.2
Selling and marketing expenses .....	(29,071)	(0.2)	(31,767)	(0.2)
Administrative expenses .....	(220,129)	(1.5)	(300,278)	(1.5)
Research and development costs .....	(173,464)	(1.2)	(185,969)	(0.9)
Other incomes and expenses ....	(6,649)	0.0	(33,619)	(0.2)
<b>Operating profit</b> .....	<u>2,460,120</u>	<u>16.4</u>	<u>2,305,347</u>	<u>11.5</u>

*Revenue.* Revenue from our EPC Contracting segment increased by 33.8% from RMB15,005.6 million in 2011 to RMB20,082.4 million in 2012 as we increased our business volume. Particularly, revenue generated from our overseas operations, third parties and new coal chemical clients grew significantly in 2012.

*Cost of Sales.* Cost of sales from our EPC Contracting segment increased by 42.2% from RMB12,116.1 million in 2011 to RMB17,225.5 million in 2012 mainly as a result of our increasing business volume.

*Gross Profit.* Gross profit from our EPC Contracting segment decreased by 1.1% from RMB2,889.4 million in 2011 to RMB2,857.0 million in 2012 as the increase in our cost of sales outpaced the increase in our revenue. The gross profit margin of our EPC Contracting segment decreased from 19.3% in 2011 to 14.2% in 2012 as our higher gross profit margin in 2011 was partially due to our recognizing additional revenue in accordance with price adjustment or incentive contract

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terms upon project owners' confirmation from several large projects entering into settlement stage in 2011. The decrease of our gross profit margin in 2012 was also attributable to our undertaking greater amount of procurement work in 2012 that had low gross profit margins. See “ — Description of Selected Items of Results of Operations — Gross Profit and Gross Profit Margin.”

*Selling and Marketing Expenses.* Selling and marketing expenses from our EPC Contracting segment remained stable and increased slightly from RMB29.1 million in 2011 to RMB31.8 million in 2012 mainly as a result of expanded business volume.

*Administrative Expenses.* Administrative expenses from our EPC Contracting segment increased by 36.4% from RMB220.1 million in 2011 to RMB300.3 million in 2012 primarily due to increases in our employee benefits and travel and office expenses, as well as the increase in other expenses as we purchased more properties and expanded our business in 2012 thereby incurring higher property tax and stamp duty.

*R&D Costs.* R&D costs from our EPC Contracting segment increased by 7.2% from RMB173.5 million in 2011 to RMB186.0 million in 2012 primarily due to our efforts to enhance our research and development capabilities.

*Operating Profit.* As a result of the foregoing, operating profit from our EPC Contracting segment decreased by 6.3% from RMB2,460.1 million in 2011 to RMB2,305.3 million in 2012. Our operating profit margins decreased from 16.4% to 11.5% during the same period.

### *Construction Business*

Results of operations from our construction business are as follows:

	Year ended December 31,			
	2011		2012	
	(RMB'000)	Percentage of segmental revenue (%)	(RMB'000)	Percentage of segmental revenue (%)
<b>Revenue</b> .....	14,118,461	100.0	16,296,826	100.0
Cost of sales .....	<u>(13,485,039)</u>	<u>(95.5)</u>	<u>(15,463,095)</u>	<u>94.9</u>
<b>Gross profit</b> .....	633,422	4.5	833,731	5.1
Selling and marketing expenses .....	(30,534)	(0.2)	(35,842)	(0.2)
Administrative expenses .....	(432,104)	(3.1)	(443,933)	(2.7)
Research and development costs .....	(13,266)	(0.1)	(14,202)	(0.1)
Other incomes and expenses ....	<u>14,301</u>	<u>0.1</u>	<u>(21,850)</u>	<u>(0.1)</u>
<b>Operating profit</b> .....	<u><u>171,819</u></u>	<u><u>1.2</u></u>	<u><u>317,904</u></u>	<u><u>2.0</u></u>



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*Revenue.* Revenue from our construction segment increased by 15.4% from RMB14,118.5 million in 2011 to RMB16,296.8 million in 2012 primarily due to the increase in the volume of our construction business in 2012 as compared to 2011, as we undertook a greater number of construction projects. The demand from our EPC Contracting business for inter-segment work also contributed to the revenue of our construction business.

*Cost of Sales.* Cost of sales from our construction segment increased by 14.7% from RMB13,485.0 million in 2011 to RMB15,463.1 million in 2012 generally in line with the increase in business volume from 2011 to 2012.

*Gross Profit.* Gross profit from our construction segment increased by 31.6% from RMB633.4 million in 2011 to RMB833.7 million in 2012 as the increase in our revenue outpaced the increase in cost of sales. The gross profit margin from our construction segment increased from 4.5% in 2011 to 5.1% in 2012. This increase was primarily due to strengthened cost control measures and increased use of subcontractors for non-core portions of our construction projects.

*Selling and Marketing Expenses.* Selling and marketing expenses from our construction segment increased by 17.4% from RMB30.5 million in 2011 to RMB35.8 million in 2012 in line with the increase in business volume as we intensified our marketing effort in 2012.

*Administrative Expenses.* Administrative expenses from our construction segment increased by 2.7% from RMB432.1 million in 2011 to RMB443.9 million in 2012 primarily due to our expanded business volume. Administrative expenses as a percentage of revenue of our construction segment decreased in 2012 as we strengthened cost control measures.

*R&D Costs.* R&D costs from our construction segment increased by 7.1% from RMB13.3 million in 2011 to RMB14.2 million in 2012 primarily due to our intensified R&D efforts.

*Operating Profit.* As a result of the foregoing, our operating profit from construction segment increased by 85.0% from RMB171.8 million in 2011 to RMB317.9 million in 2012. Our operating profit margin increased from 1.2% in 2011 to 2.0% in 2012.

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### *Equipment Manufacturing Business*

Results of operations from our equipment manufacturing business are as follows:

	Year ended December 31,			
	2011		2012	
	Percentage of segmental revenue		Percentage of segmental revenue	
	(RMB'000)	(%)	(RMB'000)	(%)
<b>Revenue</b> .....	787,299	100.0	624,960	100.0
Cost of sales .....	(752,102)	(95.5)	(645,328)	(103.3)
<b>Gross profit</b> .....	35,197	4.5	(20,368)	(3.3)
Selling and marketing expenses .....	(2,805)	(0.4)	(3,357)	(0.5)
Administrative expenses.....	(27,672)	(3.5)	(25,784)	(4.1)
Research and development costs .....	(764)	(0.1)	(1,108)	(0.2)
<b>Other incomes and expenses</b> ..	868	0.1	9,182	1.5
<b>Operating profit/(loss)</b> .....	<u>4,824</u>	<u>0.6</u>	<u>(41,435)</u>	<u>(6.6)</u>

*Revenue.* Revenue from our equipment manufacturing segment decreased by 20.6% from RMB787.3 million in 2011 to RMB625.0 million in 2012 mainly due to a decrease in business volume as we undertook less inter-segment sales.

*Cost of Sales.* Cost of sales from our equipment manufacturing segment decreased by 14.2% from RMB752.1 million in 2011 to RMB645.3 million in 2012 as our sales decreased.

*Gross Profit.* Gross profit from our equipment manufacturing segment decreased from a gross profit of RMB35.2 million in 2011 to a loss of RMB20.4 million in 2012 as our revenue decreased while our cost of sales did not proportionally decrease due to certain fixed costs, such as accumulated depreciation of property, plant and equipment and stable employee benefits which did not significantly fluctuate with increase or decrease in revenue.

*Selling and Marketing Expenses.* Selling and marketing expenses from our equipment manufacturing segment increased by 19.7% from RMB2.8 million in 2011 to RMB3.4 million in 2012 as we intensified our marketing efforts.

*Administrative Expenses.* Administrative expenses from our equipment manufacturing segment decreased by 6.8% from RMB27.7 million in 2011 to RMB25.8 million in 2012 mainly due to our strengthened cost control measures.

*R&D Costs.* R&D costs from our equipment manufacturing segment increased by 45.0% from RMB0.8 million in 2011 to RMB1.1 million in 2012.

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*Operating Profit.* As a result of the foregoing, we recorded an operating profit from our equipment manufacturing segment of RMB4.8 million in 2011 and an operating loss of RMB41.4 million in 2012.

### Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

#### *Highlights of Operating Results*

The following financial information is extracted from our consolidated statement of comprehensive income for 2011 and 2010.

	Year ended December 31,		Changes
	2010	2011	
	(RMB'000)		(%)
<b>Revenue</b> .....	29,897,489	30,600,677	2.4
Cost of sales .....	(25,358,790)	(25,526,341)	0.7
<b>Gross profit</b> .....	4,538,699	5,074,336	11.8
Other income .....	74,958	78,896	5.3
Selling and marketing expenses.....	(68,881)	(75,364)	9.4
Administrative expenses.....	(680,349)	(815,260)	19.8
Research and development costs .....	(411,752)	(504,323)	22.5
Other operating expenses .....	(146,110)	(38,352)	(73.8)
Other gains / (losses) — net .....	31,518	4,659	(85.2)
<b>Operating profit</b> .....	3,338,083	3,724,592	11.6
Finance income .....	465,390	671,856	44.4
Finance expenses .....	(145,918)	(143,293)	(1.8)
<b>Finance income — net</b> .....	319,472	528,563	65.4
Share of profits of joint ventures .....	2,005	738	(63.2)
Share of profits / (losses) of associates.....	18,454	(9,935)	N/A
<b>Profit before taxation</b> .....	3,678,014	4,243,958	15.4
Income tax expense.....	(787,543)	(868,846)	10.3
Profit for the year .....	2,890,471	3,375,112	16.8
<b>Other comprehensive income for the year, net of tax</b>			
Fair value losses on available-for-sale financial assets.....	(12,141)	(11,663)	(3.9)
Gains on revaluation of retirement benefit plans obligations.....	29,897	183,193	512.7
Share of other comprehensive income of associates .....	(3,724)	(4,712)	26.5
	14,032	166,818	1,088.8
<b>Total comprehensive income for the year</b> .....	2,904,503	3,541,930	21.9

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*Revenue.* Our total revenue increased by 2.4% to RMB30,600.7 million in 2011 from RMB29,897.5 million in 2010. This increase was mainly due to the increase in revenue from our construction business, engineering, consulting and licensing business and equipment manufacturing business, partially offset by a decrease in revenue from our EPC Contracting business. From 2010 to 2011, revenue from construction business, engineering, consulting and licensing business and equipment manufacturing business increased by 24.3%, 5.7% and 3.5%, respectively, while revenue from EPC Contracting business decreased by 8.1%. See “— Analysis of Segment Operating Results.” Additionally, from 2010 to 2011, revenue derived from oil refining, petrochemical and new coal chemical industries increased by 14.3%, 36.1% and 68.0%, respectively, as we expanded our business, while revenue derived from other industries decreased by 51.7% as we recognized substantial revenue from Sichuan Puguang Natural Gas Purification Project, a clean energy project, in 2010 and there was no comparable income recognized from similar large project in 2011.

*Cost of Sales.* Our cost of sales increased by 0.7% to RMB25,526.3 million in 2011 from RMB25,358.8 million in 2010. This increase was mainly due to increases in our subcontracting costs, employee benefits, project management costs and other costs, which primarily reflected the growth of our overall business volume in this period. Our material and equipment costs decreased by 26.4% from RMB11,146.5 million in 2010 to RMB8,199.6 million in 2011, which partially offset the increase in other costs of sales. The decrease in material and equipment costs was mainly attributable to reduced revenue from our EPC Contracting business and our tightened cost control over material and equipment procurement. In addition, we procured more material and equipment for our EPC contracts in 2010 than in 2011 due to inherent variations in procurement needs that arise in different stages of EPC Contracting projects, which typically span 20 to 40 months.

*Gross Profit.* As the increase in our revenue outpaced that of cost of sales, our gross profit increased by 11.8% to RMB5,074.3 million in 2011 from RMB4,538.7 million in 2010. Our gross profit margin increased from 15.2% in 2010 to 16.6% in 2011 mainly due to the increase in the gross profit margins of our EPC Contracting, construction business and equipment manufacturing business, partially offset by the decreased gross profit margin of the engineering, consulting and licensing business. See “— Analysis of Segment Operating Results.”

*Other Income.* Our other income increased by 5.3% to RMB78.9 million in 2011 from RMB75.0 million in 2010 mainly due to an increase in the income derived from sales of materials.

*Selling and Marketing Expenses.* Our selling and marketing expenses increased by 9.4% to RMB75.4 million in 2011 from RMB68.9 million in 2010 mainly due to the increase in employee benefits as we generally increased compensation for our marketing staff, as well as the increase in office expenses in 2011.

*Administrative Expenses.* Our administrative expenses increased by 19.8% to RMB815.3 million in 2011 from RMB680.3 million in 2010 mainly due to the increase in employee benefits as we provided certain one-off benefit (the “special one-off benefit”) to the majority of our employees, ordinary repair and maintenance fees, travel and office expenses, as well as the increase in other expenses as we incurred higher property tax, stamp duty, among others.

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## FINANCIAL INFORMATION

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*R&D Costs.* Our R&D costs increased by 22.5% to RMB504.3 million in 2011 from RMB411.8 million in 2010 mainly due to our increased research and development activities.

*Other Operating Expenses.* Our other operating expenses decreased by 73.8% from RMB146.1 million in 2010 to RMB38.4 million in 2011 mainly due to our making significant provision for pending litigation of RMB112.8 million in 2010 compared to RMB33.0 million in 2011. See “— Indebtedness and Contingencies — Contingencies” for details of the provisions for pending litigation. The decrease in our other operating expenses was also due to an exchange gain of RMB70.0 million in 2011 compared to an exchange loss of RMB8.2 million in 2010, mainly as a result of our net liabilities exposure in respect of U.S. dollar as we received certain contract deposit advance denominated in U.S. dollar and the appreciation of Renminbi against U.S. dollar during that period.

*Other Net Gains / (Losses).* Our other net gains / (losses) decreased by 85.2% to RMB4.7 million in 2011 from RMB31.5 million in 2010. The decrease was mainly due to our recognition of gains on disposal of financial assets at fair value through profit or loss of RMB28.9 million in 2010, whereas we had no such gains in 2011.

*Operating Profit.* As a result of the foregoing, our operating profit increased by 11.6% to RMB3,724.6 million in 2011 from RMB3,338.1 million in 2010.

*Net Finance Income.* Our net finance income increased by 65.4% to RMB528.6 million in 2011 from RMB319.5 million in 2010. This increase was mainly due to the increase in our interest income from entrustment loans provided by us to Sinopec Group through Sinopec Finance.

*Income Tax Expense.* Our income tax expense increased by 10.3% to RMB868.8 million in 2011 from RMB787.5 million in 2010, mainly due to an increase in profit before taxation to RMB4,244.0 million in 2011 from RMB3,678.0 million in 2010. Our effective income tax rate was 21.4% in 2010 and 20.5% in 2011.

*Profit for the Year.* As a result of the foregoing, our profit increased by 16.8% to RMB3,375.1 million in 2011 from RMB2,890.5 million in 2010. Our profit margin increased from 9.7% in 2010 to 11.0% in 2011.

*Total Comprehensive Income for the Year.* As a result of the foregoing, our total comprehensive income increased by 21.9% to RMB3,541.9 million in 2011 from RMB2,904.5 million in 2010.

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### Analysis of Segment Operating Results

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

	Segment revenue		Gross profit		Gross profit margin		Segment operating profit		Segment operating profit margin	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
	(RMB'000)		(RMB'000)		(% )		(RMB'000)		(% )	
Engineering, consulting and licensing .....	3,233,316	3,418,709	1,586,518	1,516,284	49.1	44.4	1,169,644	1,039,373	36.2	30.4
EPC Contracting .....	16,327,804	15,005,581	2,523,450	2,889,433	15.5	19.3	2,030,096	2,460,120	12.4	16.4
Construction .....	11,355,150	14,118,461	416,007	633,422	3.7	4.5	134,222	171,819	1.2	1.2
Equipment manufacturing .....	760,431	787,299	12,724	35,197	1.7	4.5	(25,734)	4,824	(3.4)	0.6
<b>Subtotal</b> .....	<u>31,676,701</u>	<u>33,330,050</u>	<u>4,538,699</u>	<u>5,074,336</u>			<u>3,308,228</u>	<u>3,676,136</u>		
Inter-segment elimination <sup>(3)</sup> .....	(1,779,212)	(2,729,373)								
<b>Total</b> .....	<u>29,897,489</u>	<u>30,600,677</u>	<u>4,538,699</u>	<u>5,074,336</u>	15.2 <sup>(1)</sup>	16.6 <sup>(1)</sup>	<u>3,308,228</u>	<u>3,676,136</u>	11.1 <sup>(2)</sup>	12.0 <sup>(2)</sup>

(1) Total gross profit margin is calculated based on the total gross profit divided by total revenue, which is the aggregate revenue generated from each business segment after inter-segment elimination.

(2) Total segment operating profit margin is calculated based on total segment operating profit divided by total revenue, which is the aggregate revenue generated from each business segment after inter-segment elimination.

(3) Inter-segment elimination mainly arises from inter-segment sales to the EPC Contracting segment made by the construction and equipment manufacturing segments. Additional information relating to inter-segment sales is disclosed in Note 7 to Appendix I — Accountants' Report to this prospectus.

## FINANCIAL INFORMATION

### *Engineering, Consulting and Licensing Business*

Results of operations from our engineering, consulting and licensing business are as follows:

	Year ended December 31,			
	2010		2011	
	(RMB'000)	Percentage of segmental revenue (%)	(RMB'000)	Percentage of segmental revenue (%)
<b>Revenue</b> .....	3,233,316	100.0	3,418,709	100.0
Cost of sales .....	<u>(1,646,798)</u>	<u>(50.9)</u>	<u>(1,902,425)</u>	<u>(55.6)</u>
<b>Gross profit</b> .....	1,586,518	49.1	1,516,284	44.4
Selling and marketing expenses .....	(10,085)	(0.3)	(12,954)	(0.4)
Administrative expenses .....	(150,110)	(4.6)	(135,355)	(4.0)
Research and development costs .....	(259,420)	(8.0)	(316,829)	(9.3)
Other incomes and expenses ....	<u>2,741</u>	<u>0.1</u>	<u>(11,773)</u>	<u>(0.3)</u>
<b>Operating profit</b> .....	<u><u>1,169,644</u></u>	<u><u>36.2</u></u>	<u><u>1,039,373</u></u>	<u><u>30.4</u></u>

*Revenue.* Revenue from our engineering, consulting and licensing business segment increased by 5.7% to RMB3,418.7 million in 2011 from RMB3,233.3 million in 2010 mainly due to the increase of business volume.

*Cost of Sales.* Cost of sales in our engineering, consulting and licensing business segment increased by 15.5% to RMB1,902.4 million in 2011 from RMB1,646.8 million in 2010 mainly due to increases in our business volume and employee benefits.

*Gross Profit.* Gross profit from our engineering, consulting and licensing business segment decreased by 4.4% to RMB1,516.3 million in 2011 from RMB1,586.5 million in 2010 as the increase in our cost of sales outpaced the increase in revenue for this segment. The gross profit margin of our engineering, consulting and licensing business segment decreased from 49.1% in 2010 to 44.4% in 2011 mainly as a result of our increased employee benefits attributable to an increase in engineering and consulting personnel's wage. The gross profit margin of our engineering, consulting and licensing business segment remained at a high level in 2011 mainly as a result of our technological advantage in the engineering and consulting market.

*Selling and Marketing Expenses.* Selling and marketing expenses in our engineering, consulting and licensing business segment increased by 28.4% to RMB13.0 million in 2011 from RMB10.1 million in 2010 mainly due to our increased marketing efforts.

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*Administrative Expenses.* Administrative expenses in our engineering, consulting and licensing business segment decreased by 9.8% to RMB135.4 million in 2011 from RMB150.1 million in 2010 mainly as a result of our staff in Engineering, Consulting and License business receiving the special one-off benefit in 2010.

*R&D Costs.* R&D costs in our engineering, consulting and licensing business segment increased by 22.1% to RMB316.8 million in 2011 from RMB259.4 million in 2010 mainly due to our efforts to enhance our research and development capabilities.

*Operating Profit.* As a result of the foregoing, operating profit of our engineering, consulting and licensing business segment decreased by 11.1% to RMB1,039.4 million in 2011 from RMB1,169.6 million in 2010. Our operating profit margin decreased from 36.2% in 2010 to 30.4% in 2011.

### *EPC Contracting Business*

Results of operations from our EPC Contracting business are as follows:

	Year ended December 31,			
	2010		2011	
	(RMB'000)	Percentage of segmental revenue (%)	(RMB'000)	Percentage of segmental revenue (%)
<b>Revenue</b> .....	16,327,804	100.0	15,005,581	100.0
Cost of sales .....	<u>(13,804,354)</u>	<u>(84.5)</u>	<u>(12,116,148)</u>	<u>(80.7)</u>
<b>Gross profit</b> .....	2,523,450	15.5	2,889,433	19.3
Selling and marketing expenses .....	(30,883)	(0.2)	(29,071)	(0.2)
Administrative expenses .....	(186,402)	(1.1)	(220,129)	(1.5)
Research and development costs .....	(141,453)	(0.9)	(173,464)	(1.2)
Other incomes and expenses ....	<u>(134,616)</u>	<u>(0.8)</u>	<u>(6,649)</u>	<u>0.0</u>
<b>Operating profit</b> .....	<u>2,030,096</u>	<u>12.4</u>	<u>2,460,120</u>	<u>16.4</u>

*Revenue.* Revenue from our EPC Contracting segment decreased by 8.1% from RMB16,327.8 million in 2010 to RMB15,005.6 million in 2011. A substantial portion of revenue from our EPC Contracting business in 2010 was derived from the Sichuan Puguang Natural Gas Purification Project, from which approximately RMB5.67 billion of revenue was recognized in 2010. Excluding this clean energy project, our revenue generated from our oil refining, petrochemical and new coal chemical projects generally increased from 2010 to 2011.



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*Cost of Sales.* Cost of sales from our EPC Contracting segment decreased by 12.2% from RMB13,804.4 million in 2010 to RMB12,116.1 million in 2011, generally in line with the decrease in revenue in 2011.

*Gross Profit.* Gross profit from our EPC Contracting segment increased by 14.5% from RMB2,523.5 million in 2010 to RMB2,889.4 million in 2011 as the decrease in our cost of sales outpaced the decrease in our revenue. The gross profit margin of our EPC Contracting segment increased from 15.5% in 2010 to 19.3% in 2011. This increase was partially a result of our recognizing additional revenue in accordance with price adjustment or incentive contract terms upon project owners' confirmation from several large projects entering into settlement stage in 2011, in particular two large projects which entered into settlement stage when project owners confirmed such additional revenue while corresponding costs were immaterial at their settlement stage in 2011. The increase in our gross profit margin was also attributable to our undertaking projects with higher gross profit margins and our strengthened cost control measures. See “ — Description of Selected Items of Results of Operations — Gross Profit and Gross Profit Margin.”

*Selling and Marketing Expenses.* Selling and marketing expenses from our EPC Contracting segment decreased slightly from RMB30.9 million in 2010 to RMB29.1 million in 2011.

*Administrative Expenses.* Administrative expenses from our EPC Contracting segment increased by 18.1% from RMB186.4 million in 2010 to RMB220.1 million in 2011 primarily due to increases in our employee benefits, ordinary repair and maintenance fees, travel and office expenses, as well as the increase in other expenses as we incurred higher property tax, stamp duty, among others.

*R&D Costs.* R&D costs from our EPC Contracting segment increased by 22.6% from RMB141.5 million in 2010 to RMB173.5 million in 2011 primarily due to our enhanced research and development efforts.

*Operating Profit.* As a result of the foregoing, operating profit from our EPC Contracting segment increased by 21.2% from RMB2,030.1 million in 2010 to RMB2,460.1 million in 2011. Our operating profit margins increased from 12.4% to 16.4% during the same period.

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### *Construction Business*

Results of operations from our construction business are as follows:

	Year ended December 31,			
	2010		2011	
	Percentage of		Percentage of	
	(RMB'000)	(%)	(RMB'000)	(%)
<b>Revenue</b> .....	11,355,150	100.0	14,118,461	100.0
Cost of sales .....	(10,939,143)	(96.3)	(13,485,039)	(95.5)
<b>Gross profit</b> .....	416,007	3.7	633,422	4.5
Selling and marketing expenses .....	(25,350)	(0.2)	(30,534)	(0.2)
Administrative expenses .....	(311,917)	(2.7)	(432,104)	(3.1)
Research and development costs .....	(9,744)	(0.1)	(13,266)	(0.1)
Other incomes and expenses ....	65,226	0.6	14,301	0.1
<b>Operating profit</b> .....	134,222	1.2	171,819	1.2

*Revenue.* Revenue from our construction segment increased by 24.3% from RMB11,355.1 million in 2010 to RMB14,118.5 million in 2011 primarily due to the increase in the volume of our construction business in 2011 as compared to 2010, as we undertook a greater number of construction projects. In particular, our EPC Contracting business demanded a higher volume of inter-segment work from our construction business, which contributed to the increase of the revenue of our construction business.

*Cost of Sales.* Cost of sales from our construction segment increased by 23.3% from RMB10,939.1 million in 2010 to RMB13,485.0 million in 2011 in line with the increase in revenue from 2010 to 2011.

*Gross Profit.* Gross profit from our construction segment increased by 52.3% from RMB416.0 million in 2010 to RMB633.4 million in 2011 as the increase in our revenue outpaced the increase in cost of sales. The gross profit margin from our construction segment increased from 3.7% in 2010 to 4.5% in 2011. This increase was primarily due to strengthened cost control measures and increased use of subcontractors for non-core portions of our construction projects.

*Selling and Marketing Expenses.* Selling and marketing expenses from our construction segment increased by 20.4% from RMB25.4 million in 2010 to RMB30.5 million in 2011 in line with the increase in business volume as we intensified our marketing effort in 2011.

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*Administrative Expenses.* Administrative expenses from our construction segment increased by 38.5% from RMB311.9 million in 2010 to RMB432.1 million in 2011 primarily due to the increase in our employee benefits, ordinary repair and maintenance fees, travel and office expenses, as well as the increase in other expenses as we incurred higher property tax, stamp duty, among others.

*R&D Costs.* R&D costs from our construction segment increased by 36.1% from RMB9.7 million in 2010 to RMB13.3 million in 2011 primarily due to enhanced research and development efforts.

*Operating Profit.* As a result of the foregoing, our operating profit from construction segment increased by 28.0% from RMB134.2 million in 2010 to RMB171.8 million in 2011. Our operating profit margin remained stable at 1.2% in 2010 and 2011.

### *Equipment Manufacturing Business*

Results of operations from our equipment manufacturing business are as follows:

	Year ended December 31,			
	2010		2011	
	Percentage of segmental revenue		Percentage of segmental revenue	
	(RMB'000)	(%)	(RMB'000)	(%)
<b>Revenue</b> .....	760,431	100.0	787,299	100.0
Cost of sales .....	<u>(747,707)</u>	<u>(98.3)</u>	<u>(752,102)</u>	<u>(95.5)</u>
<b>Gross profit</b> .....	12,724	1.7	35,197	4.5
Selling and marketing expenses .....	(2,563)	(0.3)	(2,805)	(0.4)
Administrative expenses.....	(31,920)	(4.2)	(27,672)	(3.5)
Research and development costs .....	(1,135)	(0.1)	(764)	(0.1)
<b>Other incomes and expenses</b> ..	<u>(2,840)</u>	<u>(0.4)</u>	<u>868</u>	<u>0.1</u>
<b>Operating (loss)/profit</b> .....	<u><u>(25,734)</u></u>	<u><u>(3.4)</u></u>	<u><u>4,824</u></u>	<u><u>0.6</u></u>

*Revenue.* Revenue from our equipment manufacturing segment increased by 3.5% from RMB760.4 million in 2010 to RMB787.3 million in 2011 mainly due to an increase of our business volume as we undertook more inter-segment sales in 2011.

*Cost of Sales.* Cost of sales from our equipment manufacturing segment was RMB747.7 million in 2010 and RMB752.1 million in 2011, remaining stable during this period.

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*Gross Profit.* Gross profit from our equipment manufacturing segment increased by 176.6% from RMB12.7 million in 2010 to RMB35.2 million in 2011. The gross profit margin from our equipment manufacturing segment increased from 1.7% in 2010 to 4.5% in 2011 mainly due to our strengthened cost control measures resulting in the increase of our revenue outpacing the increase of our cost of sales.

*Selling and Marketing Expenses.* Selling and marketing expenses from our equipment manufacturing segment increased by 9.4% from RMB2.6 million in 2010 to RMB2.8 million in 2011 in line with the increase in business volume in 2011.

*Administrative Expenses.* Administrative expenses from our equipment manufacturing segment decreased by 13.3% from RMB31.9 million in 2010 to RMB27.7 million in 2011 mainly due our strengthened cost control measures.

*R&D Costs.* R&D costs from our equipment manufacturing segment decreased by 32.7% from RMB1.1 million in 2010 to RMB0.8 million in 2011.

*Operating Profit.* As a result of the foregoing, we recorded an operating loss from our equipment manufacturing segment of RMB25.7 million in 2010 and an operating profit of RMB4.8 million in 2011.

## LIQUIDITY AND CAPITAL RESOURCES

### Overview

In our business operations, we need significant working capital to purchase materials and equipment and perform engineering, EPC Contracting, construction and other work on projects. We have historically met our working capital needs and other capital requirements from cash generated from operations.

During the Track Record Period, we financed our business primarily through cash flow generated from operations. Besides financing our operations with the proceeds from the Global Offering, we will continue to rely on cash flow generated from operations, and may finance our operations by using financing instruments such as issuances of bonds, short-term securities, notes and other convertible securities, and available bank loans in the future. We also intend to adjust our financing policies and centralize cash management to reduce financing cost, shorten cash turnover period and optimize our use of working capital.

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The table below sets out our combined consolidated statement of current assets and current liabilities extracted from the consolidated balance sheet as of the dates indicated:

	As of December 31,			As of Indebtedness Date,
	2010	2011	2012	2013
				(unaudited)
	(RMB'000)			
<b>Current assets</b>				
Inventories .....	300,488	494,513	747,117	908,165
Notes and trade receivables.....	3,620,965	4,809,424	6,074,402	5,108,552
Prepayment and other receivables ....	3,618,981	4,465,673	4,658,720	5,360,813
Amounts due from customers for contract work .....	3,035,496	4,569,084	4,584,264	5,609,708
Loans due from the ultimate holding company .....	15,000,000	17,460,000	8,140,000	7,600,000
Financial assets at fair value through profit or loss.....	310,977	—	—	—
Restricted cash.....	53,532	37,487	24,254	12,970
Cash and cash equivalents.....	<u>5,922,638</u>	<u>5,575,335</u>	<u>4,822,490</u>	<u>3,783,690</u>
Total current assets .....	<u>31,863,077</u>	<u>37,411,516</u>	<u>29,051,247</u>	<u>28,383,898</u>
<b>Current liabilities</b>				
Notes and trade payables .....	5,311,466	6,635,422	8,366,282	7,301,153
Other payables .....	9,743,118	23,223,779	11,801,526	11,505,604
Dividends payables .....	295,313	374,248	—	—
Amounts due to customers for contract work .....	6,906,730	6,568,266	6,242,041	5,957,229
Loans due to fellow subsidiaries .....	44,336	49,363	157,138	156,912
Current income tax liabilities.....	<u>873,928</u>	<u>1,039,057</u>	<u>195,429</u>	<u>204,734</u>
Total current liabilities.....	<u>23,174,891</u>	<u>37,890,135</u>	<u>26,762,416</u>	<u>25,125,632</u>
<b>Net current assets/(liabilities) .....</b>	<u>8,688,186</u>	<u>(478,619)</u>	<u>2,288,831</u>	<u>3,258,266</u>

Our net current assets/(liabilities) represent the difference between total current assets and total current liabilities. We had net current assets of RMB8,688.2 million, net current liabilities of RMB478.6 million and net current assets of RMB2,288.8 million as of December 31, 2010, 2011 and 2012, respectively. We incurred net current liabilities as of December 31, 2011 primarily as a result of a substantial increase in our other payables which included a payable of RMB12,200.0 million as a transfer to Sinopec Group in 2011. We returned to a net current asset position as of December 31, 2012. Our net current assets increased from RMB2,288.8 million as of December 31, 2012 to RMB3,258.3 million as of the Indebtedness Date, mainly due to the increase in our amounts due from customers for contract work and the decrease in our amounts due to customers for contract work, which was a result of the completion of our contracts that were outstanding as of December 31, 2012.

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### Cash Flow Data

The cash flow data set out in the table below is extracted from our consolidated statement of cash flows for each of the years ended December 31, 2010, 2011 and 2012.

	Year ended December 31,		
	2010	2011	2012
	(RMB'000)		
Net cash generated from operating activities .....	4,253,262	1,688,845	1,556,489
Net cash used in investing activities .....	(3,527,552)	(1,818,020)	(1,668,252)
Net cash generated from/(used in) financing activities.....	<u>50,723</u>	<u>(183,866)</u>	<u>(643,969)</u>
Net increase/(decrease) in cash and cash equivalents .....	776,433	(313,041)	(755,732)
Cash and cash equivalents at the beginning of the year .....	5,156,837	5,922,638	5,575,335
Exchange losses on cash and cash equivalents ...	<u>(10,632)</u>	<u>(34,262)</u>	<u>2,887</u>
<b>Cash and cash equivalents at the end of the year .....</b>	<b><u>5,922,638</u></b>	<b><u>5,575,335</u></b>	<b><u>4,822,490</u></b>

#### *Net Cash Generated From Operating Activities*

For the year ended December 31, 2012, our net cash generated from operating activities amounted to RMB1,556.5 million, primarily due to cash inflow from operating activities before movements in working capital of RMB4,650.4 million (reflecting profit before taxation after adjustments of certain items) and increase in trade and other payables of RMB541.0 million, partially offset by income tax paid of RMB1,772.2 million and increase in trade and other receivables of RMB1,315.5 million. The increase in trade and other payables was primarily the result of the accelerated work progress of our subcontractors and suppliers in a number of large scale projects. The increase in trade and other receivables was primarily due to our increased business volume.

For the year ended December 31, 2011, our net cash generated from operating activities amounted to RMB1,688.8 million, primarily due to cash inflow from operating activities before movements in working capital of RMB4,304.7 million (reflecting profit before taxation after adjustments of certain items) and increase in trade and other payables of RMB2,187.0 million, partially offset by cash used in contract work-in-progress of RMB1,872.1 million, increase in trade and other receivables of RMB2,107.1 million and income tax paid of RMB749.3 million. The increase in trade and other payables was primarily as a result of our receiving a large amount of prepaid deposits and the accelerated work progress of our subcontractors and suppliers in a number of large scale projects. Increase in cash used in contract work-in-progress was primarily due to the increase in expenditure for our project execution. The increase in trade and other receivables was primarily due to several of our large scale projects reaching the settlement stage and certain amounts of receivables remaining outstanding at the end of 2011.

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For the year ended December 31, 2010, our net cash generated from operating activities amounted to RMB4,253.3 million, primarily due to cash inflow from operating activities before movements in working capital of RMB3,491.5 million (reflecting profit before taxation after adjustments of certain items), increase in trade and other payables of RMB2,358.2 million and cash inflow from contract work-in-progress of RMB1,120.0 million, partially offset by the increase in trade and other receivables of RMB2,283.4 million and income tax paid of RMB580.2 million. The increase in trade and other payables was primarily due to the increase in prepaid deposits received. Cash inflow from contract work-in-progress was primarily due to our receiving payment for the Kazakhstan Atyrau Refinery Aromatics EPC Project and the Kazakhstan KPI IPCI Project. The increase in trade and other receivables was primarily due to increased prepayment to suppliers and subcontractors.

### *Net Cash Used in Investing Activities*

For the year ended December 31, 2012, our net cash used in investing activities amounted to RMB1,668.3 million, primarily consisting of loans to the ultimate holding company of RMB13,850.0 million and cash used in purchase of land use rights of RMB976.2 million, partially offset by repayments of loans from the ultimate holding company of RMB12,970.0 million. Loans to and repayments of loans from the ultimate holding company primarily reflected the entrustment loans provided by us through Sinopec Finance to Sinopec Group. The purchase of land use rights reflected the purchase of land use rights for certain parcels of land in Nanjing for our office use.

For the year ended December 31, 2011, our net cash used in investing activities amounted to RMB1,818.0 million, primarily consisting of loans to the ultimate holding company of RMB25,370.0 million, partially offset by repayments of loans from the ultimate holding company of RMB22,922.0 million, interest income on loans to the ultimate holding company of RMB632.0 million and proceeds from disposal of financial assets at fair value through profit or loss of RMB620.0 million.

For the year ended December 31, 2010, our net cash used in investing activities amounted to RMB3,527.6 million, primarily consisting of loans to the ultimate holding company of RMB23,860.0 million and the purchase of financial assets at fair value through profit or loss of RMB1,123.5 million, partially offset by repayments of loans from the ultimate holding company of RMB19,673.0 million and proceeds from disposal of financial assets at fair value through profit or loss of RMB1,646.3 million. Loans to and repayments from the ultimate holding company primarily reflected the entrustment loans provided by us through Sinopec Finance to Sinopec Group.

### *Net Cash From/(Used in) Financing Activities*

For the year ended December 31, 2012, our net cash used in financing activities amounted to RMB644.0 million, primarily consisting of repayments to fellow subsidiaries of RMB562.8 million, dividends paid of RMB374.2 million and repayment of borrowings from the ultimate holding company and fellow subsidiaries of RMB339.8 million, partially offset by borrowings from the ultimate holding company and fellow subsidiaries of RMB447.5 million and capital contributions received from Sinopec Group of RMB200.5 million.

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For the year ended December 31, 2011, our net cash used in financing activities amounted to RMB183.9 million, primarily consisting of dividends paid of RMB350.9 million, partially offset by capital contributions received from Sinopec Group of RMB215.6 million.

For the year ended December 31, 2010, our net cash generated from financing activities amounted to RMB50.7 million, primarily consisting of capital contributions received from Sinopec Group of RMB483.8 million, partially offset by dividends paid of RMB358.9 million.

### Capital Expenditure

Our capital expenditure is mainly used for facility expansion, technological upgrades and equipment purchases. For the years ended December 31, 2010, 2011 and 2012, our capital expenditure was approximately RMB602.0 million, RMB664.0 million and RMB1,509.4 million, respectively. Our capital expenditure in 2012 included the purchase of land use rights for certain parcels of land.

### Working Capital

Taking into account the financial resources available to us, including net proceeds from the Global Offering, our cash and cash equivalents on hand, unutilized bank facilities and cash flow generated from operations, our Directors believe that we have sufficient working capital required for our operations at present and for at least the next 12 months from the date of the Prospectus.

### Inventories

The table below summarizes the components of our inventories as of the dates indicated.

	As of December 31,		
	2010	2011	2012
	(RMB'000)		
Raw materials .....	175,143	284,386	589,701
Turnover materials .....	45,083	59,306	68,267
Goods in transit .....	26,646	149,846	75,551
Work-in-progress.....	53,616	975	13,598
<b>Total</b> .....	<b>300,488</b>	<b>494,513</b>	<b>747,117</b>

Raw materials in stock primarily consist of a variety of equipment, electric instruments, steel components, welding materials and other materials. Turnover materials in stock are primarily materials which can be recycled or reused in projects. Goods in transit in stock mainly comprise materials which have been sent by suppliers but which we have not yet received. Work-in-progress mainly comprises work in progress and finished goods in stock from our equipment manufacturing business. As of December 31, 2012, our total inventory balance amounted to RMB747.1 million. We endeavor to maintain the lowest inventory level required for our operations through effective



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inventory management. The balances of our inventories account for a relatively small proportion of our current assets, and the inventory turnover days were relatively short. During the Track Record Period, fluctuations in our inventory balances were mainly attributable to the progress of our projects.

The following table sets forth the turnover days of our inventories for the periods indicated.

	Year ended December 31,		
	2010	2011	2012
Turnover days of inventories <sup>(1)</sup> .....	5	6	7
Adjusted turnover days of inventories <sup>(2)</sup> .....	8	10	12

(1) Turnover days of inventories is derived by dividing the arithmetic mean of the opening and closing balances of inventories for the relevant period by cost of sales and multiplying by 365 days.

(2) Adjusted turnover days of inventories is derived by dividing the arithmetic mean of the opening and closing balances of inventories for the relevant period by cost of sales after subtracting subcontract costs and project management costs from it and multiplying by 365 days.

Our inventory turnover days were 5 days in 2010, 6 days in 2011, and 7 days in 2012. Taking effect of removing subcontract costs and project management costs from our cost of sales, our adjusted turnover days of inventories were 8 days in 2010, 10 days in 2011, and 12 days in 2012. Our relatively short inventory turnover days are mainly attributable to our inventory management policy, which aims to optimize inventory levels, and our accurate implementation of the construction progress.

### Contract Work-in-Progress

The following table sets forth our contract work-in-progress as of the dates indicated.

	As of December 31,		
	2010	2011	2012
	(RMB'000)		
Contract cost incurred plus recognized profit less recognized losses .....	76,607,211	93,343,546	73,971,276
Less: progress billings .....	<u>(80,478,445)</u>	<u>(95,342,728)</u>	<u>(75,629,053)</u>
<b>Contract Work-in-Progress</b> .....	<u>(3,871,234)</u>	<u>(1,999,182)</u>	<u>(1,657,777)</u>
Amount due from customers for contract work...	3,035,496	4,569,084	4,584,264
Amount due to customers for contract work .....	<u>(6,906,730)</u>	<u>(6,568,266)</u>	<u>(6,242,041)</u>
<b>Contract Work-in-Progress</b> .....	<u>(3,871,234)</u>	<u>(1,999,182)</u>	<u>(1,657,777)</u>

The balance of our contract work-in-progress was negative as of the end of each year during the Track Record Period primarily because we received relatively large settlement payments from certain large scale projects, which caused our project settlements to outpace project progress.

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A typical EPC Contracting and construction contract includes a billing schedule, according to which we bill the client based on predetermined timelines or milestones, and the billing is not necessarily based on the percentage of work completed. As a result, not all of our revenue recognized under amounts due from customers for contract work has been billed, and the balance of the unbilled portion is recorded as amounts due from customers for contract work. If the billed portion received exceeds the sum of construction work carried out and recognized profit or loss, the excess portion is recorded as amounts due to customers for contract work.

We make provisions for expected losses on contract work-in-progress as soon as they are foreseen and deduct the provisions from the project's direct costs, which consist of materials and equipment costs, employee benefits and subcontracting costs, among others.

Profits are not recognized unless a reliable estimate can be made of the result on completion of a project. The balance of the value of contract work-in-progress and progress billings is determined case by case. When the construction contract costs and related payables/payments are incurred and recorded, the corresponding revenues are recognized based on percentage of completion method and the balance of contract work-in-progress increases by the same amount. When bills are issued according to the agreed payment schedule, the balance of accounts receivable increases and the balance of contract work-in-progress decreases by the same amount respectively. In accordance with IFRS, amounts due from customers for contract work are recognized where the amount of revenue recognized based on the percentage of completion method exceeds the sum of recognized losses and accumulated progress billings, and amounts due to customers for contract work are recognized where the amount of revenue recognized based on percentage of completion method is less than the sum of recognized losses and the accumulated progress billings.

### Notes and Trade Receivables

As of December 31, 2010, 2011 and 2012, our notes and trade receivables were RMB3,621.0 million, RMB4,809.4 million and RMB6,074.4 million, respectively. We usually provide clients with a credit term ranging between 15 and 90 days. For the settlement of trade receivables for services we provided, we usually reach an agreement with clients on the length of the payment period by considering factors such as the credit history of the client, its liquidity position and our working capital needs, among others. This determination varies on a case-by-case basis and requires the judgment and experience of our management. We typically do not require any collateral as security. Almost all of our notes receivables are bank acceptance bills which are usually due within six months from the date of issue.

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The following table sets forth our notes and trade receivables as of the dates indicated.

	As of December 31,		
	2010	2011	2012
	(RMB'000)		
Trade receivables .....	3,361,287	4,424,697	5,642,575
Less: Provision for impairment .....	<u>(82,929)</u>	<u>(102,068)</u>	<u>(149,699)</u>
Trade receivables — net .....	3,278,358	4,322,629	5,492,876
Notes receivables .....	<u>342,607</u>	<u>486,795</u>	<u>581,526</u>
<b>Notes and trade receivables — net .....</b>	<b><u>3,620,965</u></b>	<b><u>4,809,424</u></b>	<b><u>6,074,402</u></b>

The following table sets forth an aging analysis of our notes and trade receivables as of the dates indicated.

	As of December 31,		
	2010	2011	2012
	(RMB'000)		
Within one year .....	3,280,977	4,367,704	5,552,785
Between one and two years .....	229,138	362,282	394,282
Between two and three years .....	56,882	27,902	107,527
Between three and four years .....	40,154	42,599	483
Between four and five years .....	13,814	—	13,387
Over five years .....	<u>—</u>	<u>8,937</u>	<u>5,938</u>
<b>Total .....</b>	<b><u>3,620,965</u></b>	<b><u>4,809,424</u></b>	<b><u>6,074,402</u></b>

During the Track Record Period, a majority of our notes and trade receivables had been outstanding for less than one year. As of December 31, 2010, 2011 and 2012, our notes and trade receivables that had been outstanding for more than one year represent 9.4%, 9.2% and 8.6% of our total notes and trade receivables as of the respective dates. Our notes and trade receivables outstanding beyond one year mainly represented delayed payment from our clients due to various reasons including our clients' temporary capital constraint and long internal approval process. We continually enhance trade receivables management in order to reduce impairment risk. Additionally, after fully considering the nature of trade receivables and their collectability on a case-by-case basis, we have made provisions for the impairment of certain long overdue trade receivables in order to ensure the quality of our assets. As of December 31, 2010, 2011 and 2012, our provisions for the impairment of trade receivables were RMB82.9 million, RMB102.1 million and RMB149.7 million, respectively, representing 2.5%, 2.3% and 2.7% of our trade receivables, respectively. As of the Latest Practicable Date, 66.9% of our notes and trade receivables outstanding for less than one year and 57.5% of our notes and trade receivables outstanding beyond one year as of December 31, 2012 were subsequently settled.

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As of December 31, 2010, 2011 and 2012, our notes and trade receivables to be settled by Sinopec Group and its associates were RMB1,898.4 million, RMB2,645.4 million and RMB3,612.5 million, respectively, representing 52.4%, 55.0% and 59.5% of our notes and trade receivables, respectively.

The following table sets forth the turnover days of our notes and trade receivables for the periods indicated.

	Year ended December 31,		
	2010	2011	2012
Turnover days of notes and trade receivables <sup>(1)</sup>	<u>37</u>	<u>50</u>	<u>52</u>

(1) Turnover days of notes and trade receivables is derived by dividing the arithmetic mean of the opening and closing balances of notes and trade receivables for the relevant period by incomes and multiplying by 365 days.

Our turnover days of notes and trade receivables increased from 37 days in 2010 to 50 days in 2011 mainly because a number of large scale projects reached the settlement stage at the end of 2011. Our turnover days of notes and trade receivables remained stable and increased slightly from 50 days in 2011 to 52 days in 2012.

For the years ended December 31, 2010, 2011 and 2012, the turnover days of notes and trade receivables to be settled by Sinopec Group and its associates were 31 days, 49 days and 59 days, respectively. During the same period, the turnover days of notes and trade receivables to be settled by our independent clients were 49 days, 52 days and 44 days, respectively.

### Prepayments and Other Receivables

The following table sets forth our prepayments and other receivables as of the dates indicated:

	As of December 31,		
	2010	2011	2012
		(RMB'000)	
Prepayments.....	2,586,570	3,214,499	3,875,301
Other receivables .....	1,184,030	1,430,374	975,380
Less: provisions for impairment .....	<u>(151,619)</u>	<u>(179,200)</u>	<u>(191,961)</u>
<b>Prepayments and other receivables — net.....</b>	<b><u>3,618,981</u></b>	<b><u>4,465,673</u></b>	<b><u>4,658,720</u></b>

Our prepayments mainly comprised prepayments for construction and prepayments for materials and equipment. The amount of prepayments for construction typically increased as our business volume increased. As of December 31, 2012, prepayments for construction, materials and equipment amounted to RMB3,715.2 million. As of the Latest Practicable Date, 18.7% of our prepayment outstanding as of December 31, 2012 were subsequently recognized as our costs.

Our other receivables mainly comprised retention deposits and amounts due from the ultimate holding company and fellow subsidiaries. As of December 31, 2010, 2011 and 2012, retention deposits

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amounted to RMB511.8 million, RMB587.4 million and RMB557.7 million, respectively, and amounts due from the ultimate holding company and fellow subsidiaries amounted to RMB295.1 million, RMB340.5 million and RMB18.7 million, respectively.

### Trade and Other Payables

Our trade and other payables mainly comprised notes payables, trade payables and other payables including contract deposits advance and amounts due to the ultimate holding company, among others. As of December 31, 2010, 2011 and 2012, our notes and trade payables amounted to RMB5,311.5 million, RMB6,635.4 million and RMB8,366.3 million, respectively, and our other payables amounted to RMB9,743.1 million, RMB23,233.8 million and RMB11,801.5 million, respectively. Other payables included contract deposits advance which represented prepayment from our clients. As of December 31, 2010, 2011 and 2012, our contract deposits advance amounted to RMB7,402.3 million, RMB9,246.4 million and RMB8,628.8 million, respectively. Other payables also included deposits and guarantee deposits payables as a result of the performance guarantees and advance payment guarantees we were required to provide to project owners. As of December 31, 2010, 2011 and 2012, our deposits and guarantee deposits payables amounted to RMB145.2 million, RMB221.3 million and RMB68.0 million, respectively. The following table sets forth our notes and trade payables as of the dates indicated:

	As of December 31,		
	2010	2011	2012
	(RMB'000)		
Trade payables .....	5,297,346	6,635,422	8,366,282
Notes payables.....	14,120	—	—
<b>Notes and trade payables .....</b>	<b><u>5,311,466</u></b>	<b><u>6,635,422</u></b>	<b><u>8,366,282</u></b>

The increase in our notes and trade payables over the Track Record Period was in line with our business expansion.

The following table shows an aging analysis of our notes and trade payables as of the dates indicated:

	As of December 31,		
	2010	2011	2012
	(RMB'000)		
Within one year .....	4,420,481	4,771,887	6,239,001
Between one and two years.....	654,270	1,398,786	1,254,907
Between two and three years.....	162,190	286,482	595,763
Over three years .....	74,525	178,267	276,611
<b>Total.....</b>	<b><u>5,311,466</u></b>	<b><u>6,635,422</u></b>	<b><u>8,366,282</u></b>

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As of December 31, 2012, we had notes and trade payables of RMB2,127.3 million that were aged beyond one year, with the remaining outstanding payables scheduled to be settled upon the completion of the relevant projects. Certain notes and trade payables aged beyond one year mainly included retention deposits provided by our subcontractors, and in certain cases, our delayed payment to suppliers or subcontractors is resulted from delayed payment to us by project owners, which we may be entitled to do so pursuant to contracts with our subcontractors. Our trade payables included the retention deposits that were not yet due and were to be paid to the subcontractors upon expiry of the relevant warranty periods which last one to two years after completion of the projects. As of the Latest Practicable Date, 55.2% of our notes and trade payables outstanding for less than one year and 68.8% of our notes and trade payables outstanding beyond one year as of December 31, 2012 were subsequently settled.

The following table sets forth the turnover days of our notes and trade payables for the periods indicated:

	Year ended December 31,		
	2010	2011	2012
Turnover days of notes and trade payables <sup>(1)</sup> ....	<u>80</u>	<u>85</u>	<u>83</u>

(1) Turnover days of notes and trade payables is derived by dividing the arithmetic mean of the opening and closing balances of notes and trade payables for the relevant period by cost of sales and multiplying by 365 days.

Our turnover days of notes and trade payables generally remained stable during the Track Record Period.

### Commitments

#### *Capital Commitments*

Our capital commitments for purchase of property, plant and equipment which were outstanding but not provided for are set forth below as of the dates indicated:

	As of December 31,		
	2010	2011	2012
	(RMB'000)		
<b>Capital commitments:</b>			
Contracted but not provided for:			
Property, plant and equipment.....	<u>110,591</u>	<u>153,863</u>	<u>308,755</u>

As of December 31, 2012, our capital commitments were RMB308.8 million. We plan to fund these capital commitments by utilizing cash generated from operations.

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### *Operating Lease Commitments*

We lease various residential properties, offices and equipment under non-cancellable operating lease agreements. These leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases as of the dates indicated are as follows:

	As of December 31,		
	2010	2011	2012
	(RMB'000)		
<b>Operating lease commitments:</b>			
Within one year .....	59,328	71,184	22,177
Between one and five years .....	14,168	19,719	48,222
Over five years .....	—	—	31,465
<b>Total</b> .....	<u>73,496</u>	<u>90,903</u>	<u>101,864</u>

### INDEBTEDNESS AND CONTINGENCIES

#### Indebtedness

As of December 31, 2010, 2011 and 2012, we had no borrowings from third party financial institutions. Our interest-bearing borrowings were primarily borrowings from other subsidiaries of Sinopec Group, which are not secured by collateral and are typically payable on demand or mature within one year. See Note 37 to the Accountants' Report in Appendix I to this prospectus. As of December 31, 2010, 2011 and 2012, the balances of our interest-bearing borrowings were RMB44.3 million, RMB49.4 million and RMB157.1 million, respectively, while the weighted average effective interest rates in such periods were 2.32%, 2.46% and 2.02%-2.60%, respectively. As of the Indebtedness Date, the balance of our interest-bearing borrowings was RMB157.0 million, which were loans due to other subsidiaries of Sinopec Group. In April 2013, the loans of RMB157.0 million due to other subsidiaries of Sinopec Group have been fully repaid. As of the Indebtedness Date, we had no borrowings from third party financial institutions.

In respect of unutilized facilities available to us as of the Indebtedness Date, there are no additional collateral or security required for any drawdown of such facilities. During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that they are not aware of any breach of any of the covenants contained in our banking and other loan facilities constituting any event of default nor aware of any restrictions that will limit our ability to drawdown on our un-utilized facilities.

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Save as disclosed, we did not have any outstanding debt securities issued and outstanding or authorized or otherwise created but unissued debt securities, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages and charges, material contingent liabilities or guarantees outstanding as of the Indebtedness Date. We currently do not have any material external debt financing plan. As of the Latest Practicable Date, there were also no material covenants relating to our outstanding borrowings.

### Contingencies

We have been named in a number of lawsuits and other legal proceedings arising in the ordinary course of business. Provision has been made for the probable losses to us on those claims when our management can reasonably estimate the outcome of the lawsuits based on its judgment and the legal advice. No provision is made for pending lawsuits when the outcome of the lawsuits cannot be reasonably estimated or our management believes the outflow of resources is not probable. See “Business — Regulatory Compliance and Legal Proceedings.”

Our provision for legal claims as of the dates indicated are as follows:

	As of December 31,		
	2010	2011	2012
	(RMB'000)		
At the beginning of the year .....	214,502	327,338	360,338
Provision for the year .....	112,836	33,000	19,772
Payment .....	—	—	(10,866)
At the end of the year .....	<u>327,338</u>	<u>360,338</u>	<u>369,244</u>

Our management does not anticipate that any material liabilities will arise from the contingent liabilities other than the above provisions.

### Off-Balance Sheet Arrangements

As of the Latest Practicable Date, we did not have any material off-balance sheet arrangements other than the contingent liabilities and commitments disclosed above.



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### SUMMARY OF FINANCIAL RATIOS

The table below sets forth our key financial ratios as of the dates indicated.

	As of December 31,		
	2010	2011	2012
Net profit margin (%) .....	9.7	11.0	8.6
Gearing ratio (%) <sup>(1)</sup> .....	0.5	1.8	2.2
Net debt to equity ratio (%) <sup>(2)</sup> .....	net cash	net cash	net cash
Return on total assets (%) <sup>(3)</sup> .....	8.9	8.4	8.1
Return on equity (%) <sup>(4)</sup> .....	32.0	123.5	46.8
Current ratio <sup>(5)</sup> .....	1.37	0.99	1.09
Quick ratio <sup>(6)</sup> .....	1.36	0.97	1.06

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- (1) Gearing ratio is calculated based on total debt divided by total equity at the end of the respective period.
- (2) Net debt to equity ratio is calculated based on net debt divided by total equity at the end of the respective period.
- (3) Return on total assets equals the profit for the year divided by the arithmetic mean of the opening and closing balances of total assets of the relevant year expressed as a percentage.
- (4) Return on equity equals profit for the period divided by total equity at the end of the period.
- (5) Current ratio is calculated by dividing current assets by current liabilities.
- (6) Quick ratio is calculated by dividing current assets less inventories by current liabilities.

### Gearing Ratio

Our gearing ratio increased from 0.5% as of December 31, 2010 to 1.8% as of December 31, 2011. The increase was mainly due to a decrease in total equity mainly as a result of a transfer to Sinopec Group of RMB12.20 billion. Our gearing ratio further increased from 1.8% as of December 31, 2011 to 2.2% as of December 31, 2012 as the increase of our total debt outpaced the increase of our total equity. Excluding the effect of such exceptional factors, our gearing ratio fluctuated within the normal range during the Track Record Period.

### Net Debt to Equity Ratio

We maintained a net cash positive position for each of the years ended December 31, 2010, 2011 and 2012.

### Return on Total Assets

Our return on total assets remained relatively stable for the years ended December 31, 2010, 2011 and 2012.

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### Return on equity

Our return on equity increased from 32.0% in 2010 to 123.5% in 2011. The increase was mainly due to a decrease in total equity mainly as a result of a transfer to Sinopec Group of RMB12.20 billion while our profit for the year increased 16.8% from 2010 to 2011. In 2012, our return on equity decreased from 123.5% to 46.8% as our total equity increased with our profit accumulation and capital contribution from Sinopec Group.

### Current Ratio

Our current ratio decreased from 1.37 as of December 31, 2010 to 0.99 as of December 31, 2011. The decrease was mainly due to the increase in current liabilities as a result of the significant increase in our trade and other payables, including amounts due to ultimate holding company of RMB12.20 billion as of December 31, 2011. Our current ratio increased from 0.99 as of December 31, 2011 to 1.09 as of December 31, 2012, primarily due to the decrease in current liabilities as we settled majority of amounts due to ultimate holding company in 2012. Excluding the effect of such exceptional factors, our current ratio fluctuated within the normal range during the Track Record Period.

### Quick Ratio

Our quick ratio decreased from 1.36 as of December 31, 2010 to 0.97 as of December 31, 2011, and further increased to 1.06 as of December 31, 2012. Our inventories accounted for a very small portion of current assets. The changes in our quick ratio is due to the same reason as the decrease in our current ratio discussed above.

### LISTING EXPENSES

We did not incur any listing expenses during the Track Record Period. We expect to incur listing expenses (including underwriting commissions and fees) amounting to approximately HK\$296.8 million in the first half of 2013. See “Underwriting — Underwriting Arrangements and Expenses.” Our Directors do not expect such expenses to have a material adverse effect on our financial results for the year ended December 31, 2013.

### FINANCIAL RISK MANAGEMENT

We face a variety of financial risks in the ordinary course of business, including market risk (such as foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. In analyzing such risks, we periodically identify and evaluate risks at our headquarters and at the individual subsidiary level, and the results of our analysis are communicated to the Group’s entities as appropriate. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

### Market Risks

We are exposed to various market risks, including foreign exchange risk, interest rate risk and price risk, arising from the ordinary course of business.

## FINANCIAL INFORMATION

### Foreign Exchange Risk

The functional currency of the entities in our Group is Renminbi, and substantially all of our transactions are settled in Renminbi. However, the currency risks faced by our overseas businesses mainly result from receivables, payables, borrowings and cash balances denominated in foreign currencies arising from the provision of general construction contracting services. As of December 31, 2010, 2011 and 2012, the foreign currencies held by us were mainly US dollars, Euros and Saudi riyals. The Renminbi is not a freely convertible currency and the PRC government may, at its discretion, restrict access to foreign currencies for current account transactions in the future. Changes in the PRC foreign exchange control system may prevent us from meeting our foreign currency demands.

Fluctuations in foreign exchange rates may result in a decrease in our revenues denominated in foreign currencies or an increase in our borrowings denominated in foreign currencies, which could negatively impact our results of operations. Please see “Risk Factors — Risks relating to doing business in the PRC — We face foreign exchange risk, and fluctuations in exchange rates could have a material and adverse effect on our business and investors’ investment.”

The following table sets forth the foreign currency risk arising from our recognized assets or liabilities denominated in currencies other than Renminbi as of the dates indicated.

	As of December 31, 2010			
	U.S. dollar	Euro	Saudi riyal	Others
	(RMB'000 <sup>(1)</sup> )			
Notes and trade receivables.....	205,634	—	169,112	—
Prepayments and other receivables.....	776,246	—	4,607	2,884
Cash and cash equivalents and restricted cash.....	598,472	552,717	94,552	29,900
Notes and trade payables .....	(72,141)	—	(189,328)	(918)
Other payables .....	<u>(2,126,327)</u>	<u>—</u>	<u>(15,485)</u>	<u>(7,618)</u>
Net exposure (in RMB).....	<u>(618,116)</u>	<u>552,717</u>	<u>63,458</u>	<u>24,248</u>
	As of December 31, 2011			
	U.S. dollar	Euro	Saudi riyal	Others
	(RMB'000 <sup>(1)</sup> )			
Notes and trade receivables.....	497,728	9,221	52,824	29,265
Prepayments and other receivables.....	819,062	11,956	35,331	27,005
Cash and cash equivalents and restricted cash.....	433,159	339,941	99,971	80,624
Notes and trade payables .....	(162,212)	—	(183,659)	(11,886)
Other payables .....	<u>(2,401,059)</u>	<u>(822)</u>	<u>(117,616)</u>	<u>(2,848)</u>
Net exposure (in RMB).....	<u>(813,322)</u>	<u>360,296</u>	<u>(113,149)</u>	<u>122,160</u>

## FINANCIAL INFORMATION

	As of December 31, 2012			
	U.S. dollar	Euro	Saudi riyal	Others
	(RMB'000 <sup>(1)</sup> )			
Notes and trade receivables.....	269,206	—	99,698	2,013
Prepayments and other receivables.....	803,701	45,572	105,770	68,438
Cash and cash equivalents and restricted cash.....	2,905,189	265,674	95,112	10,253
Notes and trade payables .....	(309,528)	—	(105,248)	(20,058)
Other payables .....	(3,247,780)	(822)	(104,187)	—
Net exposure (in RMB) .....	<u>420,788</u>	<u>310,424</u>	<u>91,145</u>	<u>60,646</u>

(1) The exchange rate for conversion of foreign currency into RMB follows the median exchange rate published by the PBOC as of the end of the balance sheet period.

As of December 31, 2010, 2011 and 2012, a 5% increase in the value of the Renminbi as compared to the U.S. dollar and the Euro could result in an increase/(decrease) of our equity and profit by the following amounts:

	As of December 31,		
	2010	2011	2012
	(RMB'000)		
Changes in equity and profit			
- U.S. dollar .....	23,179	30,500	(15,780)
- Euro.....	(20,727)	(13,511)	(11,641)

As of December 31, 2010, 2011 and 2012, if all other variables remain unchanged, the value of the Renminbi decreasing by 5% may result in an opposite effect in equivalent amount on the above mentioned currencies.

The changes set out above represent our management's evaluation of the reasonable changes in foreign exchange rates during the period until the next annual balance sheet date. This analysis is performed on the same basis for 2010 and 2011.

### Interest Rate Risk

As we have no material interest-bearing assets and borrowings, substantially all of our daily income and funds from operations are not affected by changes in market interest rates. The borrowings between us and the ultimate holding company and other Sinopec Group subsidiaries mainly bear interest on a fixed rate basis. As of December 31, 2010, 2011 and 2012, we had no borrowings from third party financial institutions. We do not use financial derivatives to hedge interest rate risk.

## FINANCIAL INFORMATION

### Credit Risk

Our credit risk mainly arises from restricted cash, cash and cash equivalents, trade and other receivables and other current assets.

We have corresponding policies in place to ensure that services and products are provided and sold to clients with appropriate credit history, and we regularly assess the creditworthiness of our clients. We usually do not require our clients to provide collateral as security. As for the balances with related parties, we regularly review operating results and capital and liabilities ratio of the related parties to assess their creditworthiness.

The maximum of the credit risks represents the carrying amount of each of the financial assets in the balance sheet net of the provision of any impairment.

### Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the relevant businesses, we aim to maintain flexibility in funding by keeping committed credit lines available.

Our management monitors our cash flow forecast in meeting our liabilities.

The following table sets forth our non-derivative financial liabilities to be settled on net basis for the remaining period from the balance sheet date to the contract expiration date. The table below discloses the amount of undiscounted contract cash flow. As the effect of the discount is not material, the balances expiring within one year are equivalent to their carrying amount balances.

	Weighted average effective interest rate	Within one year	One to two years	Two to five years	Over five years	Total undiscounted cash flow	Carrying amount
(RMB '000)							
As of December 31, 2010							
Trade and other payables .....	N/A	7,652,266	—	—	—	7,652,266	7,652,266
Dividends payable .....	N/A	295,313	—	—	—	295,313	295,313
Loans due to fellow subsidiaries.....	2.32%	45,193	—	—	—	45,193	44,336
		<u>7,992,772</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,992,772</u>	<u>7,991,915</u>

## FINANCIAL INFORMATION

	Weighted average effective interest rate	Within one year	One to two years	Two to five years	Over five years	Total undiscounted cash flow	Carrying amount
(RMB '000)							
As of December 31, 2011							
Trade and other payables .....	N/A	20,612,810	—	—	—	20,612,810	20,612,810
Dividends payable .....	N/A	374,248	—	—	—	374,248	374,248
Loans due to fellow subsidiaries.....	2.46%	49,869	—	—	—	49,869	49,363
		<u>21,036,927</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>21,036,927</u>	<u>21,036,421</u>

	Weighted average effective interest rate	Within one year	One to two years	Two to five years	Over five years	Total undiscounted cash flow	Carrying amount
(RMB '000)							
As of December 31, 2012							
Trade and other payables .....	N/A	11,539,015	—	—	—	11,539,015	11,539,015
Loans due to fellow subsidiaries.....	2.02%- 2.60%	159,528	—	—	—	159,528	157,138
		<u>11,698,543</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,698,543</u>	<u>11,696,153</u>

### DIVIDEND POLICY

We may declare and pay dividends by way of cash or by other means that we consider appropriate in the future. Distribution of dividends shall be formulated by our Board at their discretion and will be subject to shareholders' approval. During the two years ended December 31, 2010 and 2011, the dividends distributed by us to Sinopec Group were RMB295.3 million and RMB429.8 million, respectively. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or IFRS (whichever is lower), our Articles of Association, the PRC Company Law and any other applicable PRC law and regulations and other factors that our Directors may consider relevant. In any event, we will pay dividends out of our profit after tax only after we have made the following allocations:

- recovery of accumulated losses, if any;
- allocation to the statutory common reserve fund an amount equivalent to 10% of our profit after tax, as determined under PRC GAAP; and

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## FINANCIAL INFORMATION

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- allocation, if any, to a discretionary common reserve fund an amount approved by the shareholders in a shareholders' meeting.

The minimum allocation to the statutory common reserve fund is 10% of our profit after tax, as determined under PRC GAAP. When the statutory common reserve fund reaches and is maintained at or above 50% of our registered capital, no further allocation to this statutory common reserve fund will be required. Under PRC law, after completion of the Global Offering, dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRS, whichever is lower. Any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years.

In the future, we expect to distribute no less than 30% of our annual distributable net profits as dividends. There is, however, no assurance that we will be able to distribute dividends of such amount or any amount each year or in any year. In addition, declaration and/or payment of dividends may be limited by legal restrictions and/or by financing agreements that we may enter into in the future.

### **Dividend Distribution Prior to the Listing**

Dividend distribution prior to the Listing are paid out of distributable profits as determined under PRC GAAP or IFRS, whichever is lower.

Our accumulated distributable profits prior to the Global Offering are distributed as follows:

- In accordance with the Provisional Regulation Relating to Corporate Reorganization of Enterprises and Related Management of State-owned Capital and Financial Treatment (企業公司制改建有關國有資本管理與財務處理的暫行規定) issued by MOF and the resolution of the Shareholders' meeting dated August 24, 2012, Sinopec Group and SAMC were entitled to special dividends of approximately RMB363.3 million, which was determined based on our consolidated net profits attributable to equity owner/shareholders of the Company for the period from July 1, 2012, the date immediately after the date on which our assets were valued for the establishment of our Company as a joint stock limited liability company, to August 28, 2012, the date of our establishment.

### **Distributable Reserves**

As of December 31, 2012, the distributable reserve of our Company, which our dividend distribution shall be based upon, amounted to RMB1.39 billion (being our Company's retained earnings). The distributable reserve of our Group, including our Company and our subsidiaries, amounted to RMB1.64 billion as of December 31, 2012.

### **UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS**

The following unaudited pro forma statement of adjusted consolidated net tangible assets is based on our audited consolidated net tangible assets attributable to the equity holders as of December

## FINANCIAL INFORMATION

31, 2012, as shown in Appendix I — Accountants' Report to this prospectus, adjusted as described below. Our unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only. Limited by its nature, our unaudited pro forma statement of adjusted consolidated net tangible assets might not give a true picture of our financial condition.

The following unaudited pro forma adjusted consolidated net tangible assets has been prepared to illustrate the effect of the Global Offering on our consolidated net tangible assets as of December 31, 2012 as if the Global Offering has proceeded on December 31, 2012.

	Consolidated net tangible assets attributable to the equity holders of our Company as of December 31, 2012 <sup>(1)</sup>	Estimated net proceeds from the Global Offering <sup>(2)</sup>	Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of our Company	Unaudited pro forma adjusted consolidated net tangible assets per share	
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB <sup>(3)</sup> )	(HK\$ <sup>(3)</sup> )
Based on an Offer Price of HK\$9.80 per Share .....	<u>6,601,222</u>	<u>10,200,347</u>	<u>16,801,569</u>	<u>3.79</u>	<u>4.74</u>
Based on an Offer Price of HK\$13.10 per Share.....	<u>6,601,222</u>	<u>13,653,678</u>	<u>20,254,900</u>	<u>4.57</u>	<u>5.72</u>

- (1) The consolidated net tangible assets attributable to equity holders of the Company as at December 31, 2012 was calculated based on the consolidated net assets attributable to equity holders of the Company as at December 31, 2012 of approximately RMB7,077,985,000 as extracted from the Accountants' Report set out in Appendix I to this Prospectus, with adjustments for the intangible assets of approximately RMB476,763,000.
- (2) The estimated net proceeds from the Global Offering are based on an indicative Offer Price of HK\$9.80 per Share and HK\$13.10 per Share, respectively, after deduction of the underwriting commissions, fees and other related expenses estimated by the Company in connection with the Global Offering and do not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are translated at the exchange rate of RMB0.80 to HK\$1.00.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at by dividing the unaudited pro forma adjusted net tangible assets by 4,428,000,000 Shares, being the number of shares in issue assuming the Global Offering has been completed on December 31, 2012 and do not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option. The unaudited pro forma adjusted net tangible assets per Share is translated at the exchange rate of RMB0.80 to HK\$1.00.
- (4) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading result or other transaction of the Group entered into subsequent to December 31, 2012.

### DISCLOSURES MADE PURSUANT TO RULES 13.13 TO 13.19 OF HONG KONG LISTING RULES

We confirm that as of the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.



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## FINANCIAL INFORMATION

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### RECENT DEVELOPMENTS

Based on our unaudited management accounts, as of March 31, 2013 we had a total current assets of RMB28.38 billion and a total current liabilities of RMB25.13 billion. There was no adverse change in our gross profit margin and net profit margin for the three months ended March 31, 2013 comparing to those for the year ended December 31, 2012. See “— Liquidity and Capital Resources.”

### NO MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial position or prospects since December 31, 2012 (being the date to which our Company’s latest consolidated audited financial results were prepared) and there has been no event since December 31, 2012 which would materially affect the information shown in the Accountants’ Report set out in Appendix I to this prospectus.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

See “Business — Business Strategies” for details of our future plans.

### USE OF PROCEEDS

We estimate that the net proceeds we will receive from the Global Offering (after deducting underwriting commissions, fees and anticipated expenses payable by us in connection with the Global Offering) will be approximately HK\$14,908.8 million, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$11.45 per H Share, being the mid-point of the Offer Price range of HK\$9.80 to HK\$13.10 per H Share as stated in this prospectus. If the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds of approximately HK\$2,246.6 million (after deducting underwriting commissions, fees and other relevant expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$11.45 per H Share. We currently intend to apply these net proceeds for the following purposes, assuming the Over-allotment Option is not exercised:

Amount (HK\$ in millions)	Percentage of the total estimated net proceeds	Intended use of the net proceeds
3,429.0.....	23%	Establishing six R&D centers in the PRC for research and development of engineering and construction technologies, including: (i) a refining and reaction engineering technology R&D center in Luoyang; (ii) a new coal chemical and natural gas chemical technology R&D center in Ningbo; (iii) a special material welding technology R&D center in Qingdao; (iv) a petrochemical-alternative energy engineering technology R&D center in Beijing; (v) a pharmaceutical chemical engineering technology R&D center in Shanghai; and (vi) a modern construction technology R&D center in Tianjin. The total investment is approximately RMB2.3 billion, mostly to be deployed within the years of 2013 and 2014 mainly for equipment acquisition, construction costs, R&D expenditure and staff costs. The R&D centers were at an initial planning stage as of December 31, 2012 and are expected to be completed by the end of 2014
5,963.5.....	40%	Supporting operation funds for our EPC Contracting services to selected projects that are important for the development of our EPC Contracting business and enhancing our client base, such as the Shaanxi Yulin methanol acetic acid deep processing EPC project

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## FUTURE PLANS AND USE OF PROCEEDS

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Amount (HK\$ in millions)	Percentage of the total estimated net proceeds	Intended use of the net proceeds
1,640.0.....	11%	Improving our overseas marketing networks, including establishing an operation and maintenance center in Saudi Arabia, an integrated operating center in North America, and several overseas subsidiaries or branches in South Asia, Africa and South America
1,043.6.....	7%	Improving our information system
1,341.8.....	9%	Purchasing crawler cranes with high lifting capacities to enhance our specialized construction capacity
1,490.9.....	10%	Working capital and other general corporate purposes

We will adjust our allocation of the net proceeds for the above purposes on a pro rata basis should the amount of proceeds differ from the estimated amount, assuming the Over-allotment Option is not exercised. If the Offer Price is set at HK\$13.10 per H Share (being the high end of the Offer Price range), and assuming that the Over-allotment Option is not exercised, the net proceeds from the Global Offering will increase by approximately HK\$2,158.3 million. If the Offer Price is set at HK\$9.80 per H Share (being the low end of the Offer Price range), and assuming that the Over-allotment Option is not exercised, the net proceeds from the Global Offering will decrease by approximately HK\$2,158.4 million.

Additional net proceeds received due to the exercise of any Over-allotment Option will be used for the above purposes on a pro rata basis in the event that the Over-allotment Option is exercised.

To the extent that the net proceeds are not immediately applied to the above purposes, we intend to deposit the same into short-term deposits with banks or financial institutions in Hong Kong or the PRC as permitted by the relevant laws and regulations. Our PRC legal advisor is of the view that there is no legal impediment in remittance to the PRC provided that relevant registration with SAFE for the Listing is completed within 15 working days after the Global Offering. We will comply with the PRC laws in respect of foreign exchange registration and proceeds remittance.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

#### Joint Lead Managers

J.P. Morgan Securities (Asia Pacific) Limited  
CITIC Securities Corporate Finance (HK) Limited  
UBS AG, Hong Kong Branch  
Goldman Sachs (Asia) L.L.C.  
China International Capital Corporation Hong Kong Securities Limited  
The Hongkong and Shanghai Banking Corporation Limited  
Haitong International Securities Company Limited  
Citigroup Global Markets Asia Limited  
Merrill Lynch Far East Limited  
Deutsche Bank AG, Hong Kong Branch  
CMB International Capital Limited  
BOCOM International Securities Limited  
BOCI Asia Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

The Hong Kong Underwriting Agreement was entered into on May 9, 2013. Pursuant to the Hong Kong Underwriting Agreement, we are offering 66,400,000 H Shares for subscription by the public in Hong Kong on and subject to the terms and conditions set out in this prospectus and the Application Forms.

Subject to:

- the Listing Committee of the Hong Kong Stock Exchange granting approval for the listing of, and permission to deal in, the H Shares to be offered pursuant to the Global Offering as mentioned herein (including any additional H Shares which may be issued upon to the exercise of the Over-allotment Option); and
- certain other conditions set out in the Hong Kong Underwriting Agreement (including but not limited to the Offer Price being agreed upon between us and the Joint Global Coordinators (on behalf of the Underwriters)),

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## UNDERWRITING

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the Hong Kong Underwriters have agreed severally but not jointly to subscribe or procure subscribers to subscribe for the Hong Kong Public Offer Shares which are being offered but not taken up under the Hong Kong Public Offering on the terms and subject to the conditions in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. If, for any reason, the Offer Price is not agreed upon between us and the Joint Global Coordinators (on behalf of the Underwriters) the Global Offering will not proceed.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

### *Grounds for Termination*

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Public Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if, at any time prior to 8:00 a.m. on the day that trading in the H Shares commences on the Hong Kong Stock Exchange:

- (i) there shall develop, occur, exist or come into effect:
  - (a) any local, national, regional or international event, or series of events, in the nature of force majeure (including, without limitation, acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemics, pandemics, outbreaks of diseases, economic sanction, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, PRC, the United States, the United Kingdom, Japan or the European Union (taken as a whole); or
  - (b) any change or development involving a prospective change, or any event or series of events likely to result in any change, or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency credit or market conditions (including, without limitation, any conditions affecting stock and bond markets, money and foreign exchange markets) in or affecting Hong Kong, PRC, the United States, the United Kingdom, Japan or the European Union (taken as a whole); or
  - (c) any moratorium, suspension or restriction on trading in securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the NASDAQ Global Markets, the Shanghai Stock Exchange, or the Shenzhen Stock Exchange, or a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies, or any disruption in monetary or trading or securities settlement or clearance services, procedures or matters in or affecting Hong Kong, PRC, the United States, the United Kingdom, Japan or the European Union (taken as a whole); or

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## UNDERWRITING

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- (d) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), London, the European Union (taken as a whole), Japan, the PRC, or there is a disruption in commercial banking, foreign exchange trading or securities settlement or clearance services in those places; or
- (e) any new law or any change or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the United States, the United Kingdom, Japan, the European Union (taken as a whole); or
- (f) a change or development involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies) in Hong Kong, the PRC, the United States, the United Kingdom, Japan or the European Union (taken as a whole), in each case adversely affecting an investment in the H Shares; or
- (g) any litigation, claim or legal action of any third party being threatened or instigated against any member of the Group;

which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators (1) has or will or is likely to have a material adverse effect on the business, financial position, results of operations or prospects of the Group as a whole, or (2) has or will or is likely to have a material adverse effect on the success of the Global Offering or (3) has or will or is likely to have the effect of making it inadvisable or impracticable for any material part of the Hong Kong Underwriting Agreement (including underwriting) to be performed in accordance with its terms; or

- (ii) there has come to the notice of the Joint Global Coordinators:
  - (a) that any statement contained in this prospectus, the Application Forms, the formal notice and/or any announcement or advertisement issued by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, inaccurate or misleading, unless such untrue, inaccurate or misleading statement is immaterial in the context of the Global Offering and has been rectified by the Company in a timely manner; or
  - (b) that any matter not having been disclosed in this prospectus has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission therefrom; or
  - (c) any material breach on the part of the Company of any of the provisions under the Hong Kong Underwriting Agreement; or

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## UNDERWRITING

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- (d) any event, act or omission which gives or is likely to give rise to any liability of the indemnifying party pursuant to relevant provisions under the Hong Kong Underwriting Agreement which liability has or will or is likely to have a material adverse effect on the business, financial position, results of operations or prospects of the Group as a whole; or
- (e) any material adverse change or development involving a prospective material adverse change in the business, financial position, results of operations or prospects of the Group as a whole; or
- (f) that any of the representations, warranties and undertakings of Company is (or would when repeated be) untrue, inaccurate, or misleading in any respect (in the case of any representations, warranties and undertakings of Company already qualified as to materiality) or in any material respect (in the case of any representations, warranties and undertakings of Company not already qualified as to materiality); or
- (g) the Company withdraws this prospectus (and/or any other documents used in connection with the Global Offering) or the Global Offering.

### ***Undertakings to the Hong Kong Stock Exchange pursuant to the Hong Kong Listing Rules***

#### *Undertakings by our Company*

Pursuant to Rule 10.08 of the Hong Kong Listing Rules, no further Shares or securities convertible into equity securities of our Company (whether not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except:

- (a) in certain circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules; or
- (b) pursuant to the Global Offering (including the Over-allotment Option).

#### *Undertaking by our Controlling Shareholders*

Pursuant to Rule 10.07(1) of the Hong Kong Listing Rules, each of our Controlling Shareholders, Sinopec Group and SAMC, has undertaken to the Hong Kong Stock Exchange that it will not, and will procure that the relevant registered holders of our Shares will not, save as permitted under the Hong Kong Listing Rules:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the date on which dealings in our H Shares commence on the Hong Kong Stock Exchange (the “First Six-Month Period”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Company’s Shares in respect of which it is shown in this prospectus to be the beneficially owner; and

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## UNDERWRITING

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- (b) during the period of six months commencing on the date on which the First Six-Month Period expires (the “Second Six-Month Period”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in sub-paragraph (a) above, and to such extent that immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder of our Company.

Each of Sinopec Group and SAMC has further undertaken to the Hong Kong Stock Exchange and us that, within the First Six-Month Period and the Second Six-Month Period, it will:

- (a) when it pledges or charges any Shares or other securities of our Company beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform our Company of any such pledge or charge and the number of Shares or other securities of our Company so pledged or charged; and
- (b) when it receives any indication, either verbal or written, from any such pledgee or charge of Shares or other securities of our Company pledged or charged that any of such Shares or other securities of our Company will be disposed of, immediately inform us of any such indication.

We will also, as soon as we have been informed of the above matters (if any) by Sinopec Group or SAMC, inform the Hong Kong Stock Exchange and disclose such matters as soon as possible by way of an announcement published as required under the Hong Kong Listing Rules.

### *Undertakings to the Hong Kong Underwriters*

We have, pursuant to the Hong Kong Underwriting Agreement, undertaken to each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option or pursuant to any transfer of H Shares to NSSF), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date when the First Six-Month Period expires, we will not, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create any mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, claim, right or preference granted to any third party, or any other encumbrance or security interest of any kind over, or agree to transfer or dispose of or create any of the foregoing over, either directly or indirectly, conditionally or unconditionally, any H Shares or any other securities of the Company or any interest in any of the foregoing (including,



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## UNDERWRITING

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without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares or other securities of the Company) or deposit any H Shares or other securities of the Company with a depository in connection with any issuance of depository receipts; or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of H Shares or any other securities of our Company or any interest therein; or
- (c) enter into any transaction with the same economic effect as any transaction described in the sub-paragraphs (a) or (b) above, or
- (d) offer to or agree to do any of the foregoing or announce any intention to effect any transaction described in the sub-paragraphs (a), (b) or (c) above,

in each case, whether any of the foregoing transactions described in sub-paragraphs (a) to (c) above is to be settled by delivery of H Shares or such other securities of the Company, or in cash or otherwise (whether or not such issuance and delivery of H Shares or securities will be completed within such period).

### *Indemnity*

We have agreed to indemnify, among others, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including, among other matters, losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement as the case may be.

### *Hong Kong Underwriters' Interest in our Company*

Save for its obligations under the Hong Kong Underwriting Agreement and as disclosed in this prospectus, none of the Hong Kong Underwriters has any shareholding interests in our Company or any other member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any member of our Group.

### **The International Offering**

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with, among others, the Joint Global Coordinators, the Joint Bookrunners and the International Underwriters on or about the Price Determination Date, shortly after the determination of the Offer Price. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally and not jointly, agree to purchase, or procure purchasers to purchase, their respective applicable proportions of the International Offer Shares being offered pursuant to the International Offering.

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## UNDERWRITING

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### *Restrictions on the Offer Shares*

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make an offer or invitation. In particular, the Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in the PRC.

### *Over-allotment and Stabilization*

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to curb and, if possible, prevent, any decline in the market price of the securities below the offer price. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the H Shares at a level higher than the otherwise prevailing price in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of the H Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of H Shares in the open market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or curbing a decline in the market price of the H Shares. Any market purchases of the H Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of the H Shares that may be over-allocated will not exceed the number of the H Shares that may be sold under the Over-allotment Option, namely, 199,200,000 H Shares, which is 15% of the number of Offer Shares initially available under the Global Offering.

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## UNDERWRITING

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In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the H Shares;
- (b) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the H Shares;
- (c) purchasing or subscribing for, or agreeing to purchase or subscribe for, the H Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, the H Shares for the sole purpose of preventing or minimizing any reduction in the market price of the H Shares;
- (e) selling or agreeing to sell the H Shares to liquidate any position held as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the H Shares, the Stabilizing Manager may maintain a long position in the H Shares. The size of the long position, and the period for which the Stabilizing Manager will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

Stabilizing action by the Stabilizing Manager is not permitted to support the price of the H Shares for longer than the stabilizing period, which begins on the day on which trading of the H Shares commences on the Hong Kong Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on Friday, June 14, 2013. As a result, demand for the H Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the H Shares. As a result, the price of the H Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager may not necessarily result in the market share of the H Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the H Shares by the Stabilizing Manager may be made at a price at or below the Offer Price and therefore at or below the price paid for the H Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

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## UNDERWRITING

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### **Total Commission and Expenses**

The Underwriters will receive an underwriting commission of 1% of the aggregate Offer Price of all the Offer Shares (including Offer Shares sold pursuant to the exercise of the Over-allotment Option). Our Company may also in its sole and absolute discretion pay an additional incentive fee of up to 0.8% of the aggregate Offer Price of all the Offer Shares (including Offer Shares sold pursuant to the exercise of the Over-allotment Option).

Assuming an Offer Price of HK\$11.45 per Offer Share (being the mid-point of the indicative Offer Price range), the aggregate commissions and fees, together with Hong Kong Stock Exchange listing fees, SFC transaction levy, Hong Kong Stock Exchange trading fees, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to amount in aggregate to approximately HK\$296.8 million in total (assuming the Over-allotment Option is not exercised).

### **INDEPENDENCE OF THE JOINT SPONSORS**

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors set out in Rule 3.07 of the Hong Kong Listing Rules.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- the Hong Kong Public Offering of 66,400,000 H Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “— The Hong Kong Public Offering”; and
- the International Offering of an aggregate of 1,261,600,000 H Shares (subject to adjustment as mentioned below and the Over-allotment Option) outside the United States (including professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, and in the United States to QIBs in reliance on Rule 144A or another exemption under the U.S. Securities Act as described below under “— The International Offering — Allocation.”

Investors may apply for the H Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the H Shares under the International Offering, but may not do both.

Our Company has obtained the requisite PRC governmental approvals, including the approval of the CSRC, in respect of the Global Offering.

The number of H Shares to be offered under the Hong Kong Public Offering and the International Offering, respectively, may be subject to reallocation as described in the subsection below headed “The Hong Kong Public Offering — Reallocation.”

### THE HONG KONG PUBLIC OFFERING

#### Number of H Shares initially offered

We are initially offering 66,400,000 H Shares at the Offer Price, representing 5% of the H Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the number of H Shares initially offered under the Hong Kong Public Offering will represent approximately 1.50% of our Company’s total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities, and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out below in “— Conditions of the Global Offering.”

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## STRUCTURE OF THE GLOBAL OFFERING

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### Allocation

Allocation of H Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. The allocation of Hong Kong Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

The total number of Hong Kong Public Offer Shares available under the Hong Kong Public Offering will initially be divided into two pools for allocation purposes as follows:

- Pool A: The Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with a total subscription price (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) of HK\$5 million or less; and
- Pool B: The Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with a total subscription price (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) of more than HK\$5 million and up to the total value of Pool B.

For the purpose of this sub-section only, the “subscription price” for the Offer Shares means the price payable on application therefore. Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Public Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Applicants can only receive an allocation of Hong Kong Public Offer Shares from either Pool A or Pool B but not from both pools. We will reject multiple applications between the two pools and reject multiple applications within pool A or pool B. In addition, any application for more than 50% of the 66,400,000 Offer Shares initially included in the Hong Kong Public Offering (i.e., 33,200,000 Offer Shares) will be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares under the International Offering, and such applicant’s application will be rejected if the said undertaking and/or confirmation is breached and/or untrue, as the case may be. We and the Hong Kong Underwriters will take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who have indicated interest in or have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have applied for or have received Offer Shares in the Hong Kong Public Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### Reallocation

Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Public Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if specific pre-designated levels of total demand in the Hong Kong Public Offering are reached:

- If the number of the H Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 99,600,000 H Shares, representing approximately 7.50% of the Offer Shares initially available under the Global Offering.
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 132,800,000 H Shares, representing 10% of the Offer Shares initially available under the Global Offering.
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 265,600,000 H Shares, representing 20% of the Offer Shares initially available under the Global Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, under particular circumstances, be reallocated as between these offerings by the Joint Global Coordinators (after consultation with our Company). Subject to the foregoing paragraph, the Joint Global Coordinators may (after consultation with our Company) reallocate H Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In addition, if the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators may in their sole and absolute discretion (after consultation with the Company but shall have no obligation) to reallocate to the International Offering all or any unsubscribed Hong Kong Public Offer Shares in such amounts as it deems appropriate.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE INTERNATIONAL OFFERING

#### Number of H Shares Initially Offered

Subject to the reallocation as described above, the number of H Shares to be initially offered under the International Offering will be 1,261,600,000 H Shares, representing 95% of the Offer Shares under the Global Offering. Subject to the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering, the number of H Shares initially offered under the International Offering will represent approximately 28.49% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

#### Allocation

Pursuant to the International Offering, the International Offer Shares will be conditionally placed on behalf of our Company by the International Underwriters or through selling agents appointed by them. International Offer Shares will be selectively placed with certain professional and institutional investors and other investors anticipated to have a sizeable demand for such Offer Shares. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in “— Pricing and Allocation” below and based on a number of factors, including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell, H Shares after the listing of the H Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of H Shares on a basis which would lead to the establishment of a solid shareholder base which would be to our benefit and to that of the shareholders as a whole.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

### PRICING AND ALLOCATION

#### Offer Price Range

The Offer Price will be not more than HK\$13.10 per H Share and is expected to be not less than HK\$9.80 per H Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as further explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.



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## STRUCTURE OF THE GLOBAL OFFERING

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### Price Payable on Application

Applicants for Hong Kong Public Offer Shares under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$13.10 for each Hong Kong Public Offer Share (plus 1% brokerage, 0.003% SFC transaction levy, and 0.005% Hong Kong Stock Exchange trading fee). If the Offer Price is less than HK\$13.10, appropriate refund payments (including the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies, without any interest) will be made to successful applications.

### Determining the Offer Price

The International Underwriters are soliciting from prospective investors indications of interest in acquiring the H Shares in the International Offering. Prospective investors will be required to specify the number of H Shares under the International Offering they would be willing to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Thursday, May 16, 2013 and in any event on or before Monday, May 20, 2013 by agreement between the Joint Global Coordinators, on behalf of the Hong Kong Underwriters, and our Company and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

**If, for any reason, our Company and the Joint Global Coordinators (on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Monday, May 20, 2013, the Global Offering will not proceed and will lapse.**

### Reduction in Indicative Offer Price Range and/or Number of Offer Shares

The Joint Global Coordinators, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, and with the prior written consent of the Company, reduce the indicative Offer Price range and/or the number of Offer Shares below those stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and posted on the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and on the website of our Company ([www.segroup.cn](http://www.segroup.cn)) notices of the reduction. Upon issue of such a notice, the revised indicative Offer Price range and/or number of Offer Shares will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators, on behalf of the Underwriters, and our Company, will be fixed

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## STRUCTURE OF THE GLOBAL OFFERING

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within such revised range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the use of proceeds of the Global Offering, and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change materially as a result of such reduction.

Before submitting applications for Hong Kong Public Offer Shares, applicants should consider the possibility that any announcement of a reduction in the indicative offer price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. In the absence of any such announcement so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Global Coordinators, on behalf of the Underwriters, and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, under certain circumstances, be reallocated between these two offerings at the discretion of the Joint Global Coordinators (after consultation with the Company).

### **Announcement of Offer Price and Basis of Allocations**

The final Offer Price, the level of indications of interest in the Global Offering, the results of applications and the basis of allotment of the Hong Kong Public Offer Shares are expected to be announced on Wednesday, May 22, 2013 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and on the website of our Company ([www.segroup.cn](http://www.segroup.cn)).

### **UNDERWRITING**

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to the agreement between our Company and the Joint Global Coordinators, on behalf of the Hong Kong Underwriters, on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on or about the Price Determination Date.

Please refer to the section headed “Underwriting” in this prospectus for further details with respect to the underwriting arrangements.

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## STRUCTURE OF THE GLOBAL OFFERING

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### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on, among other things:

- the Listing Committee granting listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including the additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any H Shares converted from Domestic Shares, which are to be held by NSSF in connection with the Global Offering, subject only to allotment and the dispatch of share certificates in respect thereof, and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the H Shares on the Hong Kong Stock Exchange;
- the Offer Price having been duly agreed upon between us and the Joint Global Coordinators (on behalf of the Underwriters) and the execution and delivery of the price determination agreement on or around the Price Determination Date;
- the execution and delivery of the International Underwriting Agreement by the parties thereto on or around the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in such agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters) on or before Monday, May 20, 2013, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Public Offer Shares — Dispatch/Collection of H Share Certificates and Refund Monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as amended.

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## STRUCTURE OF THE GLOBAL OFFERING

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H Share certificates for the Offer Shares are expected to become valid certificates of title at 8:00 a.m. on Thursday, May 23, 2013, provided that (a) the Global Offering has become unconditional in all respects and (b) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” in this prospectus has not been exercised.

### **H SHARES WILL BE ELIGIBLE FOR CCASS**

All necessary arrangements have been made to enable the H Shares to be admitted into the Central Clearing and Settlement System, or CCASS, established and operated by the Hong Kong Securities Clearing Company Limited, or HKSCC.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of any transaction between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after the trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### **DEALING ARRANGEMENTS**

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, May 23, 2013, it is expected that dealings in the H Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Thursday, May 23, 2013.

The H Shares will be traded in board lots of 500 H Shares each.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### WHO CAN APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

You can apply for the Hong Kong Public Offer Shares if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made through a duly authorized attorney under a valid power of attorney, the Company and the Joint Global Coordinators (or their agents and nominees) may accept it at their discretion, and subject to any conditions they may think fit, including production of evidence of the authority of the attorney. The Company and the Joint Global Coordinators in their capacity as agents for the Company have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The number of joint applicants may not exceed four.

If you wish to apply for Hong Kong Public Offer Shares online through the **White Form eIPO** service ([www.eipo.com.hk](http://www.eipo.com.hk)), you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a valid contact telephone number.

You may apply by means of the **White Form eIPO** service only if you are an individual applicant. **Corporations or joint applicants may not apply by means of White Form eIPO.**

We, the Joint Global Coordinators and the designated **White Form eIPO** Service Provider, in their capacity as our agents, have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Public Offer Shares are not available to existing beneficial owners of the shares in the Company, the Directors, Supervisors or chief executive or their respective associates (as defined in the Hong Kong Listing Rules) or any of our other connected persons or persons who will become our connected persons immediately upon completion of the Global Offering.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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You may apply for Hong Kong Public Offer Shares under the Hong Kong Public Offering or indicate an interest for International Offer Shares under the International Offering, but may not do both.

### CHANNELS OF APPLYING FOR THE HONG KONG PUBLIC OFFER SHARES

There are four channels to make an application for the Hong Kong Public Offer Shares:

- You may apply for the Hong Kong Public Offer Shares by using a **WHITE** Application Form. Use a **WHITE** Application Form if you want the H Shares to be issued in your own name; or
- Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Public Offer Shares by means of **White Form eIPO** by submitting your application online through the designated website of the **White Form eIPO** Service Provider at **www.eipo.com.hk**. Use White Form eIPO if you want the H Shares to be issued in your own name; or
- You may apply for the Hong Kong Public Offer Shares by using a **YELLOW** Application Form. Use a **YELLOW** Application Form if you want the Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account; or
- Instead of using a **YELLOW** Application Form, you may give electronic application instructions to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Public Offer Shares on your behalf.

Except where you are an agent and have provided the required information on your application, you or your joint applicant(s) may not make more than one application (whether individual or jointly) by applying using a **WHITE** or **YELLOW** Application Form or applying online through the **WHITE Form eIPO** service or by giving electronic application instructions to HKSCC.

### WHERE TO COLLECT THE PROSPECTUS AND APPLICATION FORMS

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, May 10, 2013 till 12:00 noon on Wednesday, May 15, 2013 from:

any of the following addresses of the Hong Kong Underwriters:

**J.P. Morgan Securities (Asia Pacific) Limited**  
28/F Chater House  
8 Connaught Road  
Central, Hong Kong

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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**CITIC Securities Corporate Finance (HK) Limited**

26/F CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

**UBS AG, Hong Kong Branch**

52/F Two International Finance Centre  
8 Finance Street  
Central, Hong Kong

**Goldman Sachs (Asia) L.L.C.**

68th Floor, Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

**China International Capital Corporation Hong Kong Securities Limited**

29th Floor, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

**The Hongkong and Shanghai Banking Corporation Limited**

1 Queen's Road Central  
Hong Kong

**Haitong International Securities Company Limited**

22/F Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

**Citigroup Global Markets Asia Limited**

50th Floor, Citibank Tower  
3 Garden Road  
Central  
Hong Kong

**Merrill Lynch Far East Limited**

15/F Citibank Tower  
3 Garden Road  
Central, Hong Kong

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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**Deutsche Bank AG, Hong Kong Branch**

Level 52, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

**CMB International Capital Limited**

Units 1803-4  
18/F, Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong

**BOCOM International Securities Limited**

9/F., Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

**BOCI Asia Limited**

26th Floor, Bank of China Tower  
1 Garden Road  
Central  
Hong Kong



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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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or any of the following branches of:

**Bank of China (Hong Kong) Limited:**

	<b>Branch Name</b>	<b>Address</b>
Hong Kong Island:	Bank of China Tower Branch	3/F, 1 Garden Road
	Central District (Wing On House) Branch	71 Des Voeux Road Central
	Sheung Wan Branch	252 Des Voeux Road Central
	409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai
	Chai Wan Branch	Block B, Walton Estate, 341-343 Chai Wan Road, Chai Wan
	North Point (King's Centre) Branch	193-209 King's Road, North Point
	Aberdeen Branch	25 Wu Pak Street, Aberdeen
Kowloon:	Mong Kok Branch	589 Nathan Road, Mong Kok
	Humphrey's Avenue Branch	4-4A Humphrey's Avenue, Tsim Sha Tsui
	Kwun Tong Branch	20-24 Yue Man Square, Kwun Tong
	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom
	Wang Kwun Road Branch	Unit G1, Nan Fung Commercial Centre, Wang Kwun Road, Kowloon Bay
	Metro City Branch	Shop 209, Level 2, Metro City Phase 1, Tseung Kwan O
	Wong Tai Sin Branch	Shop G13, Wong Tai Sin Plaza, Wong Tai Sin
	Kowloon Plaza Branch	Unit 1, Kowloon Plaza, 485 Castle Peak Road

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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New Territories:	Kau Yuk Road Branch	18-24 Kau Yuk Road, Yuen Long
	Lucky Plaza Branch	Lucky Plaza, Wang Pok Street, Sha Tin
	Tuen Mun Town Plaza Branch	Shop 2, Tuen Mun Town Plaza Phase II
	Sheung Shui Branch Securities Services Centre	136 San Fung Avenue, Sheung Shui
	Citywalk Branch	Shop 65, G/F, Citywalk, 1 Yeung Uk Road, Tsuen Wan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, May 10, 2013 until 12:00 noon on Wednesday, May 15, 2013 from:

- the depository counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- your stockbroker, who may have such Application Forms and this prospectus available.

### HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

- (a) Obtain an Application Form as described in the subsection above headed “Where to Collect the Prospectus and Application Forms.”
- (b) Complete the Application Form in English using blue or black ink, and sign it. There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker’s cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address given by you on the Application Form.
- (c) Each Application Form must be accompanied by payment, in the form of either one cheque or one banker’s cashier order. You should read the detailed instructions set out on the Application Form carefully, as an application is liable to be rejected if the cheque or banker’s cashier order does not meet the requirements set out on the Application Form.
- (d) Lodge the Application Form in one of the special collection boxes by the time and at one of the locations as described in the subsection above headed “Where to Collect the Prospectus and Application Forms.”
- (e) Cheques and bank orders shall be crossed “Account Payee Only.”

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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You should note that by completing and submitting a **WHITE** or **YELLOW** Application Form, among other things:

- (a) you agree with our Company and each of the Shareholders, and our Company agrees with each of the Shareholders, to observe and comply with the Company Law, the Companies Ordinance, the Special Regulations and the Articles of Association;
- (b) you confirm that you have received and/or read a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application, and will not rely on any other information or representations save as set out in any supplement to this prospectus;
- (c) you agree that none of our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, and any of their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not contained in this prospectus (and any supplement thereto) and the Application Forms;
- (d) you undertake and confirm that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally), and will not apply for or take up or indicate any interest in, any International Offer Shares nor otherwise participate or will participate in the International Offering; and
- (e) you agree to disclose to our Company, the H Share Registrar, the receiving banks, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and their respective advisors and agents any personal data which they require about you and the person(s) for whose benefit you have made the application.

In order for an application made on a **YELLOW** Application Form to be valid:

You, as the applicant(s), must complete the Application Form as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

- (a) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**
  - (i) the designated CCASS Participant must endorse the Application Form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.
- (b) **If the application is made in the name of an individual CCASS Investor Participant:**
  - (i) the Application Form must contain the CCASS Investor Participant's full name and Hong Kong identity card number; and

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- (ii) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.
- (c) **If the application is made in the name of a joint individual CCASS Investor Participant:**
  - (i) the Application Form must contain all joint CCASS Investor Participants' full names and the Hong Kong identity card numbers of all joint CCASS Investor Participants; and
  - (ii) the participant I.D. must be inserted in the appropriate box in the Application Form.
- (d) **If the application is made in the name of a corporate CCASS Investor Participant:**
  - (i) the Application Form must contain your company name and the Hong Kong business registration number; and
  - (ii) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or omission of details of the CCASS Participant or the omission or inadequacy of participant I.D. and/or company chop bearing the Company name or other similar matters may render your application invalid.

If an application is made by a duly authorized attorney under a valid power of attorney, the Company and the Joint Global Coordinators (or their agents and nominees) may accept it at their discretion, and subject to any conditions they may think fit, including production of evidence of the authority of the attorney. The Company and the Joint Global Coordinators in their capacity as agents for the Company have full discretion to reject or accept any application, in full or in part, without assigning any reason.

### APPLYING THROUGH WHITE FORM eIPO SERVICE

#### General

- (a) If you are an individual and meet the criteria set out above in the subsection headed "Who Can Apply for the Hong Kong Public Offer Shares", you may apply through **White Form eIPO** service by submitting an application through designated website at **www.eipo.com.hk**. If you apply through **White Form eIPO** service, the H Shares will be issued in your own name.
- (b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at **www.eipo.com.hk**. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **White Form eIPO** Service Provider and may not be submitted to our Company.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- (c) In addition to the terms and conditions set out in this prospectus, the designated **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at **www.eipo.com.hk**. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (d) By submitting an application through the **White Form eIPO** service (**www.eipo.com.hk**), you are deemed to have authorized the designated **White Form eIPO** Service Provider to transfer the details of your application to our Company and our H Share Registrar.
- (e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Public Offer Shares. Each electronic application instruction in respect of more than 500 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at **www.eipo.com.hk**.
- (f) You may submit your application through the designated website at **www.eipo.com.hk** from 9:00 a.m. on Friday, May 10, 2013 until 11:30 a.m. on Wednesday, May 15, 2013 or such later time as described under the subsection below headed “Effect of Bad Weather on the Opening of the Application Lists” (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, May 15, 2013, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the subsection below headed “Effect of Bad Weather on the Opening of the Application Lists.”
- (g) You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Wednesday, May 15, 2013, or such later time as described under the subsection below headed “Effect of Bad Weather on the Opening of the Application Lists”, the designated **White Form eIPO** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at **www.eipo.com.hk**.
- (h) Warning: The application for Hong Kong Public Offer Shares through the **White Form eIPO** service (**www.eipo.com.hk**) is only a facility provided by the designated **White Form eIPO** Service Provider to public investors. Our Company, the Directors, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and the **White Form eIPO** Service Provider take no responsibility for such applications, and provide no assurance that applications through the **White Form eIPO** service (**www.eipo.com.hk**) will be submitted to our Company or that you will be allotted any Hong Kong Public Offer Shares.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### Environmental Protection

The obvious advantage of White Form eIPO is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK\$2 per each “SINOPEC Engineering (Group) Co., Ltd.” White Form eIPO application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

**Please note that the Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the White Form eIPO service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your electronic application instructions.** In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provide to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form.

### Supplemental Information

If any supplement to this prospectus is issued, applicant(s) who have already submitted **electronic application instructions** through the **White Form eIPO** service may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications through the **White Form eIPO** service that have been submitted remain valid and may be accepted. Subject to the above and below, an application once made through the **White Form eIPO** service is Computershare Hong Kong Investor Services Limited irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

### APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

#### General

CCASS Participants may give electronic application instructions to HKSCC to apply for the Hong Kong Public Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service Centre  
2nd Floor, Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your CCASS Clearing Participant or CCASS Custodian Participant, to our Company and the H Share Registrar.

### **Giving electronic application instructions to HKSCC to apply for Hong Kong Public Offer Shares by HKSCC Nominees on your behalf**

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares:

- (a) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (b) HKSCC Nominees does the following things on behalf of each such person:
  - agrees that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted electronic application instructions on that person’s behalf or that person’s CCASS Investor Participant stock account;
  - undertakes and agrees to accept the Hong Kong Public Offer Shares in respect of which that person has given electronic application instructions or any lesser number;

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- undertakes and confirms that person has not indicated an interest for, applied for or taken up or indicated an interest for, any Offer Shares under the International Offering nor otherwise participated in the International Offering;
- (if the electronic application instructions are given for that person's own benefit) declares that only one set of electronic application instructions has been given for that person's benefit;
- (if that person is an agent for another person) declares that person has only given one set of electronic application instructions for the benefit of that other person and that person is duly authorized to give those instructions as that other person's agent;
- understands that the above declaration will be relied upon by our Company, the Directors and the Joint Global Coordinators in deciding whether or not to make any allotment of the Hong Kong Public Offer Shares in respect of the electronic application instructions given by that person and that person may be prosecuted if he makes a false declaration;
- authorizes our Company to place the name of HKSCC Nominees on our register of members as the holder of the Hong Kong Public Offer Shares allotted in respect of that person's electronic application instructions and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;
- confirms that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- confirms that person has only relied on the information and representations in this prospectus in giving that person's electronic application instructions or instructing that person's broker or custodian to give electronic application instructions on that person's behalf save as set out in any supplement to this prospectus;
- agrees that our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
- agrees to disclose that person's personal data to our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the H Share Registrar and/or their respective agents and any information which they may require about that person;
- agrees (without prejudice to any other rights which that person may have) that other than as provided in the prospectus once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation and you may not revoke it;



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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- agrees that any application made by HKSCC Nominees on behalf of that person pursuant to electronic application instructions given by that person is irrevocable before Monday, June 10, 2013, such agreement to take effect as a collateral contract with us and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person before Monday, June 10, 2013, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before Monday, June 10, 2013 if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of electronic application instructions relating to Hong Kong Public Offer Shares;
- agrees with our Company, for ourselves and for the benefit of each of the Shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Company Law, the Companies Ordinance, the Special Regulations and the Articles of Association;
- agrees with our Company, for ourselves and for the benefit of each of the Shareholder and each Director, Supervisor, manager and other senior officer of our Company (and so that we will be deemed by our acceptance in whole or in part of this application to have agreed, for ourselves and on behalf of each of the Shareholders and each Director, Supervisor, manager and other senior officer of our Company, with each CCASS Participant giving electronic application instructions):
  - (a) to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association;
  - (b) that any award made in such arbitration shall be final and conclusive; and
  - (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- agrees with our Company (for ourselves and for the benefit of each of the Shareholder) that the H Shares are freely transferable by their holders;
- authorizes our Company to enter into a contract on our behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to the Shareholders stipulated in the Articles of Association; and
- agrees that that person's application any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

### EFFECT OF GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things, and neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum offer price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the offer price per H Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated in the **WHITE** Application Form.

### Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### Minimum Subscription Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions in respect of a minimum of 500 Hong Kong Public Offer Shares. Each electronic application instruction in respect of more than 500 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the **WHITE** and **YELLOW** Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

### Allocation of the Hong Kong Public Offer Shares

For the purposes of allocating the Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

### TIMING FOR INPUTTING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

**Friday, May 10, 2013 — 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Saturday, May 11, 2013 — 8:00 a.m. to 1:00 p.m.<sup>(1)</sup>**  
**Monday, May 13, 2013 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Tuesday, May 14, 2013 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Wednesday, May 15, 2013 — 8:00 a.m.<sup>(1)</sup> to 12:00 noon**

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<sup>(1)</sup> These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, May 10, 2013 until 12:00 noon on Wednesday, May 15, 2013 (24 hours daily, except the last application day).

The latest time for inputting **electronic application instructions** will be 12:00 noon on Wednesday, May 15, 2013, the last application day, or if the application lists are not open on that day, by the time and date stated in the subsection below headed “Effect of Bad Weather on the Opening of the Application Lists.”

### Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by us and our H Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### Warning

The subscription for the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, the Directors, the Joint Global Coordinators and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions**. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either:

- (i) submit a **WHITE** or **YELLOW** Application Form; or
- (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, May 15, 2013, or such later time as described under the subsection below headed “Effect of Bad Weather on the Opening of the Application Lists.”

### HOW MANY APPLICATIONS MAY BE MADE

**You may make more than one application for the Hong Kong Public Offer Shares if and only if you are an agent**, in which case you may make an application as an agent by (i) giving **electronic application instructions** to HKSCC via CCASS if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or Custodian Participant (if you are a CCASS Participant) or; (ii) using a **WHITE** or **YELLOW** Application Form, and lodging more than one Application Form in your own name if each application is made on behalf of different beneficial owners. In the box on the Application Form marked “For Agents” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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**Otherwise, multiple applications are not allowed.** It will be a term and condition of all applications that by completing and delivering an Application Form, you:

- (if the application is made for your own benefit) represent and warrant that this is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or Custodian Participant or by applying through **White Form eIPO** service ([www.eipo.com.hk](http://www.eipo.com.hk));
- (if you are an agent for another person) represent and warrant that reasonable enquiries have been made of that other person that this is the only application which has been or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC via CCASS if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or Custodian Participant or by applying through **White Form eIPO** service ([www.eipo.com.hk](http://www.eipo.com.hk)) and that you are duly authorized to sign the Application Form as that other person's agent.

Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or Custodian Participant or by applying through **White Form eIPO** service ([www.eipo.com.hk](http://www.eipo.com.hk)); or
- apply both (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give electronic application instructions to HKSCC via CCASS if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or Custodian Participant or by applying through **White Form eIPO** service ([www.eipo.com.hk](http://www.eipo.com.hk)); or
- apply (whether individually or jointly) on one **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or Custodian Participant or by applying through **White Form eIPO** service ([www.eipo.com.hk](http://www.eipo.com.hk)) for more than 33,200,000 H Shares, being 50% of the Offer Shares initially being offered for public subscription under the Hong Kong Public Offering, as more particularly described in the section headed "Structure of the Global Offering — The Hong Kong Public Offering" in this prospectus; or
- have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the International Offering.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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All of your applications will also be rejected as multiple applications if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or by applying through **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Hong Kong Stock Exchange. Statutory control in relation to a company means that you:

- control the composition of the board of directors of the company; or
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The maximum Offer Price is HK\$13.10 per H Share. You must also pay brokerage of 1%, SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 500 H Shares you will pay HK\$6,616.03. The Application Forms have tables showing the exact amount payable for numbers of H Shares up to 33,200,000 H Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for the H Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Forms (if you apply by an Application Form).

If your application is successful, brokerage is paid to participants of the Hong Kong Stock Exchange, the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected on behalf of the SFC).

### REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Public Offer Shares for any reason, we will refund your application monies, including brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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No interest will be paid thereon. All interest accrued on such monies prior to the date of dispatch of e-Refund payment instructions/refund cheques/share certificates will be retained for our benefit.

If your application is accepted only in part, we will refund the appropriate portion of your application monies, including the related brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than HK\$13.10 per H Share, appropriate refund payments, including the brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% attributable to the surplus application monies will be made to successful applicants, without interest.

Details of the procedure for refund are set out below in the subsection below headed “Dispatch/Collection of H Share Certificates and Refund Monies.”

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Joint Global Coordinators, cheques for applications for certain small denominations of Hong Kong Public Offer Shares on Application Forms (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on Wednesday, May 22, 2013 in accordance with the various arrangements as described in this section.

### **MEMBERS OF THE PUBLIC — TIME FOR APPLYING FOR HONG KONG PUBLIC OFFER SHARES**

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Wednesday, May 15, 2013, or if the application lists are not open on that day, then by the time and date stated in the subsection below headed “Effect of Bad Weather on the Opening of the Application Lists.”

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed under the subsection above headed “Where to Collect the Prospectus and Application Forms” at the following times:

**Friday, May 10, 2013 — 9:00 a.m. to 5:00 p.m.**  
**Saturday, May 11, 2013 — 9:00 a.m. to 1:00 p.m.**  
**Monday, May 13, 2013 — 9:00 a.m. to 5:00 p.m.**  
**Tuesday, May 14, 2013 — 9:00 a.m. to 5:00 p.m.**  
**Wednesday, May 15, 2013 — 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, May 15, 2013.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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No proceedings will be taken on applications for the Offer Shares and no allotment of any such Offer Shares will be made until the closing of the application lists.

### EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open or close if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, May 15, 2013. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong.

### PUBLICATION OF RESULTS

We expect to announce the Offer Price, the indication of the level of interest in the International Offering, the basis of allotment of the Hong Kong Public Offer Shares and the indication of the level of applications under the Hong Kong Public Offering on Wednesday, May 22, 2013 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese). The allotment results as published in the newspapers will also be posted on the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and on the website of our Company ([www.segroup.cn](http://www.segroup.cn)) on Wednesday, May 22, 2013.

In addition, we expect to announce the results of applications and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering at the times and dates and in the manner specified below:

- (a) Results of allocations for the Hong Kong Public Offering will be available from our designated results of allocations website at [www.iporeresults.com.hk](http://www.iporeresults.com.hk) on a 24-hour basis from 8:00 a.m. on Wednesday, May 22, 2013 to 12:00 midnight on Tuesday, May 28, 2013. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;
- (b) Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Offer Shares allocated to them, if any, by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, May 22, 2013 to Saturday, May 25, 2013; and
- (c) Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Wednesday, May 22, 2013 to Friday, May 24, 2013 at all the receiving bank branches and sub-branches at the addresses set out in the subsection above headed “Where to Collect the Prospectus and the Application Forms.”



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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Public Offer Shares are set out in the notes attached to the relevant Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following situations in which the Hong Kong Public Offer Shares may not be allotted to you:

- **If your application is revoked:**

By completing and submitting an Application Form or giving an **electronic application instruction** or applying through **White Form eIPO** service ([www.eipo.com.hk](http://www.eipo.com.hk)), you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before Monday, June 10, 2013. This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or give your **electronic application instruction** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our Company agreeing that we will not offer any Hong Kong Public Offer Shares to any person on or before Monday, June 10, 2013 except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf or the application made through **White Form eIPO** service ([www.eipo.com.hk](http://www.eipo.com.hk)) may only be revoked on or before Monday, June 10, 2013 if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf or the application made through **White Form eIPO** service ([www.eipo.com.hk](http://www.eipo.com.hk)) has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- **Full discretion of our Company or our agents to reject or accept your application:**

Our Company, the Joint Global Coordinators and the **White Form eIPO** Service Provider in their capacity as our agents, and their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application.

Our Company, the Joint Global Coordinators and the **White Form eIPO** Service Provider in their capacity as our agents, and their respective agents and nominees do not have to give any reason for any rejection or acceptance.

- **If the allotment of Hong Kong Public Offer Shares is void:**

The allotment of Hong Kong Public Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee does not grant permission to list the H Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

- **You will not receive any allotment if:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and/or Offer Shares in the International Offering. By filling in any of the Application Forms or applying by giving **electronic application instructions** you agree not to apply for Hong Kong Public Offer Shares as well as the International Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Public Offer Shares in the Hong Kong Public Offering;
- the number of shares you have applied for is not one of the numbers as set out in the payment tables in the Application Forms;
- your application is not completed in accordance with the instructions as stated in the Application Forms (if you apply by an Application Form) or on the **White Form eIPO** website;

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional;
- the Underwriting Agreements are terminated in accordance with their respective terms;
- our Company or the Joint Global Coordinators believe that by accepting your application, they would violate the applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered for public subscription under the Hong Kong Public Offering.

### DISPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Offer Price of HK\$13.10 per H Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, will be refunded without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

You will receive one H Share certificate for all the Hong Kong Public Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course they will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the application:

- (a) for applications on **WHITE** Application Forms or **White Form eIPO**:
- (i) H Share certificate(s) for all the Hong Kong Public Offer Shares applied for, if the application is wholly successful; or
  - (ii) H Share certificate(s) for the number of Hong Kong Public Offer Shares successfully applied for, if the application is partially successful; and/or

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- (b) for applications on **WHITE** or **YELLOW** Application Forms, refund cheque(s) will be crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the maximum offer price per H Share paid on application in the event that the Offer Price is less than the offer price per H Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of, or may invalidate, your refund cheque.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the offer price per H Share initially paid on application (if any) under **WHITE** or **YELLOW** Application Forms; and H Share certificates for wholly and partially successful applicants under **WHITE** Application Forms and the **White Form eIPO** service are expected to be posted on or before Wednesday, May 22, 2013. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of cheque(s).

H Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, May 23, 2013 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” in this prospectus has not been exercised.

**(a) If you apply using a WHITE Application Form:**

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and have indicated your intention in your **WHITE** Application Form respectively to collect your refund cheque(s) (where applicable) and/or H Share certificate(s) (where applicable) in person and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and H Share certificate(s) (where applicable) from our H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, May 22, 2013 or such other date as notified by us in the newspapers as the date of collection/dispatch of e-Refund payment instructions/refund cheques/share certificates. If you are an individual who opts for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation’s

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our H Share Registrar. If you do not collect your refund cheque(s) (where applicable) and/or H Share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares or if you apply for 1,000,000 Hong Kong Public Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or H Share certificate(s) (where applicable) in person, your refund cheque(s) (where applicable) and/or H Share certificate(s) (where applicable) will be sent to the address on your Application Form on Wednesday, May 22, 2013, by ordinary post and at your own risk.

**(b) If you apply using a YELLOW Application Form:**

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you have applied for 1,000,000 Hong Kong Public Offer Shares or above and have not indicated on your Application Form that you will collect your refund cheque (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque (if any) will be sent to the address on your Application Form on the date of dispatch, which is expected to be on Wednesday, May 22, 2013, by ordinary post and at your own risk.

If you apply for Hong Kong Public Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Wednesday, May 22, 2013, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the subsection above headed "Publication of Results" on Wednesday, May 22, 2013. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, May 22, 2013 or such other date as shall be

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your stock account.

**(c) If you apply through White Form eIPO service:**

If you apply for 1,000,000 Hong Kong Public Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your H Share certificate(s) in person from our H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, May 22, 2013, or such other date as notified by our Company in the newspapers as the date of dispatch of e-Refund payment instructions/refund cheque(s)/share certificate(s).

If you do not collect your H Share certificate(s) personally within the specified period for collection, they will be sent to the address specified in your instructions to the **White Form eIPO** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your H Share certificate(s) will be sent to the address specified in your application instructions made through the designated website at **www.eipo.com.hk** on Wednesday, May 22, 2013, by ordinary post and at your own risk.

If you apply through the **White Form eIPO** service (**www.eipo.com.hk**) by paying the application monies through a single bank account and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the offer price initially paid on your application, e-refund payment instructions (if any) will be dispatched to the application payment account on Wednesday, May 22, 2013.

If you apply through the **White Form eIPO** service (**www.eipo.com.hk**) by paying the application monies through multiple bank accounts and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the offer price initially paid on your application, refund cheque(s) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider on Wednesday, May 22, 2013, by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application monies underpaid or applications rejected by the designated **White Form eIPO** Service Provider set out in the subsection above headed "Applying Through White Form eIPO Service."

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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**(d) If you apply by giving electronic application instructions to HKSCC:**

*Allocation of Hong Kong Public Offer Shares*

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

*Deposit of H Share certificates into CCASS and refund of application monies*

- No temporary document of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give electronic application instructions on your behalf or your CCASS Investor Participant stock account on Wednesday, May 22, 2013, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner described in the subsection above headed “Publication of Results” on Wednesday, May 22, 2013. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, May 22, 2013 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Wednesday, May 22, 2013. Immediately after the credit of the Hong Kong Public Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per H Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, May 22, 2013. No interest will be paid thereon.

### **H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.



*The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from our reporting accountants, Grant Thornton Hong Kong Limited.*



May 10, 2013

The Directors  
SINOPEC Engineering (Group) Co., Ltd.

J.P. Morgan Securities (Far East) Limited  
CITIC Securities Corporate Finance (HK) Limited  
UBS Securities Hong Kong Limited

Dear Sirs,

We report on the financial information of SINOPEC Engineering (Group) Co., Ltd. (中石化炼化工程(集團)股份有限公司, the “Company”) and its subsidiaries (together, the “Group”), which comprises the consolidated balance sheets as at December 31, 2010, 2011 and 2012, the balance sheets of the Company as at December 31, 2010, 2011 and 2012, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended December 31, 2010, 2011 and 2012 (the “Relevant Periods”), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company (the “Directors”) and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated May 10, 2013 (the “Prospectus”) in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

The Company was established as a company with limited liability under the name of Sinopec Engineering Co., Ltd. (中國石化集團煉化工程有限公司) in the People’s Republic of China (the “PRC”) on July 24, 2007 under the Company Law of the PRC. Pursuant to a group reorganization as described in Note 1 of Section II headed “Organization and reorganization” below, which was completed in April 2012, the Company became the holding company of the subsidiaries now comprising the Group (the “Reorganization”). On June 21, 2012, the Company was renamed to Sinopec Engineering (Group) Co., Ltd. (中石化炼化工程(集團)有限公司). Subsequently on August 28, 2012, the Company was transformed into a joint stock company with limited liability and changed its Chinese name to its current name.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries, associates and joint ventures as set out in Notes 20 and 43 of Section II below. All of these companies are private companies.

All the companies now comprising the Group have adopted December 31 as their financial year end dates. The audited financial statements of the Company and other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises in the countries in which they were incorporated and/or established. The statutory auditor of the Company for each of the years ended December 31, 2010, 2011 and 2012 was Grant Thornton, China. Details of the statutory auditors of other companies now comprising the Group are set out in Note 43 of Section II of this report.

The Directors have prepared the consolidated financial statements of the Group and the balance sheet of the Company for the Relevant Periods (the “Underlying Financial Statements”) in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board. The Underlying Financial Statements for the Relevant Periods were audited by Grant Thornton, China in accordance with International Standards on Auditing (the “ISA”) issued by the International Auditing and Assurance Standards Board (“IAASB”).

The Directors are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRS.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

### **Directors' responsibility for the financial information**

The Directors are responsible for the preparation of the financial information that gives a true and fair view in accordance with IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

### **Reporting accountants' responsibility**

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We examined the Underlying Financial Statements used in preparing the financial information, and carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

### **Opinion**

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2010, 2011 and 2012 and of the Group's results and cash flows for the Relevant Periods then ended.

## I. FINANCIAL INFORMATION

The following is the financial information of the Group prepared by the Directors as at December 31, 2010, 2011 and 2012 and for each of the years ended December 31, 2010, 2011 and 2012 (the "Financial Information") presented on the basis set out in Note 2 of Section II below:

## A. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31,		
		2010	2011	2012
		RMB'000	RMB'000	RMB'000
<b>Revenue</b> .....	6	29,897,489	30,600,677	38,526,489
Cost of sales .....		(25,358,790)	(25,526,341)	(32,998,383)
<b>Gross profit</b> .....		4,538,699	5,074,336	5,528,106
Other income .....	8	74,958	78,896	85,392
Selling and marketing expenses.....		(68,881)	(75,364)	(90,546)
Administrative expenses.....		(680,349)	(815,260)	(947,076)
Research and development costs .....		(411,752)	(504,323)	(547,561)
Other operating expenses .....		(146,110)	(38,352)	(154,559)
Other gains/(losses), net.....	9	31,518	4,659	(41,733)
<b>Operating profit</b> .....		3,338,083	3,724,592	3,832,023
Finance income .....	10	465,390	671,856	525,965
Finance expenses .....	10	(145,918)	(143,293)	(121,300)
<b>Finance income, net</b> .....		319,472	528,563	404,665
Share of profits of joint ventures .....	20(a)	2,005	738	1,753
Share of profits/(losses) of associates .....	20(b)	18,454	(9,935)	13,626
<b>Profit before taxation</b> .....	11	3,678,014	4,243,958	4,252,067
Income tax expense.....	12	(787,543)	(868,846)	(934,798)
<b>Profit for the year</b> .....		2,890,471	3,375,112	3,317,269
<b>Other comprehensive income for the year, net of tax</b>				
Fair value (losses)/gains on available-for-sale financial assets.....		(12,141)	(11,663)	851
Gains on revaluation of retirement benefit plans obligations.....		29,897	183,193	292,645
Share of other comprehensive income of joint ventures .....	20(a)	—	—	93
Share of other comprehensive income of associates .....	20(b)	(3,724)	(4,712)	—
		14,032	166,818	293,589
<b>Total comprehensive income for the year</b> .....		2,904,503	3,541,930	3,610,858

	Note	Year ended December 31,		
		2010	2011	2012
		RMB'000	RMB'000	RMB'000
<b>Profit attributable to:</b>				
Equity holders of the Company .....		2,889,932	3,375,039	3,316,970
Non-controlling interests .....		539	73	299
<b>Profit for the year .....</b>		<u>2,890,471</u>	<u>3,375,112</u>	<u>3,317,269</u>
<b>Total comprehensive income</b>				
<b>attributable to:</b>				
Equity holders of the Company .....		2,903,964	3,541,857	3,610,559
Non-controlling interests .....		539	73	299
<b>Total comprehensive income for the</b>				
<b>year .....</b>		<u>2,904,503</u>	<u>3,541,930</u>	<u>3,610,858</u>
		RMB	RMB	RMB
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share) — Basic and diluted .....	13	<u>0.93</u>	<u>1.09</u>	<u>1.07</u>

## B. CONSOLIDATED BALANCE SHEETS

	Note	At December 31,		
		2010	2011	2012
		RMB'000	RMB'000	RMB'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment.....	17	2,707,893	3,462,655	3,834,150
Land use rights .....	18	535,593	2,010,363	2,866,761
Intangible assets .....	19	42,960	527,805	476,763
Investment in joint ventures.....	20(a)	9,181	6,683	7,666
Investment in associates.....	20(b)	100,210	77,992	84,618
Available-for-sale financial assets .....	21	26,459	13,932	15,065
Deferred income tax assets.....	35	903,287	893,261	793,755
<b>Total non-current assets</b> .....		<u>4,325,583</u>	<u>6,992,691</u>	<u>8,078,778</u>
<b>Current assets</b>				
Inventories.....	26	300,488	494,513	747,117
Notes and trade receivables.....	22	3,620,965	4,809,424	6,074,402
Prepayments and other receivables.....	23	3,618,981	4,465,673	4,658,720
Amounts due from customers for contract work.....	25	3,035,496	4,569,084	4,584,264
Loans due from the ultimate holding company .....	27	15,000,000	17,460,000	8,140,000
Financial assets at fair value through profit or loss .....	24	310,977	—	—
Restricted cash.....	28	53,532	37,487	24,254
Cash and cash equivalents.....	29	5,922,638	5,575,335	4,822,490
<b>Total current assets</b> .....		<u>31,863,077</u>	<u>37,411,516</u>	<u>29,051,247</u>
<b>Total assets</b> .....		<u><u>36,188,660</u></u>	<u><u>44,404,207</u></u>	<u><u>37,130,025</u></u>
<b>EQUITY</b>				
Paid in capital/Share capital.....	30	400,000	400,000	3,100,000
Reserves .....	31	8,637,900	2,330,107	3,977,985
Consolidated equity attributable to equity holders of the Company.....		9,037,900	2,730,107	7,077,985
Non-controlling interests.....		3,228	3,301	3,265
<b>Total equity</b> .....		<u>9,041,128</u>	<u>2,733,408</u>	<u>7,081,250</u>

	Note	At December 31,		
		2010	2011	2012
		RMB'000	RMB'000	RMB'000
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Retirement and other supplemental				
benefit obligations .....	32	3,600,318	3,373,815	2,877,632
Provision for litigation claims .....	33	327,338	360,338	369,244
Deferred income tax liabilities .....	35	44,985	46,511	39,483
<b>Total non-current liabilities .....</b>		<u>3,972,641</u>	<u>3,780,664</u>	<u>3,286,359</u>
<b>Current liabilities</b>				
Notes and trade payables .....	34(a)	5,311,466	6,635,422	8,366,282
Other payables .....	34(b)	9,743,118	23,223,779	11,801,526
Dividends payable .....	36	295,313	374,248	—
Amounts due to customers for contract				
work .....	25	6,906,730	6,568,266	6,242,041
Loans due to fellow subsidiaries .....	37	44,336	49,363	157,138
Current income tax liabilities .....		873,928	1,039,057	195,429
<b>Total current liabilities .....</b>		<u>23,174,891</u>	<u>37,890,135</u>	<u>26,762,416</u>
<b>Total liabilities .....</b>		<u>27,147,532</u>	<u>41,670,799</u>	<u>30,048,775</u>
<b>Total equity and liabilities .....</b>		<u>36,188,660</u>	<u>44,404,207</u>	<u>37,130,025</u>
<b>Net current assets/(liabilities) .....</b>		<u>8,688,186</u>	<u>(478,619)</u>	<u>2,288,831</u>
<b>Total assets less current liabilities .....</b>		<u>13,013,769</u>	<u>6,514,072</u>	<u>10,367,609</u>

## C. BALANCE SHEETS OF THE COMPANY

	Note	At December 31,		
		2010	2011	2012
		RMB'000	RMB'000	RMB'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment.....	17	8,226	7,993	9,243
Land use rights .....	18	17,696	17,696	30,640
Intangible assets .....		272	162	53
Investment in subsidiaries .....	20(c)	34,013	15,417,532	6,448,450
Deferred income tax assets.....		205	190	157
<b>Total non-current assets</b> .....		<u>60,412</u>	<u>15,443,573</u>	<u>6,488,543</u>
<b>Current assets</b>				
Trade receivables .....	22	—	—	10,356
Prepayments and other receivables .....	23	4,222	28,570	1,757,160
Loans due from the ultimate holding company .....	27	300,000	380,000	4,900,000
Restricted cash.....		—	—	282
Cash and cash equivalents.....	29	324,406	265,035	3,075,115
<b>Total current assets</b> .....		<u>628,628</u>	<u>673,605</u>	<u>9,742,913</u>
<b>Total assets</b> .....		<u>689,040</u>	<u>16,117,178</u>	<u>16,231,456</u>
<b>EQUITY</b>				
Paid in capital/Share capital.....	30	400,000	400,000	3,100,000
(Deficits)/Reserves .....	31	(9,114)	3,193,810	3,198,471
<b>Total equity</b> .....		<u>390,886</u>	<u>3,593,810</u>	<u>6,298,471</u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Retirement and other supplemental benefit obligations .....		820	758	626
<b>Total non-current liabilities</b> .....		<u>820</u>	<u>758</u>	<u>626</u>
<b>Current liabilities</b>				
Other payables .....	34(b)	297,334	12,522,610	9,902,991
Amounts due to customers for contract work .....	25	—	—	26,391
Current income tax liabilities .....		—	—	2,977
<b>Total current liabilities</b> .....		<u>297,334</u>	<u>12,522,610</u>	<u>9,932,359</u>
<b>Total liabilities</b> .....		<u>298,154</u>	<u>12,523,368</u>	<u>9,932,985</u>
<b>Total equity and liabilities</b> .....		<u>689,040</u>	<u>16,117,178</u>	<u>16,231,456</u>
<b>Net current assets/(liabilities)</b> .....		<u>331,294</u>	<u>(11,849,005)</u>	<u>(189,446)</u>
<b>Total assets less current liabilities</b> .....		<u>391,706</u>	<u>3,594,568</u>	<u>6,299,097</u>

## D. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Paid in capital/ Share capital	Capital reserve	Statutory surplus reserve	Investment revaluation reserve	Specific reserve	Retained earnings	Total	Non- controlling interests	Total equity
Note	RMB'000	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000	RMB'000	RMB'000
<b>At January 1, 2010</b> .....	400,000	2,225,791	—	39,557	—	3,300,755	5,966,103	2,689	5,968,792
Profit for the year .....	—	—	—	—	—	2,889,932	2,889,932	539	2,890,471
Other comprehensive income:									
Fair value change of available-for-sale financial assets - gross .....	—	—	—	(14,283)	—	—	(14,283)	—	(14,283)
Fair value change of available-for-sale financial assets - tax .....	—	—	—	2,142	—	—	2,142	—	2,142
Defined benefits obligation revaluation of actuarial gain and loss - gross .....	—	—	—	—	—	38,734	38,734	—	38,734
Defined benefits obligation revaluation of actuarial gain and loss - tax .....	—	—	—	—	—	(8,837)	(8,837)	—	(8,837)
Share of other comprehensive income of associates .....	—	—	—	(3,724)	—	—	(3,724)	—	(3,724)
Total comprehensive income .....	—	—	—	(15,865)	—	2,919,829	2,903,964	539	2,904,503



Attributable to equity holders of the Company									
	Paid in capital/Share capital	Capital reserve	Statutory surplus reserve	Investment revaluation reserve	Specific reserve	Retained earnings	Total	Non-controlling interests	Total equity
Note	RMB'000	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000	RMB'000	RMB'000
Transactions with owners:									
Return of capital and dividends paid ...	14	(37,789)	—	—	—	(295,312)	(333,101)	—	(333,101)
Capital contributions by Sinopec Group to subsidiaries of the Company .....	—	483,800	—	—	—	—	483,800	—	483,800
Assets transferred from the Group to Sinopec Group .....	—	(26,622)	—	—	—	—	(26,622)	—	(26,622)
Assets transferred from Sinopec Group to the Group .....	—	43,756	—	—	—	—	43,756	—	43,756
Appropriation of specific reserve .....	—	—	—	—	56,247	(56,247)	—	—	—
Utilization of specific reserve .....	—	—	—	—	(56,247)	56,247	—	—	—
Total transactions with owners .....	—	463,145	—	—	—	(295,312)	167,833	—	167,833
<b>At December 31, 2010</b> .....	400,000	2,688,936	—	23,692	—	5,925,272	9,037,900	3,228	9,041,128

## Attributable to equity holders of the Company

Note	Paid in capital/ Share capital RMB'000	Capital reserve RMB'000 (Note 31)	Statutory surplus reserve RMB'000 (Note 31)	Investment revaluation reserve RMB'000 (Note 31)	Specific reserve RMB'000 (Note 31)	Retained earnings RMB'000 (Note 31)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
<b>At January 1, 2011</b> .....	400,000	2,688,936	—	23,692	—	5,925,272	9,037,900	3,228	9,041,128
Profit for the year .....	—	—	—	—	—	3,375,039	3,375,039	73	3,375,112
Other comprehensive income:									
Fair value change of available-for-sale financial assets - gross .....	—	—	—	(12,574)	—	—	(12,574)	—	(12,574)
Fair value change of available-for-sale financial assets - tax .....	—	—	—	911	—	—	911	—	911
Defined benefits obligation revaluation of actuarial gain and loss - gross .....	—	—	—	—	—	237,353	237,353	—	237,353
Defined benefits obligation revaluation of actuarial gain and loss - tax .....	—	—	—	—	—	(54,160)	(54,160)	—	(54,160)
Share of other comprehensive income of associates .....	—	—	—	(4,712)	—	—	(4,712)	—	(4,712)
Total comprehensive income .....	—	—	—	(16,375)	—	3,558,232	3,541,857	73	3,541,930



Attributable to equity holders of the Company									
	Paid in capital/Share capital	Capital reserve	Statutory surplus reserve	Investment revaluation reserve	Specific reserve	Retained earnings	Total	Non-controlling interests	Total equity
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	400,000	2,147,721	—	7,317	46,574	128,495	2,730,107	3,301	2,733,408
<b>At January 1, 2012</b> .....									
Profit for the year .....	—	—	—	—	—	3,316,970	3,316,970	299	3,317,269
Other comprehensive income:									
Fair value change of available-for-sale financial assets - gross .....	—	—	—	1,133	—	—	1,133	—	1,133
Fair value change of available-for-sale financial assets - tax .....	—	—	—	(282)	—	—	(282)	—	(282)
Defined benefits obligation revaluation of actuarial gain and loss - gross .....	—	—	—	—	—	378,611	378,611	—	378,611
Defined benefits obligation revaluation of actuarial gain and loss - tax .....	—	—	—	—	—	(85,966)	(85,966)	—	(85,966)
Share of other comprehensive income of joint ventures .....	—	—	—	93	—	—	93	—	93
Total comprehensive income .....	—	—	—	944	—	3,609,615	3,610,559	299	3,610,858



## E. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended December 31,		
		2010	2011	2012
		RMB'000	RMB'000	RMB'000
<b>Cash flows from operating activities</b>				
<b>Cash generated from operations</b> .....	39	4,793,041	2,398,303	3,295,154
Income tax paid .....		(580,194)	(749,284)	(1,772,196)
Interest received .....		40,415	39,826	33,531
<b>Net cash generated from operating activities</b> .....		<u>4,253,262</u>	<u>1,688,845</u>	<u>1,556,489</u>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment .....		(412,231)	(360,239)	(368,659)
Purchase of intangible assets.....		(23,280)	(20,003)	(23,076)
Purchase of land use rights .....		(46,276)	—	(976,218)
Purchase of available-for-sale financial assets.....		(65)	(47)	—
Purchase of financial assets at fair value through profit or loss.....		(1,123,495)	(309,056)	—
Acquisition of non-controlling interests ...		—	—	(395)
Interest income on the financial assets at fair value through profit or loss.....		6,113	—	—
Interest income on the loan to the ultimate holding company.....		418,862	632,030	492,434
Proceeds from disposal of property, plant and equipment .....		161,275	56,455	54,783
Proceeds from disposal of land use rights.....		—	—	25,174
Proceeds from disposal of available-for-sale financial assets.....		30,449	—	—
Proceeds from disposal of financial assets at fair value through profit or loss .....		1,646,296	620,033	—
Dividends received from associates.....		1,800	7,571	7,000
Dividends received from joint ventures....		—	3,236	705
Loans to the ultimate holding company....		(23,860,000)	(25,370,000)	(13,850,000)
Repayments of loans from the ultimate holding company .....		<u>19,673,000</u>	<u>22,922,000</u>	<u>12,970,000</u>
<b>Net cash used in investing activities</b> .....		<u>(3,527,552)</u>	<u>(1,818,020)</u>	<u>(1,668,252)</u>

	Note	Year ended December 31,		
		2010	2011	2012
		RMB'000	RMB'000	RMB'000
<b>Cash flows from financing activities</b>				
Borrowings from the ultimate holding company and fellow subsidiaries.....		1,303	19,904	447,546
Repayments of borrowings from the ultimate holding company and fellow subsidiaries.....		(31,350)	(14,877)	(339,771)
Interest paid.....		(2,138)	(1,007)	(2,739)
Dividends paid.....		(358,870)	(350,883)	(374,248)
Funds transferred to Sinopec Group .....		(37,789)	(46,253)	—
Capital contributions received from Sinopec Group .....		483,800	215,635	200,510
Repayments to fellow subsidiaries .....		—	—	(562,847)
Financing costs paid .....		(4,233)	(6,385)	(12,420)
<b>Net cash generated from/(used in) financing activities .....</b>		<u>50,723</u>	<u>(183,866)</u>	<u>(643,969)</u>
<b>Net increase/(decrease) in cash and cash equivalents .....</b>		776,433	(313,041)	(755,732)
<b>Cash and cash equivalents at beginning of year .....</b>		5,156,837	5,922,638	5,575,335
Exchange (losses)/gains on cash and cash equivalents .....		(10,632)	(34,262)	2,887
<b>Cash and cash equivalents at end of year .....</b>	29	<u>5,922,638</u>	<u>5,575,335</u>	<u>4,822,490</u>

## II. NOTES TO THE FINANCIAL INFORMATION

### 1. PRINCIPAL ACTIVITIES, ORGANIZATION AND REORGANIZATION

#### 1.1 Principal activities

SINOPEC Engineering (Group) Co., Ltd. (中石化煉化工程(集團)股份有限公司, the “Company”) and its subsidiaries (together, the “Group”) is principally engaged locally and overseas in (1) engineering, consulting and licensing, (2) EPC Contracting, (3) construction and (4) equipment manufacturing in respect of oil refining, petrochemical engineering, storage and transportation.

#### 1.2 Organization and reorganization

The Company was established on July 24, 2007 as a company with limited liability under the name of Sinopec Engineering Co., Ltd. (中國石化集團煉化工程有限公司). Upon the establishment of the Company, China Petrochemical Corporation (中國石油化工集團公司, “Sinopec Group”) held its 100% equity interests. Sinopec Group transferred 2% of the Company’s equity interest to Sinopec Assets Management Co., Ltd. (中國石化集團資產經營管理有限公司), a wholly-owned subsidiary of Sinopec Group, at nil consideration with May 31, 2012 as the measurement date. Pursuant to a reorganization of engineering, consulting and licensing, EPC Contracting, construction and equipment manufacturing in respect of oil refining, petrochemical engineering, storage and transportation (the “Core Business”) of Sinopec Group in preparation for the initial listing (the “Listing”) of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Reorganization”), Sinopec Group transferred the equity interests of its refining and engineering entities with December 31, 2011 being the measurement date to the Company. The Company became the holding company of the subsidiaries now comprising the Group.

The address of the Company’s registered office is A6 Huixindong Street, Chaoyang District, Beijing, the PRC.

The principal reorganization transactions include:

- (a) Sinopec Group transferred the equity interests of the following subsidiaries and their subsidiaries to the Company:
  - (i) 100% equity interest in Sinopec Engineering Incorporation (中國石化工程建設有限公司, “SEI”), formerly known as China Petrochemical Corporation, Engineering Incorporation (中國石化工程建設公司);
  - (ii) 100% equity interest in Sinopec Luoyang Petrochemical Engineering Corporation (中石化洛陽工程有限公司, “LPEC”), formerly known as China Petrochemical Corporation, Luoyang Petrochemical Engineering Corporation (中國石化集團洛陽石油化工工程公司);



- (iii) 100% equity interest in Sinopec Shanghai Engineering Co., Ltd. (中石化上海工程有限公司, "SSEC"), formerly known as China Petrochemical Corporation, Shanghai Engineering Company Limited (中國石化集團上海工程有限公司);
  - (iv) 100% equity interest in Sinopec Ningbo Engineering Company Limited (中石化寧波工程有限公司, "SNEC"), formerly known as China Petrochemical Corporation, Ningbo Engineering Co., Ltd (中國石化集團寧波工程有限公司);
  - (v) 100% equity interest in Sinopec Nanjing Engineering & Construction Incorporation (中石化南京工程有限公司, "SNEI"), formerly known as China Petrochemical Corporation, Nanjing Engineering & Construction Incorporation (中國石化集團南京工程有限公司);
  - (vi) 100% equity interest in Sinopec The Fourth Construction Company Limited (中石化第四建設有限公司, "FCC"), formerly known as The Fourth Construction Company of China Petrochemical Corporation (中國石化集團第四建設公司);
  - (vii) 100% equity interest in The Fifth Construction Company of Sinopec (中石化第五建設有限公司, "SFCC"), formerly known as The Fifth Construction Company of China Petrochemical Corporation (中國石化集團第五建設公司);
  - (viii) 100% equity interest in Sinopec Tenth Construction Company (中石化第十建設有限公司, "TCC"), formerly known as The Tenth Construction Company of China Petrochemical Corporation (中國石化集團第十建設公司);
  - (ix) 100% equity interest in Sinopec Ningbo Technology Research Institute Company Limited (中石化寧波技術研究院有限公司, "Ningbo Institute"), formerly known as China Petrochemical Corporation, Ningbo Institute of Technology (中國石化集團寧波技術研究院).
- (b) The Company and certain subsidiaries of the Company, including those transferred from the Sinopec Group described in Note 1.2(a), where applicable, were transformed from state-owned enterprises into companies with limited liability under the Company Law of the PRC.
- (c) In connection with the reorganization described in Note 1.2(a) and (b), the following assets and liabilities were transferred to Sinopec Group at nil consideration:
- (i) operating assets and liabilities (the "Other Operations") which are unrelated to the Core Business, mainly including real estate business; and
  - (ii) certain individual assets (the "Other Assets") which are not directly related to the Core Business.

- (d) Sinopec Group undertook all the related tax liabilities of non-current assets arising from the reorganization.

During the process of Reorganization, as requested by Sinopec Group, the Group was required to transfer RMB12.2 billion to Sinopec Group in 2011, which was accounted as other payables to Sinopec Group as at December 31, 2011 (Note 40). As a result, the Group's capital reserve was reduced accordingly as at December 31, 2011. Subsequent to the above reorganization transactions which were completed in April 2012, the Company was transformed into a joint stock company with limited liability on August 28, 2012.

## 2. BASIS OF PRESENTATION

- 2.1 As the Company and its subsidiaries described in Note 1.2(a) are under the control of Sinopec Group, both before and after the Reorganization and control is not transitory, the Reorganization has been accounted for as a reorganization of business under common control and the consolidated financial statements of the Group have been prepared using the principals of merger accounting. The consolidated balance sheets as at December 31, 2010, 2011 and 2012 and consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years ended December 31, 2010, 2011 and 2012 have been presented as if the current group structure had been in existence throughout each of the years ended December 31, 2010, 2011 and 2012 or since respective dates of incorporation/establishment or acquisition, whichever is the shorter period.
- 2.2 The Financial Information has not included the assets, liabilities and results of the Other Operations as described in Note 1.2(c)(i) above, on the basis that these operations are engaged in dissimilar business from those of the Group, have separate management personnel and accounting records and have been financed and operated historically as if they were autonomous.
- 2.3 The Financial Information has however included the Other Assets as described in Note 1.2(c)(ii) above, because they were not managed or accounted for separately and could not be clearly distinguished from the Core Business. These assets were transferred to Sinopec Group upon the completion of the Reorganization.

The Other Assets that were transferred to Sinopec Group upon the completion of the Reorganization were summarized as follow:

	<u>Year ended December 31,</u>		<u>Total</u>
	<u>2011</u>	<u>2012</u>	
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
<b>Non-current assets</b>			
- Property, plant and equipment .....	42,988	15,051	58,039
- Land use rights .....	<u>4,474</u>	<u>4,397</u>	<u>8,871</u>
	<u>47,462</u>	<u>19,448</u>	<u>66,910</u>

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied during each of the years ended December 31, 2010, 2011 and 2012.

#### 3.1 Basis of preparation

The Financial Information set out in this report has been prepared in accordance with IFRS issued by the International Accounting Standards Board (the "IASB").

The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value, and certain property, plant and equipment, land use rights and intangible assets, which are carried at deemed cost.

Pursuant to relevant PRC laws and regulations and as part of the Reorganization, property, plant and equipment, land use rights and intangible assets of certain subsidiaries were revalued on December 31, 2011 by the independent qualified valuers, ZhongHe Appraisal Co., Ltd. (中和資產評估有限公司) and Pan-China Assets Appraisal Co., Ltd. (北京天健興業資產評估有限公司) and approved by relevant government authorities upon the completion of the Reorganization on December 31, 2011. The amendment to IFRS 1 allows first-time adopters to use an event-driven fair value as deemed cost for assets and liabilities, even if the event occurs after the date of transition to IFRS, but before the first set of IFRS financial statements are issued, the Group has elected the exemption granted under the amendment to IFRS 1 in applying such values as the deemed cost in the first IFRS financial statements.

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

The IASB has issued a number of new and revised IFRS. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRS, which are effective for the accounting periods beginning on or after January 1, 2012 consistently throughout the periods. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period ended December 31, 2012 which are relevant to the Group but the Group has not early adopted are set out below:

- IAS 1 (Revised) "Presentation of financial statements". The main change resulting from this amendment is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially recycled to profit or loss (reclassified adjustments). The amendment does not address which items are presented in OCI. The amendment will be effective for annual periods beginning on or after

July 1, 2012. However, initial indications are that it is not expected to have a material impact on the Group's financial statements.

- IFRS 9, "Financial instruments" addresses the classification and measurement of financial assets and financial liabilities which is likely to affect the Group's accounting for its financial assets. The standard is not applicable until January 1, 2015 but is available for early adoption. The Group is yet to assess IFRS 9's full impact. However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognized directly in the consolidated statement of comprehensive income. However, initial indications are that it is not expected to have a material impact on the Group's financial statements.
- IFRS 10, "Consolidated financial statements", replaces all of the guidance on control and consolidation in IAS 27, "Consolidated and separate financial statements", and SIC-12, "Consolidation — special purpose entities". The standard is not applicable until January 1, 2013 but is available for early adoption. As IFRS 10 applies retrospectively, the standard might impact the entities to be consolidated in prior years. The Group is yet to assess IFRS 10's full impact. However, initial indications are that it is not expected to have a material impact on the Group's financial statements and unlikely to result in the consolidation of additional subsidiaries or de-consolidation of subsidiaries.
- IFRS 11, "Joint arrangements", supersedes IAS 31 "Interests in joint ventures", and SIC-13, "Jointly controlled entities — non-monetary contributions by venturers". IFRS 11 prescribes how to classify a joint arrangement of which two or more parties have joint control. Joint arrangements are classified into joint operations and joint ventures in accordance with IFRS 11, the type of joint arrangements is determined by the rights and obligations to which the parties agree. The Group is yet to assess IFRS 11's full impact. However, initial indications are that it is not expected to have a material impact on the Group's financial statements.
- IFRS 12, "Disclosure of interests in other entities", addresses the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard is not applicable until January 1, 2013 but is available for early adoption. The Group is yet to assess IFRS 12's full impact. However, initial indications are that it is not expected to have a material impact on the Group's financial statements.
- IFRS 13, "Fair value measurement", provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how

it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP. The standard is not applicable until January 1, 2013 but is available for early adoption. However, initial indications are that it is not expected to have a material impact on the Group's financial statements.

The Group has early adopted the new accounting standards that have been issued and revised but not yet be effective for the whole accounting period ended December 31, 2012:

- IAS 19 (Amendment), "Employee benefits", eliminates the corridor approach and calculates finance costs on a net funding basis. This amendment requires that all actuarial gains and losses have to be recognized immediately in other comprehensive income, to ensure that the net pension asset or liability recognized in consolidated balance sheet can reflect the full value of the planned deficit or surplus.

### 3.2 Consolidation

#### *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that the Group ceases control.

The transfer/acquisition of equity interests in subsidiaries which are regarded as common control combinations are accounted for in a manner similar to a uniting of interests. Assets and liabilities are transferred at book value, adjusted only to harmonize accounting policies, and no goodwill arises. Any difference between the consideration given and the aggregate book value of the assets and liabilities acquired (as of the date of the transaction) is included in equity. The Financial Information incorporates the acquired entity's results as if both entities (acquirer and acquiree) had always been combined. Consequently, the Financial Information reflects both entities' full year's results, even though the business combination may have occurred part of the way throughout the year. In addition, the corresponding amounts for the previous year also reflect the combined results of both entities, even though the transaction did not occur until the current year.

The acquisition method of accounting is used to account for business combinations other than common control combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of bargain purchase, the difference is recognized directly in the consolidated statement of comprehensive income.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### *Transactions with non-controlling interests*

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying value for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

#### *Joint Ventures*

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

When a group entity engaged in activities under joint venture arrangements, the Group's share of jointly controlled assets and liabilities with other venturers are recognized in the financial statements of relevant entities and the types of joint ventures are classified according to their nature. Liabilities and expenses directly related to its interests in jointly controlled assets are recognized based on the accrual basis of accounting when they are incurred. Any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture and the economic benefits associated with the transaction which is likely to flow into or out of the Group, the amount should be recognized when it can be reliably measured.

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The Group recognizes its interest in a jointly controlled entity using the equity method. The equity method is detailed in accounting policies of interests in associates. The unrealized gains and losses will be eliminated in accordance with the Group's share of the interests in the joint venture if the Group enters into transactions with the jointly controlled entity.

For jointly controlled operations that did not establish a separate entity, the Group accounts for relevant assets, liabilities, income and expenses using the proportionate consolidation method.

### *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss (Note 3.8).

The Group's shares of its associates' post-acquisition profits or losses is recognized in the consolidated statement of comprehensive income and its share of post acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amounts of the investments. When the Group's share of losses in an associate equals or exceeds its interest in the associates, including any other unsecured receivables, the Group does not recognize further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognized in the consolidated statement of comprehensive income.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

### **3.3 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors and certain senior management (including financial director) (together referred to as the "Senior Management") that makes strategic decisions.

### 3.4 Foreign currency translation

#### *Functional and presentation currency*

Items included in the financial statements of each of the entities within the Group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Financial Information is presented in Renminbi (“RMB”), which is the Group’s functional currency.

#### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within “finance income or expenses”. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within “other operating expense”.

#### *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognized in other comprehensive income.

### 3.5 Property, plant and equipment

Property, plant and equipment, except for construction-in-progress (“CIP”), are stated at historical cost less accumulated depreciation and accumulated impairment loss except for certain property, plant and equipment, which are stated at deemed cost less accumulated depreciation and accumulated impairment loss. Historical cost includes expenditures that are directly attributable to the acquisition of the items, including the purchase price, import duties, non-refundable purchase taxes



and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset’s carrying amount or recognized as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings .....	12-40 years
Machinery and equipment .....	10-20 years
Transportation equipment .....	8-18 years
Furniture, office and other equipment .....	4-10 years

CIP represents buildings and plant under construction and is stated at cost less accumulated impairment loss. Cost includes costs of construction of buildings, costs of plant and other direct costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to the relevant asset categories and depreciated in accordance with the policy as stated above.

The assets’ residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (Note 3.8).

Gains or losses on disposals are determined by comparing the proceeds on disposal with the carrying amount and are included within “other gains or losses - net” in the consolidated statement of comprehensive income.

**3.6 Land use rights**

Land use rights represent upfront prepayments made for the land use rights at historical cost, except for certain land use rights stated at deemed cost, and are expensed in the consolidated statement of comprehensive income on a straight-line basis over the terms of the leases. Whenever there is impairment, the impairment is recognized in the consolidated statement of comprehensive income.

### 3.7 Intangible assets

#### *Computer software*

Acquired computer software are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of 4 to 6 years, and recorded in 'depreciation and amortization' within operating expenses in the consolidated statement of comprehensive income.

#### *Patent and proprietary technologies*

Patents and proprietary technologies are initially recorded at cost except for certain patent and proprietary technologies stated at deemed cost. These intangibles assets are amortized on a straight-line basis over their estimated useful lives of 5 to 10 years.

### 3.8 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 3.9 Financial assets

#### *Classification*

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### (i) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Group's loans and receivables primarily include "Notes and trade receivables", "Prepayments and other receivables", "Restricted cash" and "Cash and cash equivalents" in the balance sheet.

*(iii) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months after the balance sheet date.

***Recognition and measurement***

Regular purchases and sales of financial assets are recognized on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognized in the consolidated statement of comprehensive income when there is objective evidence that the asset is impaired. Such impairment losses will not reverse in subsequent periods.

Changes in the fair value of available-for-sale investments are recognized in other comprehensive income. When available-for-sale investments are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated statement of comprehensive income. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of comprehensive income when the right of the Group to receive payments is established. Interest on available-for-sale securities calculated using the effective interest method is recognized in the consolidated statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investments previously recognized in the consolidated statement of comprehensive income — is removed from equity and recognized in the consolidated statement of comprehensive income. Impairment losses recognized in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income. Impairment loss on the available-for-sale investment is measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset (Note 3.11).

### *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

### **3.10 Inventories**

Inventories are stated at the lower of cost and net realizable value. Inventories are expensed to relevant operating expenses when used, sold or capitalized to property, plant and equipment when installed, as appropriate, using moving weighted average method. The cost of finished goods and work-in-progress comprises design costs, raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

### **3.11 Trade and other receivables**

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amounts of the assets are reduced through the use of allowance accounts, and the amount of the provision is recognized in the consolidated statement of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of comprehensive income.

### 3.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

### 3.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### 3.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has contractual or an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 3.15 Payables

Payables primarily include accounts payable and accrued liabilities, and are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

### 3.16 Employee benefits

#### *Pension obligations*

The full-time employees of the Group in the PRC are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

The Group also provides supplementary pension subsidies to certain employees in the PRC. Such supplementary pension subsidies are considered to be defined benefit plans as the Group is obligated to provide post-employment benefits to these employees. The liability recognized in the consolidated balance sheets in respect of these defined benefit plans is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent qualified actuaries using the projected unit credit method. Net interests are recognized to the profit or loss and are calculated by the discount rate, which is determined by reference to the market yields

of the high-quality government bonds at the end of the reporting period, multiplied the net defined benefit liabilities or assets at each of the beginning of the reporting period. The differences between the actual return on plan assets and with the passage of time in the plan assets are recognized in other comprehensive income.

The Group has various defined contribution plans in accordance with the local conditions and practices in the municipalities and provinces in which they operate. Defined contribution plans are pension and/or other social benefit plans under which the Group pay fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions are recognized as labor costs when they are due.

#### ***Other post-employment obligations***

Some of the companies comprising the Group provide post-retirement medical benefits to their retired employees. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries.

#### ***Termination and early retirement benefits***

Termination and early retirement benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination and early retirement benefits when it is demonstrably committed to either: (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy. The specific terms vary among the terminated and early retired employees depending on various factors including position, length of service and district of the employee concerned. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

#### ***Housing benefits***

The Group contributes to the state-prescribed housing fund. Such costs are charged to the consolidated statement of comprehensive income as incurred. Apart from those described above, the Group does not have other legal or constructive obligations over such benefits.

#### ***Bonus entitlements***

The expected cost of bonus payments is recognized as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

### 3.17 Taxation

#### *Current and deferred income tax*

The tax expense for the period comprises current and deferred income tax. Income tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the income tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and deferred income tax liabilities are offset when meeting all the conditions below:

- The Group has the legally enforceable right to settle current income tax assets and current income tax liabilities; and
- The deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

***Value-added taxation ("VAT")***

Sales of goods of the Group are subjected to VAT. VAT payable is determined by applying 17% on the taxable revenue arising from sales of goods and applying 6% on the taxable revenue arising from provision of engineering, consulting and licensing service in certain regions after offsetting deductible input VAT of the period.

***Business tax***

Revenue resulting from providing construction services and design service in certain regions is subject to business tax at 3% or 5% of gross service income.

**3.18 Contingencies**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of the obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the Financial Information unless the probability of outflow of resources embodying economic benefits is remote. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognized as a provision.

A contingent asset is not recognized in the Financial Information unless virtually certain but disclosed when an inflow of economic benefits is probable.

**3.19 Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.



**3.20 Government grants**

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

**3.21 Contract work**

Contract costs are recognized as expense in the year in which they are incurred.

When the outcome of a contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. Variation in contract work, claims and incentive payments are included in the contract revenue to the extent that it is probable that they are capable of being reliably measured according to customers' agreements.

The Group uses the "percentage of completion method" to determine the appropriate amount of profit to be recognized in a given period. Depending on the nature of the contract, the stage of completion is based on (a) percentage of work performed to date as a percentage of total contract value, or (b) the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with the future activity of a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories or prepayments, depending on their nature.

Contract work-in-progress is valued at the cost of the work done, plus the expected profit upon completion of the project in proportion to the progress made and less progress billings and provisions. Provisions are recognized for expected losses on contract work-in-progress, as soon as they are foreseen, and deducted from the cost. The cost includes direct project costs, materials costs, costs of subcontracted work, other directly attributable costs, rental charges and maintenance costs for the equipment used. The project progress is determined on the basis according to the preceding paragraph. Profits are not recognized unless a reliable estimate can be made of the result on completion of the project. The balance of the value of contract work-in-progress and progress billings is determined on a project to project basis.

Where contract costs incurred plus recognized profits less recognized losses exceed progress billings, "amounts due from customers for contract work" is accounted for as an asset.

For contracts where progress billings exceed contract costs incurred plus recognized profits less recognized losses, "amounts due to customers for contract work" is accounted for as a liability.

### **3.22 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the construction contracts and sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### ***Revenue from construction and service contracts***

When the outcome of a contract can be estimated reliably, revenue from construction and service contracts is recognized under the percentage of completion method. Depending on the nature of the contract, the stage of completion is based on (a) percentage of work performed to date as a percentage of total contract value, or (b) the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. When the outcome of a contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable and such contract costs is recognized as an expense in the year in which they are incurred.

Variation in contract work, claims and incentive payments are included in the contract revenue to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in the consolidated statement of comprehensive income in the year in which the circumstances that give rise to the revision become known by management.

#### ***Services rendered***

Revenue for services rendered mainly includes technological development, engineering, consultation and supervision is recognized when services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the entity.

*Sales of products*

Sales of products are recognized when significant risks and rewards of ownership of the goods are transferred to the customers, and the customer has accepted the products and collectability of the related receivables is reasonably assured.

*Dividend income*

Dividend income is recognized when the right to receive payment is established.

*Interest income*

Interest income is recognized on a time-proportion basis using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognized using the original effective interest rate.

**3.23 Research and development**

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are fulfilled:

- (i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (ii) management intends to complete the intangible asset and use or sell it;
- (iii) there is an ability to use or sell the intangible asset;
- (iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;
- (v) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- (vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life.

**3.24 Dividend distribution**

Dividend distribution to the Group's equity holders is recognized as a liability in the financial information in the year in which the dividends are approved by the Group's equity holders or directors, where appropriate.

**3.25 Financial guarantee contract**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because of a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract is recognized initially at fair value, and subsequently measured (unless they are designated at fair value through profit or loss) at higher of (i) the amount determined in accordance with IAS 37, "Provision, contingent liabilities and contingent assets", and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized over the life of the guarantee on a straight-line basis.

**3.26 Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

**4. FINANCIAL AND CAPITAL RISKS MANAGEMENT**

The Group works out general principles for overall risk management, including management of financial risks, as well as management policies covering specific areas. In considering the importance of risks, the Group identifies and evaluates risks at head office and individual subsidiary level, and requires analysis and proper communication for the information collected periodically.

**4.1 Financial risk management**

The activities of the Group expose them to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management program of the Group focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance of the Group.

*(a) Market risk**Foreign exchange risk*

The functional currency of the entities within the Group is RMB and most of the transactions are settled in RMB.

The Group carries out operations outside the PRC where transactions are usually denominated in the United States Dollars ("USD") and Euro ("EUR") which are translated into RMB at the prevailing exchange rates on the dates of the transactions.

The Group is exposed to currency risk primarily through provision of engineering contracting services which give rise to receivables and payables, borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency that gives rise to this risk is primarily in USD, EUR, Saudi Arabian Riyal ("SAR") as at December 31, 2010, 2011 and 2012.

On the other hand, RMB is not a freely convertible currency and the PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. Changes in the foreign exchange control system may prevent the Group from satisfying sufficient foreign currency demands.

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognized assets or liabilities denominated in a currency other than RMB to which they relate.

At December 31, 2010

	<u>USD</u>	<u>EUR</u>	<u>SAR</u>	<u>Others</u>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Notes and trade receivables.....	205,634	—	169,112	—
Prepayments and other receivables.....	776,246	—	4,607	2,884
Cash and cash equivalent and restricted cash ...	598,472	552,717	94,552	29,900
Notes and trade payables .....	(72,141)	—	(189,328)	(918)
Other payables .....	<u>(2,126,327)</u>	<u>—</u>	<u>(15,485)</u>	<u>(7,618)</u>
Net exposure in RMB .....	<u>(618,116)</u>	<u>552,717</u>	<u>63,458</u>	<u>24,248</u>

**APPENDIX I****ACCOUNTANTS' REPORT**

At December 31, 2011

	<u>USD</u>	<u>EUR</u>	<u>SAR</u>	<u>Others</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Notes and trade receivables.....	497,728	9,221	52,824	29,265
Prepayments and other receivables.....	819,062	11,956	35,331	27,005
Cash and cash equivalent and restricted cash ...	433,159	339,941	99,971	80,624
Notes and trade payables .....	(162,212)	—	(183,659)	(11,886)
Other payables .....	<u>(2,401,059)</u>	<u>(822)</u>	<u>(117,616)</u>	<u>(2,848)</u>
Net exposure in RMB .....	<u>(813,322)</u>	<u>360,296</u>	<u>(113,149)</u>	<u>122,160</u>

At December 31, 2012

	<u>USD</u>	<u>EUR</u>	<u>SAR</u>	<u>Others</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Notes and trade receivables.....	269,206	—	99,698	2,013
Prepayments and other receivables.....	803,701	45,572	105,770	68,438
Cash and cash equivalent and restricted cash ...	2,905,189	265,674	95,112	10,253
Notes and trade payables .....	(309,528)	—	(105,248)	(20,058)
Other payables .....	<u>(3,247,780)</u>	<u>(822)</u>	<u>(104,187)</u>	<u>—</u>
Net exposure in RMB .....	<u>420,788</u>	<u>310,424</u>	<u>91,145</u>	<u>60,646</u>

A 5% strengthening of RMB against the USD and EUR as at December 31, 2010, 2011 and 2012 would have increased/(decreased) the equity and net profit by the amounts shown below:

	<u>At December 31,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Changes in equity and net profit			
- USD.....	23,179	30,500	(15,780)
- EUR.....	<u>(20,727)</u>	<u>(13,511)</u>	<u>(11,641)</u>

A 5% weakening of RMB as at December 31, 2010, 2011 and 2012 would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for the Relevant Periods.

*Interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The interests arise from the borrowings between the Group and the ultimate holding company and fellow subsidiaries are mainly based on fixed interest rate.

*Price risk*

The Group is exposed to equity securities price risk because the Group's equity securities investments are classified as available-for-sale financial assets or financial assets at fair value through profit or loss which are required to be stated at their fair values.

The following table details the Group's sensitivity to a 5% increase and 5% decrease in equity securities price on the available-for-sale financial assets or financial assets at fair value through profit or loss at each balance sheet date while all other variables were held constant. Management has used 5% to illustrate the equity price risk as the fluctuation in equity securities price is unpredictable.

<b>For the year ended December 31,</b>		
<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>

**Impact on equity**

Increase/(decrease) in equity for the year

- as a result of increase in equity securities price .....	12,654	522	565
- as a result of decrease in equity securities price .....	<u>(12,654)</u>	<u>(522)</u>	<u>(565)</u>

*(b) Credit risk*

The Group's credit risk is primarily attributable to restricted cash, cash and cash equivalents, trade and other receivables and other current assets.

Substantially all of the Group's cash and cash equivalents are mainly deposited in the stated owned/controlled PRC banks which the Directors have assessed the credit risk to be insignificant.

The Group has policies in place to ensure that services are rendered and products are sold to customers with appropriate credit history and the Group reforms periodic credit evaluations of its customers. Normally the Group does not require collaterals from trade debtors.

Regarding balances with related parties, the Group assesses the credibility of the related parties by reviewing the operating results and gearing ratios periodically.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance.

*(c) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors the cash flow forecasts of the Group in meeting its liabilities.

The table below analyzes the Group's non-derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period from the balance sheet dates to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Weighted average effective interest rate	Within	1-2 years	2-5 years	Over	Total	Carrying amount
		1 year			5 years	undiscounted cash flows	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2010							
Trade and other payables .....	N/A	7,652,266	—	—	—	7,652,266	7,652,266
Dividends payable.....	N/A	295,313	—	—	—	295,313	295,313
Amounts due to fellow subsidiaries.	2.32%	45,193	—	—	—	45,193	44,336
		<u>7,992,772</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,992,772</u>	<u>7,991,915</u>

	Weighted average effective interest rate	Within	1-2 years	2-5 years	Over 5	Total	Carrying amount
		1 year			years	undiscounted cash flows	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2011							
Trade and other payables .....	N/A	20,612,810	—	—	—	20,612,810	20,612,810
Dividends payable.....	N/A	374,248	—	—	—	374,248	374,248
Amounts due to fellow subsidiaries.	2.46%	49,869	—	—	—	49,869	49,363
		<u>21,036,927</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>21,036,927</u>	<u>21,036,421</u>



	Weighted average effective interest rate						Total	
		Within			Over	undiscounted	Carrying	
		1 year	1-2 years	2-5 years	5 years	cash flows	amount	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At December 31, 2012								
Trade and other payables .....	N/A	11,539,015	—	—	—	11,539,015	11,539,015	
	2.02%-							
Amounts due to fellow subsidiaries.	2.60%	159,528	—	—	—	159,528	157,138	
		<u>11,698,543</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,698,543</u>	<u>11,696,153</u>	

#### 4.2 Capital risk management

The objectives of the Group when managing capital are to safeguard the ability of the Group in continuing as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debts.

The Group monitors their capital structure on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debts are calculated as the total borrowings and other liabilities (including notes and trade payables, other payables (excluding contract deposits advance), dividend payables and short-term borrowings, as shown in the consolidated balance sheets) less restricted cash and cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheets, plus net debts less non-controlling interests.

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Total borrowings and other liabilities .....	7,991,915	21,036,421	11,696,153
Less: Restricted cash and cash and cash equivalents .....	<u>(5,976,170)</u>	<u>(5,612,822)</u>	<u>(4,846,744)</u>
Net debt .....	2,015,745	15,423,599	6,849,409
Total equity (excluding non-controlling interests) .....	<u>9,037,900</u>	<u>2,730,107</u>	<u>7,077,985</u>
Total capital .....	<u>11,053,645</u>	<u>18,153,706</u>	<u>13,927,394</u>
Gearing ratio .....	<u>18%</u>	<u>85%</u>	<u>49%</u>

### 4.3 Fair value estimation

#### *Fair value measurements*

The Company discloses fair value measurements of financial instruments by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs) (level 3).

#### *Fair value disclosures*

The carrying amounts of the Group's financial assets and liabilities including restricted cash, cash and cash equivalents, trade and other receivables, trade and other payables and short-term borrowings approximate their fair values due to their short maturities. There are no financial liabilities that are measured at fair value as at December 31, 2010, 2011 and 2012.

The following table presents the Group's assets that are measured at fair value as at December 31, 2010, 2011 and 2012.

	<u>At December 31,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Level 1			
Available-for-sale financial assets — Listed			
equity securities .....	23,755	11,181	12,315
Financial assets at fair value through profit or			
loss .....	<u>310,977</u>	<u>—</u>	<u>—</u>
	<u>334,732</u>	<u>11,181</u>	<u>12,315</u>

**5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes accounting estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**(a) Construction contracts**

Revenue from individual contracts is recognized under the percentage of completion method which requires estimations by management. Anticipated losses are fully provided on contracts when identified. Because of the nature of the activity undertaken in construction and engineering business, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs (including material costs) in the budget prepared for each contract as the contract progresses. Management regularly reviews the progress of the contracts and the corresponding costs of the contract. If circumstances arise that may change the original estimates of revenues, costs and extent of progress toward completion, estimates are revised. The revisions may result in increases or decreases in estimated revenues or costs and are reflected in the consolidated statement of comprehensive income in the year in which the circumstances that give rise to the revision become known by management.

**(b) Useful lives of property, plant and equipment**

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on projected wear and tear incurred during the useful life of property, plant and equipment. This could change significantly as a result of technical renovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives or residual values vary with previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

**(c) Provision for impairment of trade receivables**

The Group determines the provision for impairment of trade receivables. This estimate is based on the credit history of the customers and the current market condition. Management reassesses the adequacy of provision on a regular basis by reviewing the individual account based on past credit history and any prior knowledge of debtor insolvency or other credit risk which might not be easily accessible public information and market volatility might bear a significant impact which might not be easily ascertained.

**(d) Current taxation and deferred taxation**

The Group pays income tax in various regions. There are various uncertainties on the ultimate income tax treatments for many transactions and events arising from normal operating activities, overall assets transfers and corporate restructuring. The Group has to make critical accounting judgments when calculating income tax expense in different regions. In the event that the finalized amounts recognized for such tax events are different from those originally recorded, this could result in material adjustments to income tax expense and deferred income tax.

The estimates of deferred income tax assets require estimates over future taxable profit and corresponding applicable income tax rates of respective years. The change in future income tax rates and timing would affect income tax expense or benefit, as well as deferred income tax balance. The realization of deferred income tax assets also depends on the realization of sufficient profitability (taxable profit) of the Group. Deviation of future profitability from the estimate could result in material adjustments to the carrying amount of deferred income tax assets. Deferred tax assets relating to certain temporary differences and tax losses are recognized as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the years in which such estimates are changed.

**(e) Pension obligations**

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for provisions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of corporate securities which have maturity approximating to the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 32.

**(f) Provision for litigation claims**

The Group are from time to time involved in legal proceedings arising in the ordinary course of business. If the management believes that the legal proceedings may result claims for compensation to third parties against the Group. The best estimate of provision for litigation claims will be recognized. If the management believes that the legal proceedings may be more likely not to result claims for compensation to third parties against the Group. No provision will be recognized under any potential litigation claims. Except to the extent that the situations and uncertainties involved, that will be disclosed as contingent liabilities. To access the outcome of legal proceedings and any potential amount of litigation claims, significant judgment is required.

**(g) Tax matters pursuant to the Reorganization**

In connection with the Reorganization, Sinopec Group undertakes the related tax obligation arising from the Reorganization, the Group as a result has not provided these potential tax liabilities, for example capital gain on revaluation. The Group determines that the tax obligation of the reorganization transactions remained uncertain and as such the Group did not provide for the tax obligation. In the event that tax obligation arose from the reorganization transactions which could result in material adjustments to income tax expense, Sinopec Group has provided a guarantee to the Company that Sinopec Group will bear all such taxes.

**6. REVENUE**

The Group's revenue is set out below (consistent with revenue from principal operations):

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Engineering, consulting and licensing .....	3,233,316	3,375,654	4,121,829
EPC Contracting .....	16,327,804	15,005,581	20,082,442
Construction .....	9,777,686	11,716,395	13,825,409
Equipment manufacturing.....	558,683	503,047	496,809
	<u>29,897,489</u>	<u>30,600,677</u>	<u>38,526,489</u>

**7. SEGMENT INFORMATION**

Management has determined the operating segments based on the reports reviewed by the Senior Management that are used to make strategic decisions.

The Senior Management considers the business from a product and service perspective, which mainly includes four reportable operating segments:

- (i) Engineering, consulting and licensing — providing design, consulting, research and development, feasibility studies, compliance certification services to oil refining and chemical industries;
- (ii) EPC Contracting — providing integrated engineering, procurement, construction, maintenance and project management services to oil refining and chemical industries;
- (iii) Construction — providing infrastructure for oil refining and chemical industries, oil and gas storage, pipelines transportation, construction, renovation, expansion, repair and maintenance services and large equipment lifting and transportation services in construction projects;

- (iv) Equipment manufacturing — providing design, development, manufacture and sales of oil refining equipment and spare parts for oil refining and chemical facilities.

Inter-segment sales were conducted at prices no less than cost and with terms mutually agreed among those business segments. Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared services which cannot be allocated to a specific segment and corporate expenses are included as unallocated costs.

Segment assets consist primarily of property, plant and equipment, land use rights, construction in progress, intangible assets, investment in joint ventures and investment in associates, other non-current assets, inventories, trade receivables, bill receivables, prepayments and other receivables, and cash and cash equivalents. Unallocated assets comprise deferred income tax assets and other unallocated assets.

Segment liabilities comprise operating liabilities and borrowings. Unallocated liabilities comprise items such as current income tax liabilities, deferred income tax liabilities and other unallocated liabilities.

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

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

(i) As at and for the year ended December 31, 2010:

The segment results for the year ended December 31, 2010 are as follows:

	Engineering, consulting and licensing	EPC Contracting	Construction	Equipment manufacturing	Unallocated	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Segment revenue and results</b>							
Revenue from external customers .....	3,233,316	16,327,804	9,777,686	558,683	—	—	29,897,489
Inter-segment revenue .....	—	—	1,577,464	201,748	—	(1,779,212)	—
Segment revenue .....	<u>3,233,316</u>	<u>16,327,804</u>	<u>11,355,150</u>	<u>760,431</u>	<u>—</u>	<u>(1,779,212)</u>	<u>29,897,489</u>
Segment result .....	1,169,644	2,030,096	134,222	(25,734)	29,855	—	3,338,083
Finance income .....							465,390
Finance expenses .....							(145,918)
Share of profits of joint ventures .....	2,005	—	—	—	—	—	2,005
Share of profits of associates ..	9,026	—	9,428	—	—	—	18,454
Profit before income tax.....							3,678,014
Income tax expense.....							(787,543)
Profit for the year .....	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>2,890,471</u>
<b>Other segment items</b>							
Depreciation .....	78,868	43,327	292,107	16,031	—	—	430,333
Amortization .....	26,749	110	8,237	—	—	—	35,096
Capital expenditures:							
- Property, plant and equipment .....	2,439	152,087	377,909	—	—	—	532,435
- Land use rights.....	—	603	45,673	—	—	—	46,276
- Intangible assets .....	13,060	3,927	6,293	—	—	—	23,280
Provision for/(reversal of) impairment on trade and other receivables .....	<u>2,973</u>	<u>26,114</u>	<u>(29,771)</u>	<u>3,824</u>	<u>—</u>	<u>—</u>	<u>3,140</u>

The segment assets and liabilities as at December 31, 2010 are as follows:

	<b>Engineering, consulting and licensing</b>	<b>EPC Contracting</b>	<b>Construction</b>	<b>Equipment manufacturing</b>	<b>Elimination</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Assets</b>						
Segment assets .....	7,974,014	16,832,087	9,727,838	488,615	(555,082)	34,467,472
Investment in joint ventures..	9,181	—	—	—	—	9,181
Investment in associates .....	78,714	—	21,496	—	—	100,210
Other unallocated assets.....						<u>1,611,797</u>
<b>Total assets</b> .....	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>36,188,660</u>
<b>Liabilities</b>						
Segment liabilities .....	3,227,205	13,650,407	9,586,939	166,704	(555,082)	26,076,173
Other unallocated liabilities ..						<u>1,071,359</u>
<b>Total liabilities</b> .....	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>27,147,532</u>



(ii) As at and for the year ended December 31, 2011:

The segment results for the year ended December 31, 2011 are as follows:

	Engineering, consulting and licensing	EPC Contracting	Construction	Equipment manufacturing	Unallocated	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Segment revenue and results</b>							
Revenue from external customers .....	3,375,654	15,005,581	11,716,395	503,047	—	—	30,600,677
Inter-segment revenue .....	43,055	—	2,402,066	284,252	—	(2,729,373)	—
Segment revenue .....	<u>3,418,709</u>	<u>15,005,581</u>	<u>14,118,461</u>	<u>787,299</u>	<u>—</u>	<u>(2,729,373)</u>	<u>30,600,677</u>
Segment result .....	1,039,373	2,460,120	171,819	4,824	48,456	—	3,724,592
Finance income .....							671,856
Finance expenses .....							(143,293)
Share of profits of joint ventures .....	738	—	—	—	—	—	738
Share of (losses)/profits of associates .....	(10,734)	—	799	—	—	—	(9,935)
Profit before income tax .....							4,243,958
Income tax expense .....							(868,846)
Profit for the year .....	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>3,375,112</u>
<b>Other segment items</b>							
Depreciation .....	59,742	53,717	288,175	19,445	—	—	421,079
Amortization .....	21,052	110	6,333	—	—	—	27,495
Capital expenditures							
- Property, plant and equipment .....	31,761	92,440	519,784	—	—	—	643,985
- Intangible assets .....	13,179	2,354	4,470	—	—	—	20,003
Provision for impairment of trade and other receivables	<u>5,451</u>	<u>36,155</u>	<u>10,445</u>	<u>920</u>	<u>—</u>	<u>—</u>	<u>52,971</u>

The segment assets and liabilities as at December 31, 2011 are as follows:

	<b>Engineering, consulting and licensing</b>	<b>EPC Contracting</b>	<b>Construction</b>	<b>Equipment manufacturing</b>	<b>Elimination</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Assets</b>						
Segment assets.....	9,652,492	21,292,444	11,776,284	730,775	(786,125)	42,665,870
Investment in joint ventures..	6,683	—	—	—	—	6,683
Investment in associates.....	59,540	—	18,452	—	—	77,992
Other unallocated assets.....						<u>1,653,662</u>
<b>Total assets</b> .....	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>44,404,207</u>
<b>Liabilities</b>						
Segment liabilities .....	3,408,957	14,190,211	10,889,067	472,289	(786,125)	28,174,399
Other unallocated liabilities ..						<u>13,496,400</u>
<b>Total liabilities</b> .....	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>41,670,799</u>

(iii) For the year ended December 31, 2012:

The segment results for the year ended December 31, 2012 are as follows:

	Engineering, consulting and licensing	EPC Contracting	Construction	Equipment manufacturing	Unallocated	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Segment revenue and results</b>							
Revenue from external customers .....	4,121,829	20,082,442	13,825,409	496,809	—	—	38,526,489
Inter-segment revenue .....	—	—	2,471,417	128,151	—	(2,599,568)	—
Segment revenue .....	<u>4,121,829</u>	<u>20,082,442</u>	<u>16,296,826</u>	<u>624,960</u>	<u>—</u>	<u>(2,599,568)</u>	<u>38,526,489</u>
Segment result .....	1,239,912	2,305,347	317,904	(41,435)	10,295	—	3,832,023
Finance income .....							525,965
Finance expenses .....							(121,300)
Share of profits of joint ventures .....	1,753	—	—	—	—	—	1,753
Share of profits of associates .	12,109	—	1,517	—	—	—	13,626
Profit before income tax.....							4,252,067
Income tax expense.....							(934,798)
Profit for the period.....	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>3,317,269</u>
<b>Other segment items</b>							
Depreciation .....	119,450	67,663	351,085	33,467	—	—	571,665
Amortization .....	73,169	30,753	22,980	—	—	—	126,902
Capital expenditures							
- Property, plant and equipment .....	98,811	43,859	318,749	48,687	—	—	510,106
- Land use rights .....	312,736	198,323	393,798	71,361	—	—	976,218
- Intangible assets .....	12,741	8,509	1,826	—	—	—	23,076
Provision for/(reversal of) impairment on trade and other receivables .....	<u>1,621</u>	<u>60,662</u>	<u>24,841</u>	<u>(9,236)</u>	<u>—</u>	<u>—</u>	<u>77,888</u>

The segment assets and liabilities as at December 31, 2012 are as follows:

	<b>Engineering, consulting and licensing</b>	<b>EPC Contracting</b>	<b>Construction</b>	<b>Equipment manufacturing</b>	<b>Elimination</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Assets</b>						
Segment assets .....	6,127,420	19,586,004	11,142,714	670,073	(1,282,225)	36,243,986
Investment in joint ventures .	7,666	—	—	—	—	7,666
Investment in associates .....	65,329	—	19,289	—	—	84,618
Other unallocated assets.....						793,755
<b>Total assets</b> .....	<u>6,127,420</u>	<u>19,586,004</u>	<u>11,142,714</u>	<u>670,073</u>	<u>(1,282,225)</u>	<u>37,130,025</u>
<b>Liabilities</b>						
Segment liabilities .....	2,790,488	17,290,590	10,704,995	310,015	(1,282,225)	29,813,863
Other unallocated liabilities ..						234,912
<b>Total liabilities</b> .....	<u>2,790,488</u>	<u>17,290,590</u>	<u>10,704,995</u>	<u>310,015</u>	<u>(1,282,225)</u>	<u>30,048,775</u>

Analysis of information by geographical regions:

The following table lists out the information about geographical regions. The geographical regions of the sales to external customers are based on the locations where the services are rendered or the places where the goods are delivered. The geographical regions of non-current assets are based on the places where the assets are located for property, plant and equipment and land use rights, the places where they are allocated to for intangible assets and the places where the business are conducted for joint ventures and associates.

*Revenue*

	<b>Year ended December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
The PRC .....	26,364,550	26,359,631	32,011,159
Other countries .....	3,532,939	4,241,046	6,515,330
	<u>29,897,489</u>	<u>30,600,677</u>	<u>38,526,489</u>

*Specified non-current assets*

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
The PRC .....	3,283,100	5,883,395	7,105,500
Other countries .....	<u>112,737</u>	<u>202,103</u>	<u>164,458</u>
	<u>3,395,837</u>	<u>6,085,498</u>	<u>7,269,958</u>

During the Relevant Periods, one of the customers accounted for more than 10% of the total revenue of the Group, the details are as follows:

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
A fellow subsidiary .....	<u>15,811,060</u>	<u>13,936,524</u>	<u>17,502,813</u>

**8. OTHER INCOME**

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Operating lease rental income on property, plant and equipment .....	35,816	33,387	32,866
Income from write-back of long outstanding payables .....	8,422	2,788	1,482
Others .....	<u>30,720</u>	<u>42,721</u>	<u>51,044</u>
	<u>74,958</u>	<u>78,896</u>	<u>85,392</u>

## 9. OTHER GAINS/(LOSSES), NET

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Gains on disposal of financial assets at fair value through profit or loss .....	28,874	—	—
Gains/(Losses) on disposal of property, plant and equipment .....	2,644	4,659	(10,311)
Losses on disposal of land use rights .....	—	—	(31,422)
	<u>31,518</u>	<u>4,659</u>	<u>(41,733)</u>

## 10. FINANCE INCOME AND FINANCE EXPENSES

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
<b>Finance income</b>			
Interest income from the ultimate holding company .....	418,862	632,030	492,434
Interest income on financial assets at fair value through profit or loss.....	6,113	—	—
Bank interest income .....	40,415	39,826	33,531
	<u>465,390</u>	<u>671,856</u>	<u>525,965</u>
<b>Finance expenses</b>			
Interest expenses to the ultimate holding company and fellow subsidiaries on balances wholly repayable within 5 years .....	(2,138)	(1,007)	(2,739)
Interest expenses on retirement and other supplementary benefit obligation .....	(143,780)	(142,286)	(118,561)
	<u>(145,918)</u>	<u>(143,293)</u>	<u>(121,300)</u>
	<u>319,472</u>	<u>528,563</u>	<u>404,665</u>

## 11. PROFIT BEFORE TAXATION

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

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Staff costs, including directors and supervisors emoluments .....	3,220,558	4,006,752	4,519,252
Retirement benefit plan contribution (including the above mentioned staff costs).....	476,024	572,224	543,914
Cost of goods sold .....	11,146,468	8,199,556	12,661,527
Subcontracting costs .....	8,206,076	9,653,971	12,465,710
Depreciation and amortization			
- Property, plant and equipment .....	430,333	421,079	571,665
- Land use rights.....	9,023	9,106	52,784
- Intangible assets .....	26,073	18,389	74,118
Operating lease rentals			
- Property, plant and equipment .....	112,306	155,276	239,993
Provision for impairment of assets (including other operating expenses)			
- trade receivables, prepayment and other receivables .....	3,140	52,971	77,888
Rental income from property, plant and equipment after relevant expenses.....	(22,181)	(18,607)	(7,598)
Provision for litigation claims (including other operating expenses) .....	112,836	33,000	19,772
Research and development costs .....	411,752	504,323	547,561
(Gains)/Losses on disposal/write-off of property, plant and equipment.....	(2,644)	(4,659)	10,311
Gains on disposal of available-for-sale assets.....	(28,874)	—	—
Losses on disposal of land use rights .....	—	—	31,422
Exchange losses/(gains), net.....	8,181	(69,952)	6,508

*Note:* The auditors' remuneration for the years ended December 31, 2010, 2011 and 2012 are borne by the ultimate holding company, Sinopec Group.

## 12. INCOME TAX EXPENSE

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
<b>Current tax</b>			
PRC enterprise income tax .....	794,208	898,086	873,024
Overseas enterprise income tax .....	5,491	3,912	5,640
Under-provision for PRC enterprise income tax in prior years.....	57	12,415	49,904
	<u>799,756</u>	<u>914,413</u>	<u>928,568</u>
<b>Deferred tax</b>			
Origination and reversal of temporary differences.....	(12,213)	(45,567)	6,230
Income tax expense.....	<u>787,543</u>	<u>868,846</u>	<u>934,798</u>

According to the Corporate Income Tax Law of the PRC, the applicable income tax of the Relevant Periods 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. As at the year end of 2010, 2011 and 2012, 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 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 statements 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:

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Profit before taxation .....	<u>3,678,014</u>	<u>4,243,958</u>	<u>4,252,067</u>
Taxation calculated at the statutory tax rate .....	919,503	1,060,990	1,063,017
Income tax effects of:			
Preferential income tax treatments of certain companies.....	(153,124)	(203,346)	(191,155)
Difference in overseas income tax rates .....	(18,621)	(6,620)	(418)
Non-deductible expenses .....	15,319	5,839	11,472
Income not subject to tax.....	(5,121)	—	(12,554)
Tax losses for which no deferred income tax asset was recognized .....	29,530	4,501	18,516
Unrecognized deferred tax losses in prior years utilized .....	—	(4,933)	(3,984)
Under provision for enterprise income tax in prior years .....	<u>57</u>	<u>12,415</u>	<u>49,904</u>
Income tax expense.....	<u>787,543</u>	<u>868,846</u>	<u>934,798</u>
Effective income tax rate <sup>(i)</sup> .....	<u>21.4%</u>	<u>20.5%</u>	<u>22.0%</u>

(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.

**13. EARNINGS PER SHARE****(a) Basic**

The basic earnings per share for each of the years ended December 31, 2010, 2011 and 2012 is calculated based on the profit attributable to the equity holders of the Company and on the assumption that 3,100,000,000 shares issued upon the transformation of the Company from a limited liability company to a joint stock company with limited liability had been in issue since January 1, 2010.

	Year ended December 31,		
	2010	2011	2012
Profit attributable to equity holders of the Company (RMB'000).....	2,889,932	3,375,039	3,316,970
Weighted average number of ordinary shares in issue.....	3,100,000,000	3,100,000,000	3,100,000,000
Basic earnings per share (RMB).....	<u>0.93</u>	<u>1.09</u>	<u>1.07</u>

**(b) Diluted**

As the Company had no dilutive ordinary shares for the each of the years ended December 31, 2010, 2011 and 2012, dilutive earnings per share for the Relevant Periods is the same as basic earnings per share.

**14. DIVIDENDS**

Dividends represented dividends declared by the Company during each of years ended December 31, 2010, 2011 and 2012.

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Dividends attributable to the equity holders .....	<u>295,312</u>	<u>429,818</u>	<u>—</u>

## 15. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS

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

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

(i) For the year ended December 31, 2010

	Salaries, housing allowances, other allowances and benefits-in-kind	Discretionary bonus	Contributions to pension plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Directors</b>				
Cai Xiyou <sup>(i)</sup> .....	—	—	—	—
Zhang Kehua <sup>(i)</sup> .....	—	—	—	—
Liu Jiaming <sup>(i) (iii)</sup> .....	158	362	73	593
Lei Dianwu <sup>(i)</sup> .....	—	—	—	—
Ling Yiqun <sup>(i)</sup> .....	—	—	—	—
Chang Zhenyong <sup>(i)</sup> .....	—	—	—	—
Hui Chiu Chung, Stephen <sup>(ii)</sup> .....	—	—	—	—
Jin Yong <sup>(ii)</sup> .....	—	—	—	—
Ye Zheng <sup>(ii)</sup> .....	—	—	—	—
	<u>158</u>	<u>362</u>	<u>73</u>	<u>593</u>
<b>Supervisors</b>				
Guan Qingjie <sup>(i)</sup> .....	—	—	—	—
Zhang Jixing <sup>(i)</sup> .....	—	—	—	—
Zou Huiping <sup>(i)</sup> .....	—	—	—	—
Geng Liming <sup>(i)</sup> .....	—	—	—	—
Zhu Jinbao <sup>(i) (iii)</sup> .....	39	99	42	180
Wang Renli <sup>(i) (iii)</sup> .....	93	235	50	378
Wang Yuejie <sup>(i) (iii)</sup> .....	126	295	73	494
	<u>258</u>	<u>629</u>	<u>165</u>	<u>1,052</u>
	<u>416</u>	<u>991</u>	<u>238</u>	<u>1,645</u>

(ii) For the year ended December 31, 2011

	Salaries, housing allowances, other allowances and benefits-in-kind	Discretionary bonus	Contributions to pension plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Directors</b>				
Cai Xiyou <sup>(i)</sup> .....	—	—	—	—
Zhang Kehua <sup>(i)</sup> .....	—	—	—	—
Liu Jiaming <sup>(i) (iii)</sup> .....	180	410	79	669
Lei Dianwu <sup>(i)</sup> .....	—	—	—	—
Ling Yiqun <sup>(i)</sup> .....	—	—	—	—
Chang Zhenyong <sup>(i)</sup> .....	—	—	—	—
Hui Chiu Chung, Stephen <sup>(ii)</sup> .....	—	—	—	—
Jin Yong <sup>(ii)</sup> .....	—	—	—	—
Ye Zheng <sup>(ii)</sup> .....	—	—	—	—
	<u>180</u>	<u>410</u>	<u>79</u>	<u>669</u>
<b>Supervisors</b>				
Guan Qingjie <sup>(i)</sup> .....	—	—	—	—
Zhang Jixing <sup>(i)</sup> .....	—	—	—	—
Zou Huiping <sup>(i)</sup> .....	—	—	—	—
Geng Liming <sup>(i)</sup> .....	—	—	—	—
Zhu Jinbao <sup>(i) (iii)</sup> .....	103	284	72	459
Wang Renli <sup>(i) (iii)</sup> .....	105	222	58	385
Wang Yuejie <sup>(i) (iii)</sup> .....	132	314	79	525
	<u>340</u>	<u>820</u>	<u>209</u>	<u>1,369</u>
	<u>520</u>	<u>1,230</u>	<u>288</u>	<u>2,038</u>

(iii) For the year ended December 31, 2012

	Salaries, housing allowances, other allowances and benefits-in-kind	Discretionary bonus	Contributions to pension plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Directors</b>				
Cai Xiyou <sup>(i)</sup> .....	—	—	—	—
Zhang Kehua <sup>(i)</sup> .....	—	—	—	—
Liu Jiaming <sup>(i) (iv)</sup> .....	222	463	52	737
Lei Dianwu <sup>(i)</sup> .....	—	—	—	—
Ling Yiqun <sup>(i)</sup> .....	—	—	—	—
Chang Zhenyong <sup>(i)</sup> .....	—	—	—	—
Hui Chiu Chung, Stephen <sup>(ii)</sup> .....	—	—	—	—
Jin Yong <sup>(ii)</sup> .....	—	—	—	—
Ye Zheng <sup>(ii)</sup> .....	—	—	—	—
	<u>222</u>	<u>463</u>	<u>52</u>	<u>737</u>
<b>Supervisors</b>				
Guan Qingjie <sup>(i)</sup> .....	289	214	52	555
Zhang Jixing <sup>(i)</sup> .....	—	—	—	—
Zou Huiping <sup>(i)</sup> .....	—	—	—	—
Geng Liming <sup>(i)</sup> .....	—	—	—	—
Zhu Jinbao <sup>(i) (iii)</sup> .....	145	285	40	470
Wang Renli <sup>(i) (iii)</sup> .....	141	249	43	433
Wang Yuejie <sup>(i) (iii)</sup> .....	175	352	47	574
	<u>750</u>	<u>1,100</u>	<u>182</u>	<u>2,032</u>
	<u>972</u>	<u>1,563</u>	<u>234</u>	<u>2,769</u>

Notes:

(i) Appointed on August 24, 2012.

(ii) Appointed on December 17, 2012.

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

(iv) The director was deceased during the year ended December 31, 2012.

**(b) Five highest paid individuals**

The number of director and supervisor and non-director/supervisor included in the five highest paid individuals for the years ended December 31, 2010, 2011 and 2012 are set forth below:

	Year ended December 31,		
	2010	2011	2012
Director or supervisor .....	1	1	1
Non-director or supervisor .....	4	4	4
	<u>5</u>	<u>5</u>	<u>5</u>

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

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Salaries, housing allowance, other allowances and benefits-in-kind .....	663	532	625
Discretionary bonuses .....	1,245	1,830	2,267
Contributions to pensions plans.....	155	110	108
	<u>2,063</u>	<u>2,472</u>	<u>3,000</u>

The emoluments of the five highest paid individuals who are not director or supervisor are within the following bands:

	Year ended December 31,		
	2010	2011	2012
Nil to HK\$1,000,000.....	<u>4</u>	<u>4</u>	<u>4</u>

## 16. EMPLOYMENT BENEFITS

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Salaries, wages and bonuses .....	2,029,363	2,447,516	2,561,259
Retirement benefits (a).....	330,146	362,946	418,240
Early retirement and supplemental pension benefit (Note 32(b))			
- interest cost .....	143,780	142,286	118,561
- past service cost.....	2,098	66,992	7,113
Housing fund (b) .....	136,172	149,077	175,219
Welfare, medical and other expenses.....	578,999	837,935	1,238,860
	<u>3,220,558</u>	<u>4,006,752</u>	<u>4,519,252</u>

**(a) Retirement benefits**

The Group is required to make specific contributions to the state-managed retirement plan at a rate of 17% to 29% of the specified salaries of the PRC employees for the years ended December 31, 2010, 2011 and 2012. The PRC government is responsible for the pension liability to the retired employees. The PRC employees of the Group are entitled to a monthly pension upon their retirements.

**(b) Housing fund**

In accordance with the PRC housing reform regulations, the Group is required to make contributions to the state-managed housing fund at rates 7% to 18% of the specified salaries of the PRC employees. At the same time, the employees are required to make a contribution based on certain percentages. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. The Group has no further obligations for housing benefits beyond the contributions made above.

## 17. PROPERTY, PLANT AND EQUIPMENT

## Group

	Buildings and other facilities	Plant and machinery	Transportation equipment	Furniture, office and other equipment	Construction- in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2010						
Cost .....	1,892,198	1,647,158	216,980	973,003	361	4,729,700
Accumulated depreciation and impairment.....	(572,299)	(724,954)	(124,305)	(560,854)	—	(1,982,412)
Net book amount.....	<u>1,319,899</u>	<u>922,204</u>	<u>92,675</u>	<u>412,149</u>	<u>361</u>	<u>2,747,288</u>
Year ended December 31, 2010						
Opening net book amount .....	1,319,899	922,204	92,675	412,149	361	2,747,288
Transfers .....	7,427	1,393	—	3,401	(12,221)	—
Additions .....	46,960	34,697	26,286	170,552	253,940	532,435
Transfer from Sinopec Group ....	42,616	1,140	—	—	—	43,756
Depreciation.....	(96,438)	(138,665)	(28,423)	(166,807)	—	(430,333)
Transfer to Sinopec Group .....	(22,177)	(4,437)	—	(8)	—	(26,622)
Disposals/write-off .....	(2,230)	(3,715)	(4,412)	(15,613)	(132,661)	(158,631)
Closing net book amount.....	<u>1,296,057</u>	<u>812,617</u>	<u>86,126</u>	<u>403,674</u>	<u>109,419</u>	<u>2,707,893</u>
At December 31, 2010						
Cost .....	1,993,847	1,667,839	221,755	1,048,083	109,419	5,040,943
Accumulated depreciation and impairment.....	(697,790)	(855,222)	(135,629)	(644,409)	—	(2,333,050)
Net book amount.....	<u>1,296,057</u>	<u>812,617</u>	<u>86,126</u>	<u>403,674</u>	<u>109,419</u>	<u>2,707,893</u>
Year ended December 31, 2011						
Opening net book amount .....	1,296,057	812,617	86,126	403,674	109,419	2,707,893
Transfers .....	88,315	19,975	947	35,890	(145,127)	—
Additions .....	11,079	198,028	45,272	279,017	110,589	643,985
Depreciation.....	(78,048)	(136,391)	(23,075)	(183,565)	—	(421,079)
Event-driven revaluation (i) .....	677,623	5,176	4,177	(60,336)	—	626,640
Transfer to Sinopec Group .....	(42,988)	—	—	—	—	(42,988)
Disposals/write-off .....	(1,245)	(775)	(743)	(6,804)	(42,229)	(51,796)
Closing net book amount.....	<u>1,950,793</u>	<u>898,630</u>	<u>112,704</u>	<u>467,876</u>	<u>32,652</u>	<u>3,462,655</u>
At December 31, 2011						
Cost .....	2,597,997	1,688,403	200,861	958,276	32,652	5,478,189
Accumulated depreciation and impairment.....	(647,204)	(789,773)	(88,157)	(490,400)	—	(2,015,534)
Net book amount.....	<u>1,950,793</u>	<u>898,630</u>	<u>112,704</u>	<u>467,876</u>	<u>32,652</u>	<u>3,462,655</u>



	Buildings and other facilities	Plant and machinery	Transportation equipment	Furniture, office and other equipment	Construction- in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2012						
Opening net book amount .....	1,950,793	898,630	112,704	467,876	32,652	3,462,655
Transfers .....	23,065	336	409	16,667	(40,477)	—
Additions .....	7,347	98,218	13,727	132,440	258,374	510,106
Transfer from Sinopec Group ....	462,125	32,098	—	18,976	—	513,199
Depreciation.....	(152,392)	(170,575)	(25,458)	(223,240)	—	(571,665)
Transfer to Sinopec Group .....	(15,051)	—	—	—	—	(15,051)
Disposals /write-off.....	(23,858)	(4,726)	(938)	(23,384)	(12,188)	(65,094)
Closing net book amount.....	<u>2,252,029</u>	<u>853,981</u>	<u>100,444</u>	<u>389,335</u>	<u>238,361</u>	<u>3,834,150</u>
At December 31, 2012						
Cost .....	3,010,890	1,802,873	198,427	953,434	238,361	6,203,985
Accumulated depreciation and impairment.....	(758,861)	(948,892)	(97,983)	(564,099)	—	(2,369,835)
Net book amount.....	<u>2,252,029</u>	<u>853,981</u>	<u>100,444</u>	<u>389,335</u>	<u>238,361</u>	<u>3,834,150</u>

- (i) As described in Note 1.2(b) and Note 31(ii), as part of the Reorganization, certain subsidiaries of the Company were transformed from state-owned enterprises into company with limited liability. In accordance with relevant accounting principles and regulations applicable to PRC enterprises, the assets and liabilities held by these subsidiaries should be re-measured at fair value, being revalued by the independent qualified valuers, ZhongHe Appraisal Co., Ltd. and Pan-China Assets Appraisal Co., Ltd. and approved by relevant government authorities, upon the transformation completed on December 31, 2011. Considering the revaluation took place at periods during the Group's first set of IFRS financial statements, the Group elected to use the fair value of aforementioned assets and liabilities as deemed cost as allowed under IFRS. As at December 31, 2011, the aggregate carrying value of assets carried at deemed cost, including property, plant and equipment, land use rights and intangible assets approximated RMB2,836,015,000, RMB528,560,000 and RMB44,574,000 respectively. The revaluation surplus, being the excess of fair value over the then carrying value before the revaluation, is recognized in the consolidated balance sheet as "capital reserve".

Depreciation expense recognized is analyzed as follows:

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Cost of sales .....	331,746	386,824	527,770
Selling and marketing expenses.....	448	432	851
Administrative expenses.....	98,139	33,823	43,044
	<u>430,333</u>	<u>421,079</u>	<u>571,665</u>

## Company

	Buildings and other facilities	Transportation equipment	Furniture, office and other equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2010				
Cost .....	4,402	1,509	5,083	10,994
Accumulated depreciation and impairment .....	(498)	(472)	(1,896)	(2,866)
Net book amount .....	<u>3,904</u>	<u>1,037</u>	<u>3,187</u>	<u>8,128</u>
Year ended December 31, 2010				
Opening net book amount .....	3,904	1,037	3,187	8,128
Additions .....	—	1,580	155	1,735
Depreciation .....	(171)	(345)	(1,121)	(1,637)
Closing net book amount .....	<u>3,733</u>	<u>2,272</u>	<u>2,221</u>	<u>8,226</u>
At December 31, 2010				
Cost .....	4,402	3,089	5,238	12,729
Accumulated depreciation and impairment .....	(669)	(817)	(3,017)	(4,503)
Net book amount .....	<u>3,733</u>	<u>2,272</u>	<u>2,221</u>	<u>8,226</u>
Year ended December 31, 2011				
Opening net book amount .....	3,733	2,272	2,221	8,226
Additions .....	—	1,314	376	1,690
Depreciation .....	(171)	(530)	(1,222)	(1,923)
Closing net book amount .....	<u>3,562</u>	<u>3,056</u>	<u>1,375</u>	<u>7,993</u>
At December 31, 2011				
Cost .....	4,402	4,403	5,615	14,420
Accumulated depreciation and impairment .....	(840)	(1,347)	(4,240)	(6,427)
Net book amount .....	<u>3,562</u>	<u>3,056</u>	<u>1,375</u>	<u>7,993</u>
Year ended December 31, 2012				
Opening net book amount .....	3,562	3,056	1,375	7,993
Additions .....	—	2	2,953	2,955
Depreciation .....	(255)	(407)	(1,030)	(1,692)
Disposals/write-off .....	—	—	(13)	(13)
Closing net book amount .....	<u>3,307</u>	<u>2,651</u>	<u>3,285</u>	<u>9,243</u>
At December 31, 2012				
Cost .....	4,402	4,405	8,568	17,375
Accumulated depreciation and impairment .....	(1,095)	(1,754)	(5,283)	(8,132)
Net book amount .....	<u>3,307</u>	<u>2,651</u>	<u>3,285</u>	<u>9,243</u>

Depreciation expense recognized is analyzed as follows:

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Cost of sales .....	41	250	222
Administrative expenses.....	1,596	1,673	1,470
	<u>1,637</u>	<u>1,923</u>	<u>1,692</u>

## 18. LAND USE RIGHTS

### Group

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Beginning of the year .....	498,340	535,593	2,010,363
Additions .....	46,276	—	976,218
Transfer from Sinopec Group .....	—	6,547	—
Event-driven revaluation (Note 17(i)).....	—	1,481,803	—
Amortization .....	(9,023)	(9,106)	(52,784)
Transfer to Sinopec Group .....	—	(4,474)	(4,397)
Disposals .....	—	—	(62,639)
End of the year .....	<u>535,593</u>	<u>2,010,363</u>	<u>2,866,761</u>

Land use rights represent prepayments made by the Group for the land use rights located in the PRC which are held on leases between 20 years to 50 years. Amortization of land use rights has been included in administrative expenses in the consolidated statement of comprehensive income.

Amortization recognized is analyzed as follows:

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Cost of sales .....	—	—	30,603
Selling and marketing expenses.....	—	—	309
Administrative expenses.....	<u>9,023</u>	<u>9,106</u>	<u>21,872</u>
	<u>9,023</u>	<u>9,106</u>	<u>52,784</u>

### Company

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Beginning of the year .....	17,696	17,696	17,696
Additions .....	—	—	13,270
Amortization .....	<u>—</u>	<u>—</u>	<u>(326)</u>
End of the year .....	<u>17,696</u>	<u>17,696</u>	<u>30,640</u>

Land use rights represent prepayment by the Company for the land use rights located in the PRC which are held on leases for 50 years. Amortization of land use rights has been included in administrative expenses in the statement of comprehensive income.

## 19. INTANGIBLE ASSETS

	Patent	Computer software	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2010				
Cost.....	—	127,234	4,562	131,796
Accumulated amortization .....	—	(83,633)	(2,410)	(86,043)
Net book amount .....	<u>—</u>	<u>43,601</u>	<u>2,152</u>	<u>45,753</u>
Year ended December 31, 2010				
Opening net book amount .....	—	43,601	2,152	45,753
Additions .....	—	23,280	—	23,280
Amortization .....	—	(25,097)	(976)	(26,073)
Closing net book amount .....	<u>—</u>	<u>41,784</u>	<u>1,176</u>	<u>42,960</u>
At December 31, 2010				
Cost.....	—	150,514	4,562	155,076
Accumulated amortization.....	—	(108,730)	(3,386)	(112,116)
Net book amount .....	<u>—</u>	<u>41,784</u>	<u>1,176</u>	<u>42,960</u>
Year ended December 31, 2011				
Opening net book amount .....	—	41,784	1,176	42,960
Additions .....	—	20,003	—	20,003
Event-driven revaluation (Note 17(i)) .....	479,882	3,349	—	483,231
Amortization .....	—	(17,506)	(883)	(18,389)
Closing net book amount .....	<u>479,882</u>	<u>47,630</u>	<u>293</u>	<u>527,805</u>
At December 31, 2011				
Cost.....	479,882	169,058	4,562	653,502
Accumulated amortization.....	—	(121,428)	(4,269)	(125,697)
Net book amount .....	<u>479,882</u>	<u>47,630</u>	<u>293</u>	<u>527,805</u>
Year ended December 31, 2012				
Opening net book amount .....	479,882	47,630	293	527,805
Additions .....	—	23,076	—	23,076
Amortization .....	(55,191)	(18,634)	(293)	(74,118)
Closing net book amount .....	<u>424,691</u>	<u>52,072</u>	<u>—</u>	<u>476,763</u>
At December 31, 2012				
Cost.....	479,882	192,134	—	672,016
Accumulated amortization.....	(55,191)	(140,062)	—	(195,253)
Net book amount .....	<u>424,691</u>	<u>52,072</u>	<u>—</u>	<u>476,763</u>

Amortization recognized is analyzed as follows:

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Cost of sales .....	—	—	69,648
Selling and marketing expenses.....	—	—	427
Administrative expenses.....	26,073	18,389	4,043
	<u>26,073</u>	<u>18,389</u>	<u>74,118</u>

## 20. INVESTMENT IN JOINT VENTURES, ASSOCIATES AND SUBSIDIARIES

### (a) Investment in joint ventures

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Jointly controlled entities			
Beginning of the year .....	7,176	9,181	6,683
Share of total comprehensive income .....	2,005	738	1,846
Dividend distribution .....	—	(3,236)	(863)
End of the year .....	<u>9,181</u>	<u>6,683</u>	<u>7,666</u>

The Group's joint ventures, all of which are unlisted, are as follows:

Name	Establishment/ Place and date of incorporation	Registered and fully paid capital		Indirect effective interest held	Principal activities and place of operations	Statutory auditors		
		RMB'000	USD'000			2010	2011	2012
Hualu Construction Co., Ltd. (華魯工程有限公司)	The PRC/ October 19, 1985	—	1,500	50%	Engineering design contracting/The PRC	(i)	(i)	(i)
Hainan Great Wall Machinery Engineering Co., Ltd. (海南長城機械工程有限公司)	The PRC/ April 12, 1993	1,500	—	50%	Technical development, sales of equipment/ The PRC	(ii)	(ii)	(v)
Lanzhou Great Wall Touping Machinery Technology Development Co., Ltd. (蘭州長城透平機械技術開發成 套公司)	The PRC/ October 4, 1988	471	—	50%	Technical development, equipment manufacturing/ The PRC	(iii)	(iv)	(iv)

*Notes:*

- (i) Beijing Zhong Xin Jia Certified Public Accountants Co., Ltd. (北京中信佳會計師事務所有限公司)
- (ii) Hainan Weixin Certified Public Accountants (海南惟信會計師事務所)
- (iii) Ascenda Certified Public Accountants (天健正信會計師事務所)
- (iv) Jonten Certified Public Accountants Co., Ltd. (中天運會計師事務所有限公司)
- (v) Hainan Junhe Certified Public Accountants (海南君合會計師事務所)

The Group's share of the results of its joint ventures, its aggregated assets and liabilities, are as follows:

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Assets .....	91,407	102,908	60,017
Liabilities .....	(82,226)	(96,225)	(52,351)
Equity .....	<u>9,181</u>	<u>6,683</u>	<u>7,666</u>

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Revenue .....	71,658	70,098	113,033
Share of total comprehensive income .....	<u>2,005</u>	<u>738</u>	<u>1,846</u>

There are no material contingent liabilities and commitments relating to the Group's interests in the joint ventures and no material contingent liabilities and commitments of the joint ventures themselves.

**(b) Investment in associates**

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Beginning of the year .....	87,280	100,210	77,992
Share of total comprehensive income .....	14,730	(14,647)	13,626
Dividend distribution .....	(1,800)	(7,571)	(7,000)
End of the year .....	<u>100,210</u>	<u>77,992</u>	<u>84,618</u>

The Group's associates, all of which are unlisted, are as follows:

Name	Establishment/ Place and date of incorporation	Registered and fully paid capital	Indirect effective interest held	Principal activities and place of operations	Statutory auditors		
					2010	2011	2012
		RMB'000					
China Petrochemical Technology Company Ltd. (中國石油化工科技開發有限公司)	The PRC/ November 12, 1990	50,000	35%	Technical development, technical service/ The PRC	(i)	(i)	(i)
Huizhou Tianxin Petrochemical Engineering Co., Ltd. (惠州天鑫石化工程有限公司)	The PRC/ October 11, 2005	15,000	40%	Construction contracting/The PRC	(ii)	(ii)	(ii)
Shanghai KSD Bulk Solids Engineering Co., Ltd. (上海金申德粉體工程有限公司)	The PRC/ November 18, 2003	5,500	36%	Powder engineering services/The PRC	(iii)	(iii)	(iii)

*Notes:*

- (i) Zhongxi Certified Public Accountants Co., Ltd. (中喜會計師事務所有限責任公司)
- (ii) Huizhou Fong Zheng Certified Public Accountants (惠州方正會計師事務所)
- (iii) Grant Thornton, China

The Group's share of the results of its associates, its aggregated assets and liabilities, are as follows:

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Assets .....	393,684	501,856	704,133
Liabilities .....	(115,179)	(285,427)	(464,984)
Equity .....	278,505	216,429	239,149
Share of equity by the Group .....	100,210	77,992	84,618
	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Revenue .....	303,739	379,316	729,209
Profit/(Loss) for the year .....	37,721	(41,575)	41,744
Share of total comprehensive income .....	14,730	(14,647)	13,626



There are no material contingent liabilities and commitments relating to the Group's interests in the associates and no material contingent liabilities and commitments of the associates themselves.

(c) Investment in subsidiaries

Company

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Unlisted investments, at cost <sup>(i)</sup> .....	34,013	15,417,532	6,448,450

(i) Particulars of the Company's principal subsidiaries are set out in Note 43.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Beginning of the year .....	42,252	26,459	13,932
Additions .....	65	47	—
Disposals .....	(1,575)	—	—
Net fair value (losses)/gains transferred to equity .....	(14,283)	(12,574)	1,133
End of the year .....	26,459	13,932	15,065

Available-for-sale financial assets includes the following:

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Listed securities:			
Equity securities — PRC .....	23,755	11,181	12,315
Unlisted securities:			
Equity securities — PRC .....	2,704	2,751	2,750
	26,459	13,932	15,065
Market value of listed securities .....	23,755	11,181	12,315

As at December 31, 2010, 2011 and 2012, the listed available-for-sale financial assets represented 2.25%, 1.07% and 1.07% equity interest of Lanzhou Huanghe Enterprise Co., Ltd. (蘭州黃河企業股份有限公司) respectively.

The unlisted equity securities are carried at cost less impairment as these investments do not have a quoted market price and range of reasonable fair value estimate is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

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

## 22. NOTES AND TRADE RECEIVABLES

### Group

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Trade receivables			
- Fellow subsidiaries.....	1,643,160	2,563,115	3,582,591
- A jointly controlled entity of fellow subsidiaries.....	254,524	81,532	16,170
- An associate entity of fellow subsidiaries.....	690	158	13,740
- Associates.....	—	570	—
- Third parties.....	1,462,913	1,779,322	2,030,074
	<u>3,361,287</u>	<u>4,424,697</u>	<u>5,642,575</u>
Less: Provision for impairment.....	<u>(82,929)</u>	<u>(102,068)</u>	<u>(149,699)</u>
Trade receivables - net.....	3,278,358	4,322,629	5,492,876
Notes receivables.....	<u>342,607</u>	<u>486,795</u>	<u>581,526</u>
Notes and trade receivables.....	<u><u>3,620,965</u></u>	<u><u>4,809,424</u></u>	<u><u>6,074,402</u></u>

The carrying amounts of the notes and trade receivables approximate their fair value.

All notes receivables of the Group are bank's acceptance bills and usually collected within six months from the date of issue.

The Group usually provide customers with a credit term between 15 and 90 days. For the settlement of trade receivables from provision of services, the Group usually reaches an agreement on the term of each payment with the customer by taking into account of factors such as, among other things, the credit history of the customer, its liquidity position and the Group's working capital needs, which varies on a case-by-case basis that requires the judgment and experience of the management. The Group and the Company do not hold any collateral as security.

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

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Within 1 year.....	3,280,977	4,367,704	5,552,785
Between 1 and 2 years.....	229,138	362,282	394,282
Between 2 and 3 years.....	56,882	27,902	107,527
Between 3 and 4 years.....	40,154	42,599	483
Between 4 and 5 years.....	13,814	—	13,387
Over 5 years.....	—	8,937	5,938
	<u>3,620,965</u>	<u>4,809,424</u>	<u>6,074,402</u>

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

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
At the beginning of the year.....	84,204	82,929	102,068
Provisions.....	4,527	26,420	80,368
Receivables written off as uncollectible.....	(1,254)	(5,410)	(398)
Reversal.....	(4,548)	(1,871)	(32,339)
At the end of the year.....	<u>82,929</u>	<u>102,068</u>	<u>149,699</u>

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

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
RMB.....	3,246,219	4,220,386	5,703,485
USD.....	205,634	497,728	269,206
EUR.....	—	9,221	—
SAR.....	169,112	52,824	99,698
IRR.....	—	29,265	—
Others.....	—	—	2,013
	<u>3,620,965</u>	<u>4,809,424</u>	<u>6,074,402</u>

### Company

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Trade receivables			
- Third parties.....	<u>—</u>	<u>—</u>	<u>10,356</u>

The carrying amount of the Company's trade receivables approximates its fair value.

The ageing analysis of trade receivables is within 1 year.

The carrying amount of the Company's trade receivables is denominated in USD.

## 23. PREPAYMENTS AND OTHER RECEIVABLES

## Group

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
<b>Prepayments</b>			
Prepayments for construction and materials:			
- Ultimate holding company .....	—	—	450
- Fellow subsidiaries .....	183,974	156,323	81,824
Prepayments for construction .....	1,253,907	460,683	936,800
Prepayments for materials and equipment.....	1,111,126	2,570,629	2,696,095
Prepayments for labor costs .....	1,734	3,149	17,954
Prepayments for rent.....	4,593	865	6,711
Others .....	31,236	22,850	135,467
	<u>2,586,570</u>	<u>3,214,499</u>	<u>3,875,301</u>
<b>Other receivables</b>			
Amount due from the ultimate holding company <sup>(i)</sup> .....	—	2,509	295
Amounts due from fellow subsidiaries <sup>(i)</sup> .....	295,135	337,944	18,366
Dividends receivable.....	3,141	5,477	5,635
Petty cash funds.....	72,717	64,981	60,770
Retention deposits.....	511,821	587,394	557,726
Other guarantee deposits and deposits.....	54,818	50,413	67,834
Rent receivables.....	5,130	3,527	2,680
Claims receivables .....	17,061	17,061	—
Payment in advance .....	106,488	190,125	141,442
Maintenance funds .....	98,494	107,273	75,778
Others .....	19,225	63,670	44,854
	<u>1,184,030</u>	<u>1,430,374</u>	<u>975,380</u>
Less: Provision for impairment .....	<u>(151,619)</u>	<u>(179,200)</u>	<u>(191,961)</u>
Prepayment and other receivables-net.....	<u>3,618,981</u>	<u>4,465,673</u>	<u>4,658,720</u>

(i) The amounts due from related parties are unsecured, interest free and repayable on demand.

The carrying amounts of the prepayments and other receivables approximate their fair value.

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

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
At the beginning of the year .....	151,163	151,619	179,200
Provisions .....	47,942	64,589	78,604
Receivables written off as uncollectible .....	(2,705)	(841)	(17,098)
Reversal.....	(44,781)	(36,167)	(48,745)
At the end of the year .....	<u>151,619</u>	<u>179,200</u>	<u>191,961</u>

### Company

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Prepayments for construction:			
- Subsidiaries .....	—	3,363	—
- Third parties.....	—	21,030	—
Prepayments for materials and equipment.....	1,133	—	10,850
Prepayments for rent.....	722	348	513
Others .....	—	—	620
	<u>1,855</u>	<u>24,741</u>	<u>11,983</u>
Other receivables			
Prepayment for petty cash funds .....	1,915	413	162
Other retention funds and deposits .....	451	489	664
Amounts due from fellow subsidiaries <sup>(i)</sup> .....	1	2,320	2,862
Amount due from the ultimate holding company <sup>(i)</sup> .....	—	607	42
Loan due from a fellow subsidiary <sup>(ii)</sup> .....	—	—	190,000
Dividends receivable .....	—	—	1,551,460
	<u>2,367</u>	<u>3,829</u>	<u>1,745,190</u>
Less: Provision for impairment .....	—	—	(13)
Prepayment and other receivables-net.....	<u>4,222</u>	<u>28,570</u>	<u>1,757,160</u>

(i) The amounts due from related parties are unsecured, interest free and repayable on demand.

(ii) Loan due from a fellow subsidiary is unsecured, with interest bearing of 4.42% per annum and repayable within one year.

The carrying amounts of the prepayments and other receivables approximate their fair value.



## Company

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Contract cost incurred plus recognized profit			
less recognized losses .....	—	—	—
Less: Progress billings .....	—	—	(26,391)
Contract work-in-progress .....	—	—	(26,391)
	<u>—</u>	<u>—</u>	<u>(26,391)</u>
Representing:			
Amounts due to customers for contract work .....	—	—	(26,391)
	<u>—</u>	<u>—</u>	<u>(26,391)</u>
	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Contract revenue recognized as revenue in the			
year .....	—	—	6,669
	<u>—</u>	<u>—</u>	<u>6,669</u>

## 26. INVENTORIES

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Raw materials .....	175,143	284,386	589,701
Turnover materials .....	45,083	59,306	68,267
Goods in transit .....	26,646	149,846	75,551
Work-in-progress .....	53,616	975	13,598
	<u>300,488</u>	<u>494,513</u>	<u>747,117</u>

As at December 31, 2010 and 2011, provision for impairment of inventories of the Group is RMB572,000. As at December 31, 2012, no provision for impairment of inventories of the Group has been made.

For the year ended December 31, 2010, 2011 and 2012, the cost of inventories recognized as expense and included in cost of sales amounted to RMB11,146,468,000, RMB8,199,556,000 and RMB12,661,527,000 respectively.



**27. LOANS DUE FROM THE ULTIMATE HOLDING COMPANY****Group**

Loans due from the ultimate holding company are unsecured, repayable within one year and interest bearings as follows:

	<u>At December 31,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Loans due from the ultimate holding company ...	<u>3.76% to 4.25%</u>	<u>4.20% to 5.00%</u>	<u>4.40% to 5.00%</u>

**Company**

Loans due from the ultimate holding company are unsecured, repayable within one year and interest bearings as follows:

	<u>At December 31,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Loans due from the ultimate holding company ...	<u>4.25%</u>	<u>4.20% to 4.80%</u>	<u>4.45% to 4.80%</u>

**28. RESTRICTED CASH**

	<u>At December 31,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Restricted cash			
- RMB .....	51,368	36,454	23,844
- AED .....	2,164	1,033	171
- KZT .....	—	—	239
	<u>53,532</u>	<u>37,487</u>	<u>24,254</u>

Restricted cash mainly represented bank deposits for guarantees and deposit for rural migrant workers' salaries.

The weighted average effective interest rates per annum on restricted cash, with maturities ranging from one to twelve months as at December 31, 2010, 2011 and 2012.

The maximum exposure to credit risk approximates to carrying amounts of the Group's restricted cash at the respective balance sheet date.

## 29. CASH AND CASH EQUIVALENTS

## Group

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Cash at bank and in hand.....	932,858	791,450	2,420,861
Deposits in related parties.....	4,989,780	4,783,885	2,401,629
	<u>5,922,638</u>	<u>5,575,335</u>	<u>4,822,490</u>

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Denominated in:			
- RMB .....	4,649,161	4,622,673	1,546,672
- USD .....	598,472	433,159	2,905,189
- SAR .....	94,552	99,971	95,112
- SGD .....	—	4,900	677
- IRR .....	12,396	60,772	1,950
- EUR .....	552,717	339,941	265,674
- AED .....	5,693	7,228	1,812
- KZT .....	7,580	5,284	4,956
- Others .....	2,067	1,407	448
	<u>5,922,638</u>	<u>5,575,335</u>	<u>4,822,490</u>

## Company

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Cash at bank and in hand.....	302,648	38,322	1,738,147
Deposits in related parties.....	21,758	226,713	1,336,968
	<u>324,406</u>	<u>265,035</u>	<u>3,075,115</u>

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Denominated in:			
- RMB .....	39,516	238,249	1,254,494
- USD .....	282,596	24,229	1,817,671
- SAR .....	1	1	1
- AED .....	585	156	98
- KZT .....	1,426	2,366	2,831
- Others .....	282	34	20
	<u>324,406</u>	<u>265,035</u>	<u>3,075,115</u>

Deposits in related parties represent deposits in the fellow subsidiaries Sinopec Finance Co., Ltd. and Sinopec Century Bright Capital Investment Limited.

The weighted average effective interest rates per annum on cash at bank are approximately 1.91% to 2.50%, 3.25% to 3.30% and 3.30% as at December 31, 2010, 2011 and 2012 respectively.

The maximum exposure to credit risk approximates the carrying amounts of cash and cash equivalents at the respective balance sheet dates.

### 30. PAID IN CAPITAL/SHARE CAPITAL

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Paid in capital/Share capital .....	<u>400,000</u>	<u>400,000</u>	<u>3,100,000</u>

On August 28, 2012, the Company was transformed from a limited liability company into a joint stock company with limited liability by converting total equity into 3,100,000,000 ordinary shares with par value of RMB1.00 each.

### 31. RESERVES

#### (i) Statutory surplus reserve

In accordance with the relevant laws and regulations of the PRC and the articles of association of the Company, it is required to appropriate 10% of its net profit determined in accordance with China Accounting Standards for Enterprises issued by the Ministry of Finance of PRC, after offsetting any prior years' losses, to the statutory surplus reserve. When the balance of such a reserve reaches 50% of the respective companies registered capital, any further appropriation is optional.

The statutory surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the reserve after such an issue is not less than 25% of registered capital. The statutory surplus reserve is non-distributable.

**(ii) Capital reserve**

Capital reserve arising from event-driven revaluation represented reserve recognized due to the revaluation arising from the Reorganization as described in Note 17(i), being the excess of fair value over carrying value net of the deferred tax liabilities resulted as follows:

	Note	At December 31, 2011
		RMB'000
Excess of fair value over carrying value		
Property, plant and equipment.....	17	626,640
Land use rights .....	18	1,481,803
Intangible assets .....	19	483,231
Other assets .....		<u>63,897</u>
		2,655,571
Deferred tax liabilities of event-driven revaluation.....		<u>(3,870)</u>
Event-driven revaluation .....		<u><u>2,651,701</u></u>

Apart from the above mentioned event-driven revaluation, capital reserve included transactions with holding company such as assets transferred from/to Sinopec Group.

**(iii) Specific reserve**

Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC, the Group is required to set aside an amount to a safety fund for its engineering and construction contracting business. The fund can be used for improvements of safety at the worksite, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditures, an equivalent amount is transferred from safety fund to retained earnings.

**(iv) Investment revaluation reserve**

Investment revaluation reserve represents the net cumulative change in financial assets at fair value through profit or loss at the end of year and is treated according to accounting policies Note 3.9.

**(v) Distributable profits**

The distributable profits of the Company are as follows:

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Distributable profits .....	<u>—</u>	<u>—</u>	<u>1,389,267</u>

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 February 27, 2002 (《企業公司制改建有關國有資本管理與財務管理的暫行規定》(財企[2002]313號)) and the notice forwarded by the General Office of the State Council about the suggestion of further regulating the reorganization of the state-owned enterprise published by State-owned Assets Supervision and Administration Commission of the State Council (《國務院辦公廳轉發國資委關於進一步規範國有企業改制工作實施意見的通知》(國辦發[2005]60號)), an increase of net assets coming from profit should be distributed to its state-owned shareholder or 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 June 30, 2012 to August 28, 2012 which is to be distributed to the original state-owned shareholders. As at December 31, 2012, the amount of the special distribution is RMB363,299,000 which has not been declared and distributed and is included in the retained earnings. On April 10, 2013, the special distribution was declared and approved to distribute to the original state-owned shareholders.

(Loss)/Profit of the Company are recognized in the financial information of the Group:

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
(Loss)/Profit for the year .....	<u>(14,843)</u>	<u>17,929</u>	<u>1,967,181</u>

## Company

	(Accumulated				Total
	Share	Capital	Statutory	losses)/	
	capital	reserve	surplus	Retained	
	RMB'000	RMB'000	reserve	earnings	RMB'000
<b>At January 1, 2010</b> .....	400,000	20,986	—	(55,265)	365,721
Loss for the year .....	—	—	—	(14,843)	(14,843)
Other comprehensive income:					
Defined benefits obligation revaluation of actuarial gain and loss - gross .....	—	—	—	8	8
Total comprehensive income .....	—	—	—	(14,835)	(14,835)
Transactions with owners:					
Capital contribution by Sinopec Group to the Company .....	—	40,000	—	—	40,000
Total transactions with owners .....	—	40,000	—	—	40,000
<b>At December 31, 2010</b> .....	<u>400,000</u>	<u>60,986</u>	<u>—</u>	<u>(70,100)</u>	<u>390,886</u>
<b>At January 1, 2011</b> .....	400,000	60,986	—	(70,100)	390,886
Profit for the year .....	—	—	—	17,929	17,929
Other comprehensive income:					
Defined benefits obligation revaluation of actuarial gain and loss - gross .....	—	—	—	45	45
Total comprehensive income .....	—	—	—	17,974	17,974
Transactions with owners:					
Capital contributions by Sinopec Group to the Company .....	—	3,990	—	—	3,990
Investments transferred from Sinopec Group to the Company .....	—	12,776,721	—	—	12,776,721
Assets transferred from the Group to Sinopec Group .....	—	(47,462)	—	—	(47,462)
Transfer to Sinopec Group as described in Note 1.2 .....	—	(12,200,000)	—	—	(12,200,000)
Event-driven revaluation of the Company's assets as described in Note 1.2(b) .....	—	2,651,701	—	—	2,651,701
Total transactions with owners .....	—	3,184,950	—	—	3,184,950
<b>At December 31, 2011</b> .....	<u>400,000</u>	<u>3,245,936</u>	<u>—</u>	<u>(52,126)</u>	<u>3,593,810</u>

	Share capital	Capital reserve	Statutory surplus reserve	(Accumulated losses)/ Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At January 1, 2012</b> .....	400,000	3,245,936	—	(52,126)	3,593,810
Profit for the year .....	—	—	—	1,967,181	1,967,181
Other comprehensive income:					
Defined benefits obligation revaluation of actuarial gain and loss - gross .....	—	—	—	101	101
Total comprehensive income.....	—	—	—	1,967,282	1,967,282
Transactions with owners:					
Assets transferred from the Company to Sinopec Group .....	—	(19,448)	—	—	(19,448)
Capital contribution by Sinopec Group to the Company .....	—	243,628	—	—	243,628
Assets transferred to the subsidiaries of the Company .....	—	513,199	—	—	513,199
Transfer to statutory surplus reserve.....	—	—	191,517	(191,517)	—
Transformation into joint stock company with limited liability (Note 1.2).....	2,700,000	(2,365,628)	—	(334,372)	—
Total transactions with owners .....	2,700,000	(1,628,249)	191,517	(525,889)	737,379
<b>At December 31, 2012</b> .....	<u>3,100,000</u>	<u>1,617,687</u>	<u>191,517</u>	<u>1,389,267</u>	<u>6,298,471</u>

## 32. RETIREMENT AND OTHER SUPPLEMENTAL BENEFIT OBLIGATIONS

### (a) State-managed retirement plan

The Chinese employees of the Group participate in employee social security plans organized and administrated by the PRC government authority. The PRC companies are required to contribute from 17% - 29%, depending on the applicable legal regulations, of salaries, wages and bonuses to the state-managed retirement plans. The obligation of these PRC companies with respect to the state-managed retirement plans is to make the specified contributions (Note 16(a)).

The total costs charged to the consolidated statements of comprehensive income during the Relevant Periods are as follows:

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Contributions to state-managed retirement plan....	<u>330,146</u>	<u>362,946</u>	<u>418,240</u>

**(b) Group employee retirement benefit plans**

The Group has implemented a retirement benefit plan to employees in the PRC who were retired on or before December 31, 2012. Such supplementary pension subsidies are considered to be defined benefit plans as the Group is obligated to provide post-employment benefits to these employees.

According to the plans, such employees after retirement can enjoy retirement pension, welfare allowance, part of medical expenses claim, living expenses and insurance and housing fund and other benefits. The employees' lifetime is guaranteed by the plans.

The affordable actuarial risks of the Group's retirement benefit plans include: discount rate risk, benefits growth rate risk.

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

The most recent actuarial valuation as at December 31, 2012 was performed by an independent qualified actuarial firm: Mercer Consulting Limited. The present value, related current service cost and past service cost of the Group's retirement benefit plan obligation are prepared by qualified actuary using the projected unit credit actuarial cost method.

(i) Discount rates adopted (per annum):

	At December 31,		
	2010	2011	2012
Retirement with honors benefit plan.....	3.70%	3.20%	3.40%
Retirement benefit plan.....	4.10%	3.70%	3.70%
Early retirement benefit plan.....	<u>3.40%</u>	<u>2.90%</u>	<u>3.20%</u>



(ii) Benefit growth rates (per annum):

	At December 31,		
	2010	2011	2012
Retirement with honors benefit plan.....	2.60%	3.20%	3.20%
Retirement benefit plan.....	4.60%	3.50%	2.20%
Early retirement benefit plan.....	<u>3.20%</u>	<u>3.70%</u>	<u>2.90%</u>

(iii) Mortality: Average life expectancy of residents in the PRC;

(iv) Benefit costs paid to the retirees are assumed to continue until the death of the retirees.

The total costs of retirement benefit plans in the consolidated statements of comprehensive income are as follows:

	Retirement with honors benefit plan	Retirement benefit plan	Early retirement benefit plan	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>For the year ended December 31, 2010</b>				
Service cost:				
Past service cost.....	—	—	2,098	2,098
Net interest expenses .....	<u>4,462</u>	<u>136,101</u>	<u>3,217</u>	<u>143,780</u>
Benefit cost recognized in profit or loss .....	<u>4,462</u>	<u>136,101</u>	<u>5,315</u>	<u>145,878</u>
Revaluation of net benefit obligation liabilities				
Actuarial revaluation of economic assumptions change.....	<u>811</u>	<u>(39,545)</u>	<u>—</u>	<u>(38,734)</u>
Benefit cost recognized in other comprehensive income .....	<u>811</u>	<u>(39,545)</u>	<u>—</u>	<u>(38,734)</u>
Total benefit cost recognized in the consolidated statements of comprehensive income .....	<u>5,273</u>	<u>96,556</u>	<u>5,315</u>	<u>107,144</u>

	Retirement with honors benefit plan	Retirement benefit plan	Early retirement benefit plan	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>For the year ended December 31, 2011</b>				
Service cost:				
Past service cost .....	—	—	66,992	66,992
Net interest expenses .....	4,633	133,982	3,671	142,286
Benefit cost recognized in profit or loss .....	4,633	133,982	70,663	209,278
Revaluation of net benefit obligation liabilities				
Actuarial revaluation of economic assumptions change .....	7,926	(245,279)	—	(237,353)
Benefit cost recognized in other comprehensive income .....	7,926	(245,279)	—	(237,353)
Total benefit cost recognized in the consolidated statements of comprehensive income .....	<u>12,559</u>	<u>(111,297)</u>	<u>70,663</u>	<u>(28,075)</u>
<b>For the year ended December 31, 2012</b>				
Service cost:				
Past service cost .....	3,999	—	3,114	7,113
Net interest expenses .....	3,863	110,462	4,236	118,561
Benefit cost recognized in profit or loss .....	7,862	110,462	7,350	125,674
Revaluation of net benefit obligation liabilities				
Actuarial revaluation of economic assumptions change .....	(1,275)	(377,245)	—	(378,520)
Actuarial revaluation of other assumptions change .....	(2,433)	2,342	—	(91)
Benefit cost recognized in other comprehensive income .....	(3,708)	(374,903)	—	(378,611)
Total benefit cost recognized in the consolidated statements of comprehensive income .....	<u>4,154</u>	<u>(264,441)</u>	<u>7,350</u>	<u>(252,937)</u>

The Group's benefit plans do not include incumbent employees. No current service cost of each benefit plan incurred during each financial year. Meanwhile, the Group's benefit plans do not provide reserve of plan assets, therefore, there is no reserve of earnings from plan assets during each financial year.

Service cost and net interest expenses are recognized in employment benefits, part of the administrative expenses of the consolidated statements of comprehensive income. Revaluation of net liabilities of benefit obligation is recognized as other comprehensive income in the consolidated statements of comprehensive income.

As at each balance sheet date, no assets reserve is under the Group's benefit plans. The net liabilities of retirement benefit plan obligations are recognized in the consolidated balance sheet as follows:

	As at December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Net liabilities of retirement benefit plan obligation .....	<u>3,600,318</u>	<u>3,373,815</u>	<u>2,877,632</u>

The movement of retirement benefit plan obligation as follows:

	Retirement with honors benefit plan	Retirement benefit plan	Early retirement benefit plan	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2010 .....	142,567	3,390,851	140,226	3,673,644
Past service cost .....	—	—	2,098	2,098
Net interest expenses .....	4,462	136,101	3,217	143,780
Revaluation gain/(loss):				
Economic assumption change of actuarial revaluation .....	811	(39,545)	—	(38,734)
Direct benefit paid by the Group.....	(14,735)	(142,662)	(23,073)	(180,470)
At December 31, 2010 .....	133,105	3,344,745	122,468	3,600,318
Past service cost .....	—	—	66,992	66,992
Net interest expenses .....	4,633	133,982	3,671	142,286
Revaluation gain/(loss):				
Economic assumption change of actuarial revaluation .....	7,926	(245,279)	—	(237,353)
Direct benefit paid by the Group.....	(15,723)	(153,756)	(28,949)	(198,428)
At December 31, 2011 .....	129,941	3,079,692	164,182	3,373,815
Past service cost .....	3,999	—	3,114	7,113
Net interest expenses .....	3,863	110,462	4,236	118,561
Revaluation gain/(loss):				
Economic assumption change of actuarial revaluation.....	(1,275)	(377,245)	—	(378,520)
Other assumption change of actuarial revaluation.....	(2,433)	2,342	—	(91)
Direct benefit paid by the Group.....	(18,534)	(188,520)	(36,192)	(243,246)
At December 31, 2012 .....	<u>115,561</u>	<u>2,626,731</u>	<u>135,340</u>	<u>2,877,632</u>

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

Duration of the Group's retirement benefit plans:

	At December 31,		
	2010	2011	2012
Retirement with honors benefit plan.....	6.0 years	5.9 years	5.7 years
Retirement benefit plan.....	12.3 years	11.4 years	10.2 years
Early retirement benefit plan.....	<u>2.8 years</u>	<u>3.0 years</u>	<u>3.3 years</u>

### 33. PROVISION FOR LITIGATION CLAIMS

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
At the beginning of the year .....	214,502	327,338	360,338
Provisions .....	112,836	33,000	19,772
Payment.....	—	—	(10,866)
At the end of the year.....	<u>327,338</u>	<u>360,338</u>	<u>369,244</u>

The amounts represented the provision provided by a subsidiary of the Group for litigation.

The subsidiary of the Group has been sued during Year 2007 to Year 2009 due to a construction contract disputes and the case is ongoing process. The management of the Group has calculated all provision for the expected compensation incurred in accordance with the progress and solutions of the case.

The provision for litigation claims for the years is recognized in other operating expenses in the consolidated statement of comprehensive income.

## 34. TRADE AND OTHER PAYABLES

## (a) Notes and trade payables

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Trade payables			
- Fellow subsidiaries.....	444,070	71,387	50,161
- A jointly controlled entity of fellow subsidiaries.....	647	—	300
- Associates .....	100	77	4,052
- Third parties.....	<u>4,852,529</u>	<u>6,563,958</u>	<u>8,311,769</u>
	5,297,346	6,635,422	8,366,282
Notes payables.....	<u>14,120</u>	—	—
Notes and trade payables .....	<u><u>5,311,466</u></u>	<u><u>6,635,422</u></u>	<u><u>8,366,282</u></u>

The carrying amounts of the Group's notes and trade payables for the years ended December 31, 2010, 2011 and 2012 approximate their fair value.

Ageing analysis of notes and trade payables is as follows:

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Within 1 year.....	4,420,481	4,771,887	6,239,001
Between 1 and 2 years.....	654,270	1,398,786	1,254,907
Between 2 and 3 years.....	162,190	286,482	595,763
Over 3 years .....	<u>74,525</u>	<u>178,267</u>	<u>276,611</u>
	<u><u>5,311,466</u></u>	<u><u>6,635,422</u></u>	<u><u>8,366,282</u></u>

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

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
RMB.....	5,049,079	6,277,665	7,931,448
USD.....	72,141	162,212	309,528
AED.....	—	7,215	5,872
KZT.....	29	2,166	12,963
SAR.....	189,328	183,659	105,248
Others.....	889	2,505	1,223
	<u>5,311,466</u>	<u>6,635,422</u>	<u>8,366,282</u>

**(b) Other payables**

**Group**

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Contract deposits advance:			
- Fellow subsidiaries.....	268,290	1,512,719	1,177,820
- Jointly controlled entities of fellow subsidiaries.....	417,162	64,973	91,007
- An associate entity of fellow subsidiaries ..	—	18,494	7,010
- Associates.....	—	—	1,484
- Third parties.....	6,716,866	7,650,205	7,351,472
Salaries payables.....	604,162	291,819	200,717
Other taxation payables.....	378,800	276,148	299,588
Deposits and guarantee deposits payables.....	145,243	221,312	67,951
Advanced payables.....	165,724	146,218	331,531
Rent, property management and maintenance payables.....	57,316	79,783	66,358
Contracts payables.....	83,749	7,779	8,560
Retention payables.....	443	173	30
Event-driven revaluation payables.....	51,556	47,174	47,557
Amount due to the ultimate holding company <sup>(i)</sup> .....	12,565	12,213,112	2,000,000
Amounts due to fellow subsidiaries <sup>(i)</sup> .....	745,982	563,871	40,102
Others.....	95,260	129,999	110,339
Total other payables.....	<u>9,743,118</u>	<u>23,223,779</u>	<u>11,801,526</u>

(i) Amounts due to related parties are unsecured, interest free and repayable on demand.

## Company

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Contract advance from:			
- Third parties .....	272,532	293,812	1,861,362
Salaries payables.....	2,206	577	75
Other taxation payables.....	1,449	1,748	3,871
Advanced payables.....	137	184	949
Rent, property management and maintenance payables .....	484	—	—
Contracts payables .....	35	35	—
Amount due to the ultimate holding company <sup>(i)</sup> .....	—	12,200,000	2,000,000
Amounts due to fellow subsidiaries <sup>(i)</sup> .....	20,491	26,211	6,036,690
Others .....	—	43	44
Total other payables.....	<u>297,334</u>	<u>12,522,610</u>	<u>9,902,991</u>

(i) Amounts due to related parties are unsecured, interest free and repayable on demand.

The carrying amounts of other payables as at December 31, 2010, 2011 and 2012 approximate their fair values.

### 35. CURRENT AND DEFERRED TAXATION

Deferred income tax assets and liabilities recognized:

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

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Deferred income tax assets.....	903,287	893,261	793,755
Deferred income tax liabilities .....	<u>(44,985)</u>	<u>(46,511)</u>	<u>(39,483)</u>
Deferred income tax assets, net.....	<u>858,302</u>	<u>846,750</u>	<u>754,272</u>

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

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Beginning of the year .....	852,784	858,302	846,750
Charged to equity for fair value change of available-for-sale financial assets.....	2,142	911	(282)
Charged to equity for retirement and other supplementary benefit actuarial revaluation ...	(8,837)	(54,160)	(85,966)
Charged to equity for excess of carrying value of assets over their tax bases (Note 31(ii)) ....	—	(3,870)	—
Tax charged/(credited) to the consolidated statements of comprehensive income (Note 12).....	12,213	45,567	(6,230)
End of the year .....	<u>858,302</u>	<u>846,750</u>	<u>754,272</u>

The movement in deferred income tax assets/(liabilities) during the Relevant Periods, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

*Deferred income tax assets*

	Provision for retirement and other supplemental benefit obligation	Provision for impairment of assets	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
	At January 1, 2010 .....	839,535	21,401	41,414
(Charged)/Credited to:				
Profit for the year .....	(8,489)	2,995	15,268	9,774
Equity .....	(8,837)	—	—	(8,837)
At December 31, 2010.....	822,209	24,396	56,682	903,287
(Charged)/Credited to:				
Profit for the year .....	3,503	34,247	6,384	44,134
Equity .....	(54,160)	—	—	(54,160)
At December 31, 2011 .....	771,552	58,643	63,066	893,261
(Charged)/Credited to:				
Profit for the year .....	(27,240)	13,798	(98)	(13,540)
Equity .....	(85,966)	—	—	(85,966)
At December 31, 2012.....	<u>658,346</u>	<u>72,441</u>	<u>62,968</u>	<u>793,755</u>



*Deferred income tax liabilities*

	Excess of carrying value of assets over tax bases arising from business combination	Change in fair value of available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
At January 1, 2010.....	44,074	5,492	49,566
(Credited)/Charged to:			
Profit for the year.....	(2,439)	—	(2,439)
Equity.....	<u>—</u>	<u>(2,142)</u>	<u>(2,142)</u>
At December 31, 2010.....	41,635	3,350	44,985
(Credited)/Charged to:			
Profit for the year.....	(1,433)	—	(1,433)
Equity.....	<u>3,870</u>	<u>(911)</u>	<u>2,959</u>
At December 31, 2011.....	44,072	2,439	46,511
(Credited)/Charged to:			
Profit for the year.....	(7,310)	—	(7,310)
Equity.....	<u>—</u>	<u>282</u>	<u>282</u>
At December 31, 2012.....	<u>36,762</u>	<u>2,721</u>	<u>39,483</u>

*Deferred income tax assets not recognized*

Deferred income tax assets are recognized for tax losses carried-forward to the extent that the realization of the related income tax benefits through the future taxable profits is probable. In accordance with the PRC tax law applicable to those companies in their respective jurisdictions, tax losses may be carried forward against future taxable income. Deferred income tax assets not recognized in the Group is as follow:

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Tax losses for which no deferred income tax asset was recognized .....	<u>221,041</u>	<u>164,278</u>	<u>213,255</u>

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

**36. DIVIDENDS PAYABLE**

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Dividends payable			
- Sinopec Group.....	<u>295,313</u>	<u>374,248</u>	<u>—</u>

Dividends payable were fully paid at date of this report.

**37. LOANS DUE TO FELLOW SUBSIDIARIES**

Loans due to fellow subsidiaries are unsecured, repayable within one year and interest bearings as follows.

	At December 31,		
	2010	2011	2012
Loans due to fellow subsidiaries .....	<u>2.32%</u>	<u>2.46%</u>	<u>2.02% - 2.60%</u>

In April 2013, the loans due to fellow subsidiaries of RMB157,138,000 have been repaid.

**38. COMMITMENTS****(a) Capital commitments**

Capital commitments for the purchase of property, plant and equipment outstanding at each year end not provided for in the Financial Information are as follows:

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Contracted but not provided for			
- Property, plant and equipment .....	<u>110,591</u>	<u>153,863</u>	<u>308,755</u>

**(b) Operating leasing commitments**

The Group leases various residential properties, office and equipment under non-cancelable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	At December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Less than 1 year .....	59,328	71,184	22,177
1 year to 5 years.....	14,168	19,719	48,222
Over 5 years .....	—	—	31,465
Total .....	<u>73,496</u>	<u>90,903</u>	<u>101,864</u>

**39. CASH GENERATED FROM OPERATIONS**

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
<b>Profit before taxation</b> .....	3,678,014	4,243,958	4,252,067
Adjustment for:			
Provision for impairment of trade and other receivables.....	3,140	52,971	77,888
Depreciation of property, plant and equipment ..	430,333	421,079	571,665
Amortization of intangible assets .....	26,073	18,389	74,118
Amortization of land use rights.....	9,023	9,106	52,784
Net (gains)/losses on disposal of property, plant and equipment .....	(2,644)	(4,659)	10,311
Losses on disposal of land use rights .....	—	—	31,422
Profits on disposal of available-for-sale financial assets .....	(28,874)	—	—
Interest income .....	(465,390)	(671,856)	(525,965)
Interest expense .....	145,918	143,293	121,300
Net foreign exchange (gains)/losses .....	(283,588)	83,196	218
Share of profits of joint ventures .....	(2,005)	(738)	(1,753)
Share of (profits)/losses of associates .....	(18,454)	9,935	(13,626)
Cash flows from operating activities before changes in working capital .....	3,491,546	4,304,674	4,650,429
Changes in working capital:			
- Inventories .....	107,591	(130,128)	(252,604)
- Contract work-in-progress .....	1,120,032	(1,872,052)	(341,405)
- Trade and other receivables .....	(2,283,428)	(2,107,120)	(1,315,537)
- Trade and other payables .....	2,358,213	2,186,982	541,042
- Restricted cash .....	(913)	15,947	13,229
Cash generated from operations .....	<u>4,793,041</u>	<u>2,398,303</u>	<u>3,295,154</u>

**40. SIGNIFICANT NON-CASH TRANSACTION**

As described in Note 1.2, the Group is required to transfer RMB12.2 billion, which is included in other payables, to Sinopec Group that has not been transferred as at December 31, 2011. During the year ended December 31, 2012, RMB 10.2 billion other payables were off-set by loans due from the ultimate holding company (Note 27).

**41. CONTINGENCIES**

The Group has been named in a number of lawsuits and other legal proceedings arising in the ordinary course of business. Provisions have been made for the probable losses to the Group on those claims when management can reasonably estimate the outcome of the lawsuits based on management's judgments and the legal advice. No provision has been made for pending lawsuits when the outcome of the lawsuits cannot be reasonably estimated or management believes the outflow of resources is not probable.

It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for (Note 33).

**42. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

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

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

In addition to the related party information shown elsewhere in this report, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the years ended December 31, 2010, 2011 and 2012.

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

## (a) Significant related party transactions arising with the Sinopec Group, fellow subsidiaries, associates, jointly controlled entity of fellow subsidiaries and associate entity of fellow subsidiaries

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
<b>Construction and services provided to</b>			
- Ultimate holding company .....	—	—	7,601
- Jointly controlled entities of fellow subsidiaries .....	1,822,785	1,172,625	282,311
- Associate entities of fellow subsidiaries .....	6,732	5,223	8,209
- Fellow subsidiaries.....	17,748,241	15,549,592	18,863,538
- Associates .....	6,150	20,104	51,155
	<u>19,583,908</u>	<u>16,747,544</u>	<u>19,212,814</u>
<b>Technology research and development provided to fellow subsidiaries .....</b>	<u>183,810</u>	<u>128,560</u>	<u>143,469</u>
<b>Construction and services received from</b>			
- An associate entity of fellow subsidiaries....	805	—	—
- A jointly controlled entity of fellow subsidiaries .....	—	—	48
- Fellow subsidiaries.....	943,033	345,247	740,912
- Associates .....	—	—	26,500
	<u>943,838</u>	<u>345,247</u>	<u>767,460</u>
<b>Interest income on loans</b>			
- Ultimate holding company .....	<u>418,862</u>	<u>632,030</u>	<u>492,434</u>
<b>Interest expense on borrowings</b>			
- Ultimate holding company .....	806	—	—
- Fellow subsidiaries.....	1,332	1,007	2,739
	<u>2,138</u>	<u>1,007</u>	<u>2,739</u>
<b>SPI fund expense</b>			
- Ultimate holding company .....	<u>9,549</u>	<u>9,830</u>	<u>11,234</u>
<b>Deposits in fellow subsidiaries .....</b>	<u>4,989,780</u>	<u>4,783,885</u>	<u>2,401,629</u>
<b>Deposit interest income from fellow subsidiaries .....</b>	<u>32,912</u>	<u>33,765</u>	<u>26,112</u>

Apart from transactions with Sinopec Group, fellow subsidiaries, associates, jointly controlled entity of fellow subsidiaries and associate entity of fellow subsidiaries, the Group has transactions with other state-owned enterprises including but not limited to the following:

- Sales and purchases of goods and services;
- Purchases of assets;
- Lease of assets; and
- Bank deposits and borrowings.

In the ordinary course of business, the Group sells goods and services to, and purchase goods and services from other state-owned enterprises based on terms as set out in the underlying agreements, market price or actual cost incurred, or as mutually agreed.

In the ordinary course of business, the Group places deposits with mainly from state-owned financial institutions. The deposits are in accordance with terms as set out in the respective agreement, and the interest rates are set at prevailing market rates.

Apart from the disclosure of loans due from the ultimate holding company in Note 27, trade receivables, prepayment and other receivables are unsecured, interest free and repayable on demand.

Apart from the disclosure of loans due to fellow subsidiaries in Note 37, trade and other payables are unsecured, interest free and repayable on demand.

**(b) Key management personnel remuneration**

Key management includes directors (executive and non-executive), supervisors, president, vice presidents, secretary to the Board of Directors and chief accountant of the Company. The compensation paid or payable to key management form employee services is shown below:

	Year ended December 31,		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Salaries, housing allowances, other allowances and benefits-in-kind.....	1,542	1,779	3,113
Discretionary bonus .....	2,977	3,468	4,736
Contributions to pension plans .....	335	360	703
	<u>4,854</u>	<u>5,607</u>	<u>8,552</u>

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

As at the date of this report and during the Relevant Periods, the Company has direct and indirect interests in the following principal subsidiaries:

Name	Establishment/Place and date of incorporation and type of legal entity	Registered and fully paid capital RMB'000	Effective interest held		Principal activities and place of operation	Statutory auditors		
			Direct held	Indirect held		2010	2011	2012
SEI (中國石化工程建設有限公司) <sup>(iv)</sup>	The PRC/ November 18, 1985/ Limited liability company	500,000	100%	—	Engineering contracting, engineering and consulting/ The PRC	(i)	(i)	(i)
LPEC (中石化洛陽工程有限公司) <sup>(iv)</sup>	The PRC/ March 6, 1985/ Limited liability company	500,000	100%	—	Engineering contracting, engineering and consulting/ The PRC	(i)	(i)	(i)
SSEC (中石化上海工程有限公司) <sup>(iv)</sup>	The PRC/ September 18, 1993/ Limited liability company	200,000	100%	—	Engineering contracting, engineering and consulting/ The PRC	(i)	(i)	(i)
SNEC (中石化寧波工程有限公司) <sup>(iv)</sup>	The PRC/ September 30, 2003/ Limited liability company	300,000	100%	—	Engineering contracting, design, equipment manufacturing/ The PRC	(i)	(i)	(i)
SNEI (中石化南京工程有限公司) <sup>(iv)</sup>	The PRC/ April 28, 1986/ Limited liability company	556,005	100%	—	Engineering contracting, design/ The PRC	(i)	(i)	(i)
FCC (中石化第四建設有限公司) <sup>(iv)</sup>	The PRC/ December 17, 1985/ Limited liability company	350,000	100%	—	Engineering contracting/ The PRC	(i)	(i)	(i)
SFCC (中石化第五建設有限公司) <sup>(iv)</sup>	The PRC/ March 25, 1991/ Limited liability company	350,000	100%	—	Engineering contracting/ The PRC	(i)	(i)	(i)

**APPENDIX I**
**ACCOUNTANTS' REPORT**

Name	Establishment/Place and date of incorporation and type of legal entity	Registered and fully paid capital RMB'000	Effective interest held		Principal activities and place of operation	Statutory auditors		
			Direct held	Indirect held		2010	2011	2012
TCC (中石化第十建設有限公司) <sup>(iv)</sup>	The PRC/ October 25, 1970/ Limited liability company	350,000	100%	—	Engineering contracting/ The PRC	(i)	(i)	(i)
Sinopec Guangzhou Engineering Co., Ltd. (中石化廣州工程有限公司) <sup>(iv)</sup>	The PRC/ June 16, 1998/ Limited liability company	50,000	100%	—	Engineering contracting/ The PRC	(i)	(i)	(i)
Ningbo Institute (中石化寧波技術研究院有限公司) <sup>(iv)</sup>	The PRC/ October 23, 2006/ Limited liability company	10,000	100%	—	Technical services/ The PRC	(i)	(i)	(i)
Sinopec E&C Middle East Co., Ltd. (中石化煉化工程東(沙特)有限公司) <sup>(iv)</sup>	Saudi Arabia/ April 25, 2006/ Limited liability company	3,356 (SAR 18,000,000)	100%	—	Engineering contracting/ Saudi Arabia	(ii)	(ii)	(ii)
Sinopec Engineering & Construction (Singapore) Pte. Ltd. (中石化煉化工程新加坡有限公司) <sup>(iv)</sup>	Singapore/ December 8, 2010/ Limited liability company	2,560 (SGD 500,000)	100%	—	Engineering contracting/ Singapore	N/A	(iii)	(iii)
Beijing BPEC Engineering and Construction Supervision Co., Ltd. (北京畢派克工程建設監理有限公司) <sup>(iv)</sup>	The PRC/ December 1, 1992/ Limited liability company	7,000	—	100%	Engineering project management/ The PRC	(i)	(i)	(i)
Beijing Petrochemical Engineering Consulting Co., Ltd. (北京石油化工工程諮詢有限公司) <sup>(iv)</sup>	The PRC/ August 7, 1987/ Limited liability company	5,100	—	100%	Technical consulting/ The PRC	(i)	(i)	(i)
Dalian Economy and Technology Zone Jinghai Petrochemical New Technology Development Co., Ltd. (大連經濟技術區京海石化新技術開發公司) <sup>(iv)</sup>	The PRC/ November 20, 1992/ Limited liability company	1,700	—	100%	Technology development service/ The PRC	(i)	(i)	(i)
SEI (London) Co., Ltd. (中國石化工程建設(倫敦)有限公司) <sup>(iv)</sup>	United Kingdom/ October 30, 2001/ Limited liability company	165 (USD 20,000)	—	100%	Market consulting agent/ United Kingdom London	N/A	N/A	N/A



**APPENDIX I**
**ACCOUNTANTS' REPORT**

Name	Establishment/Place and date of incorporation and type of legal entity	Registered and fully paid capital RMB'000	Effective interest held		Principal activities and place of operation	Statutory auditors		
			Direct held	Indirect held		2010	2011	2012
Tianjin Tianshi Engineering Project Management Co., Ltd. (天津天實工程項目管理有限公司) <sup>(iv)</sup>	The PRC/ May 20, 1997/ Limited liability company	3,000	—	100%	Engineering supervision/ The PRC	(i)	(i)	(i)
Lanzhou Xinyue Refining and Petrochemical Engineering Designing Co., Ltd. (蘭州新粵煉化工程設計有限公司) <sup>(iv)</sup>	The PRC/ December 9, 1999/ Limited liability company	1,010	—	100%	Engineering design/ The PRC	(i)	(i)	(i)
Sinopec Tenth Construction Qingdao Co., Ltd. (中石化第十建設青島有限公司) <sup>(iv)</sup>	The PRC/ January 12, 2010/ Limited liability company	100,000	—	100%	Construction, equipment manufacturing/ The PRC	(i)	(i)	(i)
Beijing Jinhaiwan Engineering and Construction Supervision Co., Ltd. (北京金海灣工程建設監理有限公司) <sup>(iv)</sup>	The PRC/ May 13, 1994/ Limited liability company	10,000	—	100%	Construction, project supervision/ The PRC	(i)	(i)	(i)
Urumqi Chenjiqian Construction Equipment Co., Ltd. (烏魯木齊宸吉齊安工程設備有限公司) <sup>(iv)</sup>	The PRC/ July 13, 2011/ Limited liability company	5,000	—	100%	Equipment installation and leasing/ The PRC	(i)	(i)	(i)
Luoyang Gaoxinlongpu Petrochemical Development Co., Ltd. (洛陽高新龍浦石油化工開發有限公司) <sup>(iv)</sup>	The PRC/ January 4, 1994/ Limited liability company	35,000	—	100%	Oil production/ The PRC	(i)	(i)	(i)
Luoyang Xinuo Fuel Oil Quality Testing Center, Ltd. (洛陽西諾燃料油質量檢驗中心有限公司) <sup>(iv)</sup>	The PRC/ January 1, 2000/ Limited liability company	5,000	—	100%	Oil inspection/ The PRC	(i)	(i)	(i)
Shanghai LPEC Energy Engineering Technology Development Co., Ltd. (上海洛派克能源工程技術開發有限公司) <sup>(iv)</sup>	The PRC/ May 30, 2008/ Limited liability company	5,000	—	100%	Technical services/ The PRC	(i)	(i)	(i)
Jiangsu Nanhua Engineering Supervision and Consulting Co., Ltd. (江蘇南華工程監理諮詢有限公司) <sup>(iv)(v)</sup>	The PRC/ July 31, 1996/ Limited liability company	3,000	—	100%	Construction/ The PRC	(i)	(i)	N/A

**APPENDIX I**
**ACCOUNTANTS' REPORT**

Name	Establishment/Place and date of incorporation and type of legal entity	Registered and fully paid capital RMB'000	Effective interest held		Principal activities and place of operation	Statutory auditors		
			Direct held	Indirect held		2010	2011	2012
Jiangsu Nanhua Engineering and Technology Complete Development Co., Ltd. (江蘇南華工程技術開發成套有限責任公司) <sup>(iv)</sup>	The PRC/ March 6, 2007/ Limited liability company	5,000	—	100%	Construction/ The PRC	(i)	(i)	(i)
Jiangsu Industrial and Civilian Architectural Designing Institute Co., Ltd. (江蘇工業民用建築設計院有限公司) <sup>(iv)(v)</sup>	The PRC/ July 14, 1993/ Limited liability company	5,010	—	100%	Design/ The PRC	(i)	(i)	N/A
Shanghai Pujing Industrial and Civilian Architectural Designing Co., Ltd. (上海浦京工業民用建築設計有限公司) <sup>(iv)</sup>	The PRC/ June 20, 1994/ Limited liability company	2,000	—	100%	Design/ The PRC	(i)	(i)	(i)
Sinopec Shanghai Pharmaceutical Industry Designing Institute Co., Ltd. (中石化上海醫藥工業設計研究院有限公司) <sup>(iv)</sup>	The PRC/ February 19, 1993/ Limited liability company	8,046	—	100%	Medicine, pesticide, chemical research/ The PRC	(i)	(i)	(i)
Zhuhai Shibidi Pharmaceutical Technology Development Co., Ltd. (珠海事必迪醫藥技術開發有限公司) <sup>(iv)</sup>	The PRC/ September 7, 1992/ Limited liability company	470	—	100%	Medicine, chemical, petrochemical design/ The PRC	(i)	(i)	(i)
Shanghai Eastern Engineering Consulting Co., Ltd. (上海東方工程諮詢有限公司) <sup>(iv)</sup>	The PRC/ January 29, 1985/ Limited liability company	5,000	—	100%	Medicine, chemical, petrochemical consulting/ The PRC	(i)	(i)	(i)
Shanghai Sanyuan Engineering Consulting and Supervision Co., Ltd. (上海三圓工程諮詢監理有限公司) <sup>(iv)</sup>	The PRC/ January 23, 1998/ Limited liability company	3,000	—	100%	Construction installation, construction supervision/ The PRC	(i)	(i)	(i)
Shanghai Sanding Environmental Engineering Investment Co., Ltd. (上海三鼎環境工程投資有限公司) <sup>(iv)</sup>	The PRC/ September 24, 1992/ Limited liability company	50,000	—	100%	Environmental protection and public facilities investments/ The RPC	(i)	(i)	(i)

Name	Establishment/Place and date of incorporation and type of legal entity	Registered and fully paid capital RMB'000	Effective interest held		Principal activities and place of operation	Statutory auditors		
			Direct held	Indirect held		2010	2011	2012
Shanghai Petrochemical Machine Manufacturing Co., Ltd. (上海石化機械製造有限公司) <sup>(iv)</sup>	The PRC/ December 25, 1997/ Limited liability company	133,640	—	100%	Petrochemical equipment manufacturing/ The RPC	(i)	(i)	(i)
Ningbo Tianyi Equipment Technology Co., Ltd. (寧波天翼裝備技術有限公司) <sup>(iv)</sup>	The PRC/ November 4, 2011/ Limited liability company	60,000	—	100%	Petrochemical research and development, design, manufacturing and installation/ The PRC	(i)	(i)	(i)
Ningbo Tianyi Petrochemical Heavy Equipment Manufacturing Co., Ltd. (寧波天翼石化重型設備製造有限公司) <sup>(iv)</sup>	The PRC/ March 26, 2007/ Limited liability company	60,000	—	97%	Petrochemical equipment manufacturing and installation/ The PRC	(i)	(i)	(i)

## Notes:

- (i) Grant Thornton, China
- (ii) PricewaterhouseCoopers
- (iii) Deloitte & Touche LLP
- (iv) These entities became subsidiaries of the Group subsequent to the completion of the Reorganization and there has been no change in effective interest held by the Group since then.
- (v) These entities were deregistered in the year ended 31 December 2012.

## 44. ULTIMATE HOLDING COMPANY

The Directors regard Sinopec Group as being the ultimate holding company of the Company, which is owned and controlled by State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

**45. SUBSEQUENT EVENTS**

Other than the subsequent events disclosed below, no other significant subsequent events took place subsequent to December 31, 2012:

- On March 21, 2013, the Company obtained a written approval document from the China Securities Regulatory Commission for the issuance of not more than 1,527,857,142 shares of RMB1.00 each to be listed on the Main Board of The Stock Exchange of Hong Kong Limited.
- On April 10, 2013, the special distribution of RMB363,299,000 (Note 31(v)) was declared and approved to distribute to the original state-owned shareholders. The special distribution was fully paid.

**III. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to December 31, 2012. Except as disclosed in this report, no dividends have been declared or paid by the Company or any of the companies now comprising of the Group in respect of any period subsequent to December 31, 2012.

Yours faithfully,

**Grant Thornton Hong Kong Limited**  
*Certified Public Accountants*

20th Floor  
Sunning Plaza  
10 Hysan Avenue  
Causeway Bay  
Hong Kong

Shaw Chi Kit  
Practising Certificate No: P04834

*For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules is set forth below to provide the prospective investors with further information on how the proposed listing might have affected the financial position of the Group after the completion of the Global Offering.*

*The unaudited pro forma financial information is derived according to a number of adjustments. Although reasonable care has been exercised in preparing such information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the actual financial performance condition of the Group during the Track Record Period or any future date or period.*

*The information set out below does not form part of the Accountants' Report prepared by the independent reporting accountants, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, as set out in "Appendix I — Accountants' Report", and is included in this prospectus for information purposes only.*

*The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" and the Accountants' Report set out in "Appendix I — Accountants' Report" in this prospectus.*

#### **A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS**

The following unaudited pro forma statement of adjusted net tangible assets of the Group which has been prepared in accordance with paragraph 4.29 of the Hong Kong Listing Rules and on the basis of the notes set out below is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on net tangible assets of the Group attributable to equity holders of the Company as at December 31, 2012 as if the Global Offering had taken place on December 31, 2012.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed as of December 31, 2012 or at any future dates.

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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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It is prepared based on the consolidated net assets attributable to equity holders of the Company as of December 31, 2012 as shown in the Accountants' Report, the text of which is set out in Appendix I to this Prospectus, and adjusted as described below.

	Consolidated net tangible assets attributable to equity holders of the Company at December 31, 2012 (Note 1)	Estimated net proceeds from the Global Offering (Note 2)	Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company	Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company per Share (Note 3)	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer Price of HK\$9.80 per Share .....	<u>6,601,222</u>	<u>10,200,347</u>	<u>16,801,569</u>	<u>3.79</u>	<u>4.74</u>
Based on an Offer Price of HK\$13.10 per Share.....	<u>6,601,222</u>	<u>13,653,678</u>	<u>20,254,900</u>	<u>4.57</u>	<u>5.72</u>

*Notes:*

- (1) The consolidated net tangible assets attributable to equity holders of the Company as at December 31, 2012 was calculated based on the consolidated net assets attributable to equity holders of the Company as at December 31, 2012 of approximately RMB7,077,985,000 as extracted from the Accountants' Report set out in Appendix I to this Prospectus, with adjustments for the intangible assets of approximately RMB476,763,000.
- (2) The estimated net proceeds from the Global Offering are based on an indicative Offer Price of HK\$9.80 per Share and HK\$13.10 per Share, respectively, after deduction of the underwriting commissions, fees and other related expenses estimated by the Company in connection with the Global Offering and do not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are translated at the exchange rate of RMB0.80 to HK\$1.00.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at by dividing the unaudited pro forma adjusted net tangible assets by 4,428,000,000 Shares, being the number of shares in issue assuming the Global Offering has been completed on December 31, 2012 and do not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option. The unaudited pro forma adjusted net tangible assets per Share is translated at the exchange rate of RMB0.80 to HK\$1.00.
- (4) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading result or other transaction of the Group entered into subsequent to December 31, 2012.

**B. LETTER FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a letter, prepared for the purpose of incorporation in this Prospectus, received from our reporting accountants, Grant Thornton Hong Kong Limited.*



May 10, 2013

The Directors  
SINOPEC Engineering (Group) Co., Ltd.

J.P. Morgan Securities (Far East) Limited  
CITIC Securities Corporate Finance (HK) Limited  
UBS Securities Hong Kong Limited

Dear Sirs,

We report on the unaudited pro forma financial information of SINOPEC Engineering (Group) Co., Ltd. (中石化炼化工程(集團)股份有限公司, the “Company”) and its subsidiaries (together, the “Group”) set out on pages II-1 to II-2 under the heading of “Unaudited Pro Forma Statement of Adjusted Net Tangible Assets” (the “Unaudited Pro Forma Financial Information”) in Appendix II of the Company’s prospectus dated May 10, 2013 (the “Prospectus”), in connection with the proposed initial public offering of the shares of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed initial public offering might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-2 of the Prospectus.

**Respective Responsibilities of the Directors and Reporting Accountants**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

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## **APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Hong Kong Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

### **Basis of Opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted audited consolidated net assets of the Group as at December 31, 2012 with the accountants’ report as set out in Appendix I to the Prospectus, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the bases stated, that such bases are consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Hong Kong Listing Rules.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the adjusted net tangible assets of the Group as at December 31, 2012 or any future date.



**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the bases stated;
- (b) such bases are consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Hong Kong Listing Rules.

Yours faithfully,

**Grant Thornton Hong Kong Limited**

*Certified Public Accountants*

20th Floor  
Sunning Plaza  
10 Hysan Avenue  
Causeway Bay  
Hong Kong

Shaw Chi Kit  
Practising Certificate No: P04834

*The List of Material Properties, prepared for the purpose of incorporation into this prospectus, which was received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer and consultant, is set out below.*

### Material Properties

No.	Owner	Property Name and Address	Area (square meters)		Usage	Owned Leased (Lease Term)	Nature of Land Use Rights/ Expiry Date
			Land	Building			
1	SEI	Beijing headquarter building (north of the development), located at 20 Anhui Beili Anyuan, Chaoyang District, Beijing	5,192.32	28,262.78	Office	Owned	Granted land: 9 October 2051
2	SEI	Office building (South of the development), located at 21 Anhui Beili Anyuan, Chaoyang District, Beijing	7,693.71	32,273.02	Office	Owned	Granted land: 7 August 2062
3	SEI	Office building, located at Jia 67 Andelu, Xicheng District, Beijing	8,241.57	28,805.60	Office	Owned	Granted land: 31 July 2062
4	FCC	Tianjin headquarter building and industrial base, located at Jian Anli, Dagang District, Tianjin	538,021.10	157,639.80	Office, manufacturing, warehouse, and others	Owned	Granted land: 9 May 2052 15 May 2062 27 May 2062 9 May 2082
5	TCC	Zibo headquarter building and production base, located at Nanwang Township, Linzi District, Zibo City, Shandong	387,016.00	74,422.26	Office, manufacturing, and others	Owned	Granted land: 20 December 2015 29 December 2058 27 July 2062 3 August 2062
6	SGEC	Block A, Sinopec Building, located at 191 Tiyu Xi Road, Tianhe District, Guangzhou	Apportioned	30,115.33	Office	Owned	Granted land: 22 February 2043
	Total		<u>946,164.70</u>	<u>351,518.79</u>			

**TAXATION OF SECURITY HOLDERS**

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of H Shares by an investor that purchases such H Shares in connection with the Global Offering and holds the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investors, some of which may be subject to special rules. This summary is based on the tax laws of the PRC and Hong Kong as in effect on the date hereof, as well as on the *Agreement Between the U.S. and the PRC for the Avoidance of Double Taxation* (the “Treaty”), all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

For purposes of this section of the prospectus, an “Eligible U.S. Holder” is any beneficial owner of H Shares that (i) is a resident of the United States for purposes of the Treaty, (ii) does not maintain a permanent establishment or fixed base in the PRC to which H Shares are attributable and through which the beneficial owner carries on or has carried on business (or, in the case of an individual, performs or has performed independent personal services) and (iii) who is not otherwise ineligible for benefits under the Treaty with respect to income and gain derived in connection with the H Shares.

This section of the prospectus does not address any aspects of Hong Kong or PRC taxation other than income tax, capital gains tax, stamp duty and estate duty. Prospective investors are urged to consult their tax advisors regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

**PRC****Taxation of Dividends**

*Individual Investors.* According to the *Individual Income Tax Law of China* (中華人民共和國個人所得稅法) (the “Individual Income Tax Law”), as amended on June 30, 2011 and effective on September 1, 2011, dividends paid by PRC companies are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a company in the PRC is normally subject to a withholding tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty. However, the Notice of the State Administration of Taxation Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals (國家稅務總局關於外商投資企業、外國企業和外籍人士取得股票(股權)轉讓收益和股息所得稅問題的通知) (“Taxation Notice”) was issued on July 21, 1993. Pursuant to the Taxation Notice, a PRC company is provisionally not subject to any withholding tax in respect of dividends paid to individuals on shares listed on overseas stock exchange (overseas shares, e.g. H Shares). However, the Taxation Notice was repealed under the Announcement on the List of Fully and Partially Invalid and Repealed Tax Regulatory Documents (《關於公佈全文失效廢止、部分條款失效廢止的稅收規範性文件目錄的公告》) issued by the State Administration of Taxation on January 4, 2011.

Pursuant to the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348) (《關於國稅發[1993] 045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011] 348號)) promulgated by the State Administration of Taxation recently, generally the PRC individual income tax at the rate of 10% is applicable to dividends paid by non-foreign invested enterprises which have had their public offering in Hong Kong to the individual holders of H Shares who are non-PRC nationals. For the individual holders of H Shares receiving dividends who are citizens from countries that have entered into income tax treaties with the PRC with the tax rates lower than 10%, non-foreign invested enterprises which have had their public offering in Hong Kong will apply on behalf of the such holders to seek entitlement of the lower preferential tax treatments, and upon approval by the tax authorities, the amounts which are over the withheld tax will be refunded. For the individual holders of H shares receiving dividends who are citizens from countries that entered into income tax treaties with the PRC with the tax rates higher than 10% but lower than 20%, non-foreign invested enterprises which have had their public offering in Hong Kong are required to withhold the tax at the agreed rates under the treaties, and no application procedures will be necessary. For the individual holders of H Shares receiving dividends who are citizens from countries without taxation agreements with the PRC or are under other situations, non-foreign invested enterprises which have had their public offering in Hong Kong are required to withhold the tax at the rate of 20%.

*Enterprises.* According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) with respect to taxes on income signed on August 21, 2006, the PRC Government may impose tax on dividends payable by a PRC company to a Hong Kong resident, but such tax shall not exceed 10% of the gross amount of dividends payable, and in the case where a Hong Kong resident holds at least 25% equity interest in a PRC company, such tax shall not exceed 5% of the gross amount of dividends payable by the PRC company.

According to the new EIT Law and the *Provision for Implementation of Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法實施條例) which both became effective on January 1, 2008, the non-resident enterprises shall be subject to 10% enterprise tax for the income originated from the PRC provided that the non-resident enterprises do not establish offices or premises in the PRC, or where there are offices and premises established, there is no connection between the dividends and bonuses received and the offices or premises established by the non-resident enterprises. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

According to the *Notice Regarding Questions on Withholding Enterprise Income tax When PRC Resident Enterprises Distribute Dividends to Non-resident Enterprise Shareholders of H Shares* (Guoshuihan [2008]NQ. 897) (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) (國稅函[2008]897號) issued by the State Administration of Taxation, which became effective on November 6, 2008, PRC resident enterprises should withhold enterprise income tax at a rate of 10% when they distribute dividends to non-resident enterprise shareholders of H Shares from the year of 2008. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

*Tax Treaties.* Investors who do not reside in the PRC and reside in countries that have entered into double taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends to investors of our Company who do not reside in the PRC. The PRC currently has double-taxation treaties with many nations in the world, which include but not limited to:

- Australia;
- Canada;
- France;
- Germany;
- Japan;
- Malaysia;
- the Netherlands;
- Singapore;
- the United Kingdom; and
- the United States.

### **Taxation of Capital Gains**

In accordance with the Individual Income Tax Law and the *Implementation Rules of the Individual Income Tax Law of China* (中華人民共和國個人所得稅法實施條例) (“Implementation Rules”), individuals are subject to individual income tax at the rate of 20% on gains realized on the sale of equity interests in PRC resident enterprises. The Implementation Rules also provide that the MOF shall draft measures for collection of individual income tax from income on the transfer of shares, and such measures are subject to the approval of the State Council. However, as of the Latest Practicable Date, no such measures have been drafted and enacted. Under the *Circular Declaring That Individual Income Tax Continues to Be Exempted over Income of Individuals from Transfer of Shares* (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) (Cai Shui Zi [1998] No. 61) issued by MOF and State Administration of Taxation on March 30, 1998, from January 1, 1997, income of individuals from the transfer of shares in listed enterprises continues to be exempted from individual income tax. After the latest amendment to the Individual Income Tax Law on December 29, 2007 and its Implementation Rules on February 18, 2008, the State Administration of Taxation has not stated whether it will continue to exempt from individual income tax income derived by individuals from the transfer of listed shares. However, on December 31, 2009, MOF, State Administration of Taxation and CSRC jointly issued the *Circular on Related Issues on Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation* (關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知) (Cai Shui [2009] No. 167), which states

that individuals' income from transferring listed shares on certain domestic exchanges shall continue to be exempted from the individual income tax, except for the shares of certain specified companies under certain situations which are subject to sales limitations (as defined in such Circular and its supplementary notice issued on November 10, 2010). As of the Latest Practicable Date, no legislation has expressly provided individual income tax shall be collected from non-Chinese resident individuals on the sale of shares in PRC resident enterprises listed on overseas stock exchanges, and in practice such tax has not been collected by the PRC tax authorities.

According to the new EIT Law and the *Provision for Implementation of Enterprise Income Tax Law of the PRC*, the non-resident enterprises shall be subject to 10% enterprise tax for the income originated from the PRC provided that the non-resident enterprises do not establish offices or premises in the PRC, or where there are offices and premises established, there is no connection between the gains received and the offices or premises established by the non-resident enterprises. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

### **Additional Chinese Tax Considerations**

*PRC Stamp Duty.* PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies under the Provisional Regulations should not apply to the acquisition and disposal by non-PRC investors of H Shares outside of the PRC by virtue of the *Provisional Regulations of China Concerning Stamp Duty* (中華人民共和國印花稅暫行條例), which became effective on October 1, 1988 and which provide that PRC stamp duty is imposed only on documents executed or received within the PRC that are legally binding in the PRC and are protected under PRC law.

*Estate Tax.* No liability for estate tax under PRC law will arise from a non-PRC national's holding of H Shares.

## **HONG KONG**

### **Taxation on Dividends**

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

### **Capital gains and profit tax**

No tax is imposed in Hong Kong in respect of capital gains from the sale of the H Shares. However, trading gains from the sale of H Shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trading, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 16.5% and on unincorporated businesses at a rate of 15%. Gains from sales of the H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Share is effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

**Stamp Duty**

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the H Shares. The duty is charged at the ad valorem rate of 0.1 % of the consideration for, or (if greater) the value of, the H Shares transferred to or from each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of H Shares. In addition, a fixed duty of HK\$5.00 is charged on each instrument of transfer (if required). Where a sale or purchase of the H Shares is effected by a person who is not a resident of Hong Kong and any stamp duty payable on the instrument of transfer is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the stamp duty otherwise chargeable thereon, and the transferee shall be liable to pay such duty. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

**Estate Duty**

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H Shares whose deaths occur on or after February 11, 2006.

**TAXATION OF THE COMPANY IN THE PRC****Income Tax**

From January 1, 1994, income tax payable by PRC enterprises, including state-owned enterprises and share system enterprises, was governed by the *PRC Enterprise Income Tax Provisional Regulations* (中華人民共和國企業所得稅暫行條例) (the “EIT Regulations”) which took effect from January 1, 1994, and which provided for an income tax rate of 33% unless a lower rate is provided by law, administrative regulations or State Council regulations. Our Company was generally subject to tax at a rate of 33% pursuant to the EIT Regulations.

On March 16, 2007, the 10th NPC adopted the new EIT Law. The new EIT Law came into effect on January 1, 2008, according to which the enterprise income tax rate in the PRC was reduced from 33% to 25% and is in line with the rate applicable to foreign investment enterprises and foreign enterprises. At the same time, the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises and the EIT Regulations has ceased to be effective.

**Value Added Tax**

Pursuant to the *Provisional Regulations of the PRC Concerning Value Added Tax* (中華人民共和國增值稅暫行條例) effective from January 1, 1994 which was amended in November 2008 and their implementing rules, the sale of products within the PRC, the importation of products and the provision of processing and/or repair services within the PRC by our Company are subject to value added tax (“VAT”). Pursuant to the “*Plan for the Pilot Practice of Levying Value Added Tax in Lieu of Business Tax*” (營業稅改徵增值稅試點方案) (Cai Shui [2011] No.110), “*Notice on Carrying out the Pilot Practice of Levying Value Added Tax in Lieu of Business Tax on the Transportation Industry and Some*

*Modern Service Industries in Shanghai*” (關於在上海市開展交通運輸業和部分現代服務業營業稅改徵增值稅試點的通知) (Cai Shui [2011] No.111), and “*Notice of the Ministry of Finance and the State Administration of Taxation on Carrying out the Pilot Practice of Levying Value Added Tax in Lieu of Business Tax on the Transportation Industry and Some Modern Service Industries in Eight Provinces and Cities Including Beijing*” (財政部國家稅務總局關於在北京等8省市開展交通運輸業和部分現代服務業營業稅改徵增值稅試點的通知) (Cai Shui [2012] No.71) issued by the Ministry of Finance and the State Administration of Taxation, value added tax of 6% shall apply to the Company’s research and development and technical service businesses and business tax is no longer payable, effective from January 1, 2012 for Shanghai, from September 1, 2012 for Beijing, from October 1, 2012 for Jiangsu and Anhui, from November 1, 2012 for Fujian and Guangdong, and from December 1, 2012 for Tianjin, Zhejiang and Hubei. VAT payable is calculated as “output VAT” minus “input VAT.”

### **Business Tax**

Pursuant to the *Provisional Regulations of the PRC Conceding Business Tax* (中華人民共和國營業稅暫行條例) effective from January 1, 1994 which was amended in November 2008 and the relevant implementing rules, a business tax is imposed on enterprises which provide taxable services, transfer intangible property or sell real estate in the PRC. The business tax is levied at a rate from 3% to 20% on the provision of taxable services, transfer of intangible property or sale of real estate in the PRC.

### **FOREIGN EXCHANGE CONTROL**

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible at this time. SAFE, under the authority of PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On January 29, 1996, the State Council promulgated new *Regulation of Foreign Exchange* (中華人民共和國外匯管理條例) (the “Foreign Exchange Regulations”), which took effect on April 1, 1996. The Foreign Exchange Regulations classifies all international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to approval of SAFE while capital account items still are. The Foreign Exchange Regulations was subsequently amended on January 14, 1997 and on August 1, 2008. This latest amendment affirmatively states that the state shall not restrict international current account payments and transfers.

On June 20, 1996, PBOC promulgated the *Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange* (結匯、售匯及付匯管理規定) (the “Settlement Regulations”), which took effect on July 1, 1996. The Settlement Regulations superseded the *Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange* (結匯、售匯及付匯暫行規定) and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.



On October 25, 1998, PBOC and SAFE promulgated the *Notice Concerning Closure of the Foreign Exchange Swap Business Activities* (關於停辦外匯調劑業務的通知) pursuant to which and with effect from December 1, 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprise shall come under the banking system for the settlement and sale of foreign exchange.

On July 21, 2005, PBOC announced that from the same date, the PRC would implement a managed floating exchange rate system based on market supply and demand and with reference to a basket of currencies. Therefore, the Renminbi was no longer only pegged to the U.S. dollar. PBOC would announce the closing price of a foreign currency such as the U.S. dollar against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day. This closing price will be used as the middle price for quoting the Renminbi exchange rate on the following working day.

Since January 4, 2006, PBOC improved the method of generating the middle price for quoting the Renminbi exchange rate by introducing an enquiry system while keeping the match-making system in the inter-bank spot foreign exchange market. In addition, PBOC provided liquidity in the foreign exchange market by introducing the market-making system in the inter-bank foreign exchange market. After the introduction of the enquiry system, the generation of the middle price for quoting the Renminbi was transformed to a mechanism under which PBOC authorized the China Foreign Exchange Trading System to determine and announce the middle price for quoting the Renminbi against the U.S. dollar, based on the enquiry system, at 9:15 am on each business day.

The foreign exchange income under the current items may be reserved or sold to financial institutions operating foreign exchange sale of settlement business. Before reserving the foreign exchange income under the capital items or selling it to any financial institution operating foreign exchange sale of settlement business, approval of the competent foreign exchange administrative authorities shall be obtained, unless it is otherwise provided by the State.

PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, on the strength of valid receipts and proof of transactions. Foreign-invested enterprises, which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises, which in accordance with regulations are required to pay dividends to shareholders in foreign currency, may, on the strength of general meeting resolutions of such PRC enterprises or board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, such as direct investment and capital contribution, is still subject to restriction and prior approval from SAFE and the relevant branch must be sought.

Dividends to holders of H Shares are fixed in Renminbi but must be paid in Hong Kong dollars.

We prepare our consolidated financial statements in Renminbi.

PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the prior day. PBOC also takes into account other factors such as the general conditions existing in the international foreign exchange markets. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign currency for capital items, such as foreign direct investment, loans or security, still requires the approval of SAFE and other relevant authorities.

*This Appendix sets out summaries of certain aspects of PRC law and regulations which are relevant to the Group's operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix IV — Taxation and Foreign Exchange" to this prospectus. This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of the PRC issuers.*

## **PRC JUDICIAL SYSTEM**

Under the *PRC Constitutional Law* (《中華人民共和國憲法》) and the *Law of the PRC of Organization of the People's Courts* (《中華人民共和國人民法院組織法》), the judicial system in PRC is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are organized into civil, criminal, and administrative divisions. The intermediate people's courts are organized into divisions similar to those of the basic people's courts, and are further organized into other special divisions, such as the intellectual property division. The higher level people's courts supervise the basic and intermediate people's courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all of the people's courts.

The people's courts employ a "second instance as final" system. A party may appeal against a judgment or order of the people's court of first instance to the people's court at the next higher level. Second judgments or awards given at the next higher level are final. First judgments or awards of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a judgment or order which has been given in any people's court at a lower level, or the president of the people's court finds an error in a judgment or order, the case may then be retried according to the judicial supervision procedures.

The *Civil Procedure Law of the PRC* (《中華人民共和國民事訴訟法》) (the "PRC Civil Procedure Law"), which was adopted on April 9, 1991 and amended on August 31, 2012, sets forth the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the PRC Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by an express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the object of the action or other jurisdictions which have substantial connections with the dispute. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may impose the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award granted by an arbitration panel in the PRC, the other party may apply to the people's court to request for enforcement of the judgment, order or award. There are time limits imposed on the right to apply for such enforcement and the time limit is two year. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a people's court against a party who is not located within the PRC and does not own any property in the PRC, may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. In the case of an application or request for recognition and enforcement of a legally effective judgment or order of a foreign court, the people's court shall, after having examined it in accordance with the international treaties entered into or acceded to by the PRC or with the principle of reciprocity and having arrived at the conclusion that it does not contravene the primary principles of the laws of the PRC nor violates its sovereignty, security or social and public interests, recognize the validity of the judgment or order, and, if required, issue a writ of enforcement and enforce it in accordance with the relevant regulations. If the application or request contravenes the primary principles of the laws of the PRC or violates its sovereignty, security or social and public interests, the people's court shall not recognize and enforce it.

#### **THE PRC COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS**

On December 29, 1993, the Standing Committee of the Eighth NPC adopted the PRC Company Law (《中華人民共和國公司法》) which came into effect on July 1, 1994 and was amended for the first time on December 25, 1999, the second time on August 28, 2004 and the third time on October 27, 2005. The newly amended PRC Company Law has been promulgated and became effective from January 1, 2006.

On July 4, 1994, the Special Regulations (《國務院關於股份有限公司境外募集股份及上市的特別規定》) were passed at the Twenty-Second Standing Committee Meeting of the State Council, and they were promulgated and implemented on August 4, 1994. The Special Regulations are formulated according to the provisions of Sections 85 and 155 of the PRC Company Law (1993) in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions (《到境外上市公司章程必備條款》) were issued jointly by the former Securities Commission of the State Council and the former State Economic Restructuring Commission on August 27, 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association (which are summarized in the appendix headed "Appendix VI — Summary of the Articles of Association" to this prospectus). References to a "company" are to a joint stock limited liability company established under the PRC Company Law with overseas listed foreign invested shares.

Copies of the Chinese text of the PRC Company Law, Special Regulations and the Mandatory Provisions together with copies of their unofficial English translations thereof are available for inspection as mentioned in the appendix headed “Appendix VIII — Documents Delivered to the Registrar of Companies and Available for Inspection” to this prospectus.

**General**

A “joint stock limited liability company” (hereinafter referred to as “company”) is a corporate legal person incorporated under the PRC Company Law, whose registered capital is divided into shares of equal nominal value. The liability of its shareholders is limited to the extent of the shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A state-owned enterprise that is restructured into a company must comply with the conditions and requirements specified by law and administrative regulation, for the modification of its operation mechanisms, the systematic handling and evaluation of the company’s assets and liabilities and the establishment of internal management organs.

A company must conduct its business in accordance with law and professional ethics.

**Incorporation**

A company may be incorporated by promotion or subscription.

A company may be incorporated by two to 200 promoters, but at least half of the promoters must reside in the PRC.

Companies incorporated by promotion are companies with the registered capital entirely subscribed for by the promoters. Where companies are incorporated by subscription, the promoters are required to subscribe for not less than 35% of the total number of shares of a company unless otherwise stipulated by laws and regulations, and the remaining shares can be offered to the public or specific persons, unless otherwise required by law.

The PRC Company Law has provided that the minimum registered capital of a joint stock limited liability company is RMB5 million. For companies incorporated by promotion, the registered capital has to be the total capital subscribed for by all promoters as registered with the relevant administration bureau for industry and commerce; for companies established by public subscription, the registered capital is the amount of total paid-up capital as registered with the relevant administration bureau for industry and commerce.

Pursuant to the PRC Securities Law (《中華人民共和國證券法》), the total capital of a company which proposes to apply for its shares to be listed on a stock exchange must not be less than RMB30 million.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall 15 days before the meeting give notice to all subscribers or make a public announcement of the date of the inaugural meeting.

The inaugural meeting may be convened only with the presence of shareholders holding shares representing more than 50% of the total issued shares of the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company.

A company is formally established and has the status of a legal person after the approval for registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A company's promoters shall individually and collectively be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

### **Share Capital**

The promoters of a company can make capital contributions in cash or in kind, that can be valued in currency and transferable according to law such as intellectual property rights or land use rights based on their appraised value provided that the amount of capital contribution in cash by all shareholders must not be less than 30% of a company's registered capital.

If capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out and converted into shares.

A company may issue registered or bearer share. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered share and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as Domestic Shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific provisions shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than nominal value, but shall not be less than nominal value.

The transfer of shares by shareholders should be conducted via the legally established stock exchange or in accordance with other methods as stipulated by the State Council. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by law or administrative regulation. Bearer shares are transferred by delivery of the share certificates to the transferee.

Shares held by a promoter of a company shall not be transferred within one year after the date of the company's incorporation. Shares issued by a company prior to the public offer of its shares shall not be transferred within one year from the date of listing of the shares of the company on a stock exchange. Directors, supervisors and senior management of a company shall not transfer over 25% of the shares held by each of them in the company each year during their term of office and shall not transfer any share of the company held by each of them within one year after the listing date. There is no restriction under the PRC Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

### **Increase in Capital**

Under the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting.

Save for the above-mentioned shareholder approval requirement, for a public offering of new shares, the PRC Securities Law provides that the company shall: (i) have a sound organizational structure with satisfactory operating record; (ii) have the capability of continuing profitability and a healthy financial position; (iii) have no false statements and other material breaches in the financial and accounting documents of the last three years; (iv) fulfill other conditions required by the securities administration department of the State Council as approved by the State Council.

Public offer requires the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, a company must change its registration with the relevant administration bureau for industry and commerce and issue a public notice accordingly.

### **Reduction of Share Capital**

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (i) the company shall prepare a balance sheet and an inventory of the assets;
- (ii) the reduction of registered capital must be approved by shareholders in general meeting;
- (iii) the company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the relevant administration bureau for industry and commerce for registration of the reduction in registered capital.

### **Repurchase of Shares**

A company may not purchase its own shares other than for the purpose of:

- (i) reducing its capital by canceling its shares or merging with another company holding its shares;
- (ii) granting shares as a reward to the staff of the company; or
- (iii) purchasing the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting.



The shares of the company to be repurchased by itself as a reward to its staff shall not exceed 5% of the total number of its issued shares. Any funds for such purpose shall be paid out of after-tax profits of the company, and the shares so purchased shall be transferred to the company's staff within a year. The Mandatory Provisions provide that upon obtaining approvals in accordance with the articles of association of the company and from the relevant supervisory authorities, a company may repurchase its issued shares for the foregoing purposes by way of a general offer to its shareholders or purchase on a stock exchange or an off-market contract.

### **Transfer of Shares**

Shares may be transferred in accordance with the relevant laws and regulations.

### **Shareholders**

Shareholders have such rights and obligations as set forth in the articles of association of the company. The articles of association of a company are binding on each shareholder.

Under the PRC Company Law and the Mandatory Provisions, the rights of a shareholder include:

- (i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;
- (ii) to transfer his shares in accordance with applicable laws and regulations and the articles of association of the company;
- (iii) to inspect the company's articles of association, shareholders' registers, records of debentures, minutes of shareholders' general meetings, board resolutions, supervisors resolutions, financial and accounting reports and put forward proposals or raise questions about the business operations of the company;
- (iv) if any directors or senior officers damages the shareholder's interests by violating law or administrative regulations or article of association, the shareholders may lodge an action in the people's court;
- (v) to receive dividends and other distributions in respect of the number of shares held;
- (vi) to obtain surplus assets of the company upon its termination in proportion to his or her shareholding; to claim against other shareholders who abuse their shareholders' rights for the damages; and
- (vii) any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by him/her, not to abuse shareholders' right to damage the interests of the company or other shareholders of the company; not to abuse the independent status of the company as a legal person and the limited liability to damage the interests of the creditors of the company and any other shareholders' obligation specified in the company's articles of association.

### **Shareholders' General Meetings**

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law.

The shareholders' general meeting exercises the following principal powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or remove the directors and supervisors who are not representatives of the employees and decide on matters relating to the remuneration of directors and supervisors;
- (iii) to consider and approve reports of the board of directors;
- (iv) to consider and approve reports of the supervisory committee or the supervisors;
- (v) to consider and approve the company's proposed annual financial budget and financial accounts;
- (vi) to consider and approve the company's proposals for profit distribution and for recovery of losses;
- (vii) to decide on any increase or reduction in the company's registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;
- (x) to decide on the appointment, resignation or dismissal of the accounting firm;
- (xi) to amend the articles of association of the company; and
- (xii) other powers specified in the articles of association of the company.

Shareholders' general meeting is required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following circumstances:

- (i) the number of directors is less than the number provided for in the PRC Company Law or less than two-thirds of the number specified in the company's articles of association;
- (ii) the losses of the company which are not made up reach one-third of the company's total paid up share capital;
- (iii) a request by a shareholder that holds, or by shareholders that hold in aggregate, 10% or more of the company's shares;
- (iv) when deemed necessary by the board of directors;
- (v) when the supervisory committee proposes convening it; or
- (vi) other matters required by the company's articles of association.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors.

Notice of the Shareholders' general meeting shall be given to all shareholders 20 days before the meeting under the PRC Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, but the company shall have no vote for any of its own shares the company holds.

Resolutions proposed at the shareholders' general meeting shall be adopted by more than half of the voting rights cast by shareholders present in person (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, dissolution, increase or reduction in registered capital, change in the form of the company or amendments to the articles of association which shall be adopted by shareholders with two-thirds or more of the voting rights cast by shareholders present (including those represented by proxies) at the meeting.

Shareholders may entrust a proxy to attend shareholders' general meetings on his or her behalf by a power of attorney which sets out the scope of exercising the voting rights.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% or more of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holders of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

### **Directors**

A company shall have a board of directors, which shall consist of 5 to 19 members and there can be staff representatives of our Company. Under the PRC Company Law, each term of office of a director shall not exceed three years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors at least ten days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the PRC Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meeting and report on its work to the shareholders;
- (ii) to implement the resolution of the shareholders' general meeting;
- (iii) to decide on the company's business plans and investment plans;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's proposals for profit distribution and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (vii) to prepare plans for the merger, division or dissolution of the company;
- (viii) to decide on the company's internal management structure;

- (ix) to appoint or dismiss the company's president, and based on the president's recommendation, to appoint or dismiss vice presidents and financial officers of the company and to decide on their remuneration;
- (x) to formulate the company's basic management system; and
- (xi) any other power given under the articles of association of the company.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the PRC Company Law, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offense of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated due to mismanagement and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked or business operation shut down due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license; or

- (v) persons who have a relatively large amount of debt due and outstanding.
- (vi) Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in the appendix headed “Appendix VI — Summary of the Articles of Association” to this prospectus).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises, among others, the following powers:

- (i) to preside over shareholders’ general meetings and convene and preside over meetings of the board of directors; and
- (ii) to check on the implementation of the resolutions of the board of directors.

The legal representative of a company in accordance with the company’s articles of association, is the chairman.

The Special Regulations provide that a company’s directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in the appendix headed “Appendix VI — Summary of the Articles of Association” to this prospectus) contain further elaborations of such duties.

### **Supervisors**

A company shall have a supervisory committee composed of not less than three members. Each term of office of a supervisor is three years and he may serve consecutive terms if re-elected.

The supervisory committee is made up of shareholders representatives and an appropriate proportion of the company’s staff representatives; and the percentage of the number of the company’s staff representatives shall not be less than one-third. Directors and senior management shall not act as supervisors.

Requirements in relation to the power of the supervisory committee under the PRC Company Law are as follows:

- (i) to examine the company’s financial affairs;
- (ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of any director or senior management who violates the laws, regulations, articles of association or shareholders’ resolution;

- (iii) to require any director or senior management whose act is detrimental to the company's interests to rectify such act;
- (iv) to propose the convening of extraordinary shareholders' general meetings and, in the event that the board of directors fails to perform the duties of convening and presiding shareholders' meetings to convene and preside over shareholders' meetings;
- (v) to propose any bills to shareholders' general meetings;
- (vi) to commence any action against any directors or senior management; and
- (vii) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutates mutandis to supervisors of a company.

The Special Regulations provide that a company's directors and supervisors shall have fiduciary duties. They are required to faithfully perform their duties, protect the interest of the company and not to use their positions for their own benefit.

#### **Managers and Senior Officers**

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- (i) in charge of the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;
- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial officer and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- (vii) attend board meetings as a non-voting attendant; and
- (viii) other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and the Mandatory Provisions provide that the other senior management of a company includes the financial officer, secretary of the board of directors and other executives as specified in the article of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association, a summary of which is set out in the appendix headed “Appendix VI — Summary of the Articles of Association” to this prospectus.

### **Duties of Directors, Supervisors, Managers and Senior Officers**

A director, supervisor, manager and other senior officer of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the company’s articles of association, carry out their duties honestly and protect the interests of the company. A director, supervisor, manager and other senior officer of a company is also under a duty of confidentiality to the company and is prohibited from divulging secret information of the company save as permitted by the relevant laws and regulations or by the shareholders.

A director, supervisor, manager and other senior officer who contravenes any law, regulation or the company’s articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, manager and other senior officer of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

### **Finance and Accounting**

A company shall establish its financial and accounting systems according to laws, administrative regulations and the provisions of the responsible financial department of the State Council and at the end of each financial year, prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company incorporated by public subscription must publish its financial statements.



The common reserve of a company comprises the statutory surplus reserve, the discretionary common reserve and the capital common reserve.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory surplus reserve (except where the reserve has reached 50% of the company's registered capital). After a company has made an allocation to its statutory common reserve from its after-tax profits, subject to a resolution of the shareholders' general meeting, the company may make an allocation to a discretionary common reserve.

When the company's statutory surplus reserve is not sufficient to make up for the company's losses of the previous years, current year profits shall be used to make up for the losses before allocations are set aside for the statutory surplus reserve.

After the company has made up for its losses and make allocations to its statutory surplus reserve the remaining profits could be available for distribution to shareholder in proportion to the number of shares held by the shareholders except as otherwise provided in the articles of association of such company limited by shares.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

- (i) to make up the company's losses other than the capital common reserve;
- (ii) to expand the business operations of the company; and
- (iii) to increase the registered capital of the company by the issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the nominal value of the shares currently held by the shareholders provided that if the statutory surplus reserve is converted into registered capital, the balance of the statutory surplus reserve after such conversion shall not be less than 25% of the registered capital of the company before such conversion.

### **Appointment and Retirement of Auditors**

The Special Regulations require a company to employ an independent PRC qualified accounting firm to audit the company's annual report and to review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders at shareholders' general meetings and shall be filed with the CSRC for record.

**Distribution of Profits**

The PRC Company Law provides that a company is restricted from distributing profits before accumulated losses have been made up and statutory common reserve have been drawn. The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

**Amendments to Articles of Association**

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the companies approval department authorized by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the authority must also be changed.

**Dissolution and Liquidation**

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the people's court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the PRC Company Law, a company shall be dissolved in any of the following events:

- (i) the term of its operations set down in its articles of association has expired or events of dissolution specified in its articles of association have occurred;
- (ii) the shareholders in general meeting have resolved to dissolve the company;
- (iii) the company is dissolved by reason of its merger or demerger;
- (iv) the company is subject to the revocation of business license, a closure order or elimination in accordance with laws; or

- (v) in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss, in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the people's court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) and (v) above, a liquidation committee must be formed within 15 days after the occurrence of the cause of dissolution so as to carry out liquidation. Members of the liquidation committee shall be composed of the directors or any other people as determined by the shareholders' meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court for its establishment.

The liquidation committee shall notify the company's creditors within ten days after its establishment, and issue a public notice in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with and settle any outstanding business of the company;
- (iv) to pay any tax overdue;
- (v) to settle the company's financial claims and liabilities;
- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

During the liquidation period, a company shall not engage in operating activities unrelated to the liquidation.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the people's court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the people's court for confirmation. Thereafter, the report shall be submitted to the companies registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

### **Overseas Listing**

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the securities regulatory authority of the State Council may be implemented by the board of directors of a company by way of separate issues, within 15 months after approval is obtained from the CSRC.

### **Loss of Share Certificates**

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people's court in the event that share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in "Appendix VI — Summary of the Articles of Association.")

**Suspension and Termination of Listing**

The PRC Company Law has deleted provisions governing suspension and termination of listing. The new PRC Securities Law has been amended as follows:

The trading of shares of a company on a stock exchange may be suspended if so decided by the stock exchange under one of the following circumstances:

- (i) the registered capital or shareholding distribution no longer comply with the necessary requirements for a listed company;
- (ii) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report with the possibility of misleading investors;
- (iii) the company has committed a major breach of the law;
- (iv) the company has incurred losses for three consecutive years; or
- (v) other circumstances as required by the listing rules of the relevant stock exchange(s).

Under the PRC Securities Law, in the event that the conditions for listing are not satisfied within the period stipulated by the relevant stock exchange in the case described in (i) above, or the company has refused to rectify the situation in the case described in (ii) above, or the company fails to become profitable in the next subsequent year in the case described in (iv) above, the relevant stock exchange shall have the right to terminate the listing of the shares of the company.

**Merger and Demerger**

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

**SECURITIES LAW AND REGULATIONS**

The PRC has promulgated a number of regulations that relate to the issue and trading of the Shares and disclosure of information by us. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee was responsible for co-ordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC was the regulatory body of the Securities Committee and responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating

the trading of securities, compiling securities-related statistics and undertaking research and analysis. In 1998, the State Council dissolved the Securities Committee and assigned its function to the CSRC. The CSRC is also responsible for the regulation and supervision of the national stocks and futures market according to laws, regulations and authorizations.

The PRC Securities Law took effect on July 1, 1999 and was revised for the first time on August 28, 2004 and the second time on October 27, 2005. This is the first national securities law in the PRC, and it is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The PRC Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the PRC Securities Law provides that a PRC company must obtain prior approval from the State Council's regulatory authorities to list its shares outside the PRC. Article 239 of the PRC Securities Law provides that specific provisions in respect of shares of companies in the PRC which are to be subscribed and traded in foreign currencies shall be separately formulated by the State Council. Currently, the issue and trading of foreign issued shares (including H Shares) are still mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

#### **ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS**

The *Arbitration Law of the PRC* (《中華人民共和國的仲裁法》) (the "Arbitration Law") was passed by the Standing Committee of the NPC on August 31, 1994 and became effective on September 1, 1995. It is applicable to contract disputes and other property disputes between natural person, legal person and other organizations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the Articles of Association and, in the case of the Hong Kong Listing Rules, also in contracts with each of the Directors and Supervisors, to the effect that whenever any disputes or claims arise between holders of the H Shares and us; holders of the H Shares and the Directors, Supervisors, manager or other officers; or holders of the Shares, in respect of any disputes or claims in relation to our affairs or as a result of any rights or obligations arising under the Articles of Association, the PRC Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, directors, supervisors, managers or officers of us, shall be subject to the arbitration. Disputes in respect of who is the shareholder and disputes in relation to our register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission (“CIETAC”) in accordance with its rules or the Hong Kong International Arbitration Centre (“HKIAC”) in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the securities arbitration rules of the HKIAC.

Under the Arbitration Law and the PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people’s court for Enforcement. A people’s court may refuse to enforce an arbitral award made by an arbitration tribunal if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration tribunal.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (《承認及執行外國仲裁裁決公約》) (簡稱《紐約公約》) (the “New York Convention”) adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the State to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

In June 1999, an arrangement was made between Hong Kong and the Supreme People’s Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People’s Court of the PRC and the Hong Kong Legislative Council, and became effective on

February 1, 2000. The arrangement is made in accordance with the spirit of the New York Convention. Under the arrangement, awards made by PRC arbitration bodies pursuant to the Arbitration Law can be enforced in Hong Kong. Hong Kong arbitral awards pursuant to the Arbitration Ordinance of Hong Kong are also enforceable in the PRC.

#### **ESTABLISHMENT OF OVERSEAS OPERATIONS RULES AND REGULATIONS**

According to the Provisions for Overseas Investment Management (《境外投資管理辦法》) as promulgated by MOFCOM and the Provisions on the Foreign Exchange Administration of Overseas Investment of Domestic Institutions (《境內機構境外直接投資外匯管理規定》) issued by SAFE, upon obtaining approval from the MOFCOM to establish enterprises overseas, PRC enterprises shall apply for foreign exchange registration for overseas investments.

According to the Tentative Administrative Provisions on the Approval of Overseas Investment Projects (《境外投資項目核准暫行管理辦法》), promulgated by the NDRC, investment projects involving the use of a large amount of foreign exchange would require the verification and approval by the NDRC or the State Council. If there is any change with respect to the investor or equity holding of a project that has been verified and approved, an application for amendment shall be made to the NDRC.

#### **HONG KONG LAWS AND REGULATIONS**

##### **Company Law**

The Hong Kong law applicable to a company with share capital incorporated in Hong Kong is based on the Companies Ordinance and is supplemented by common law. Our Company, which is a joint stock limited liability company established in the PRC, is governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law applicable to a joint stock limited liability company established in the PRC issuing overseas listed foreign shares to be listed on the Hong Kong Stock Exchange.

Set out below is a summary of the material differences between the Companies Ordinance applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited liability company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison:

##### **(i) Corporate subsisting**

Under Companies Ordinance, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company.



Under the PRC Company Law, a joint stock limited liability company may be incorporated by either the promotion method or the subscription method. A joint stock limited liability company must have a minimum registered capital of RMB5 million, or higher as may otherwise be required by the laws and regulations. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company. Under the PRC Company Law, the monetary contributions by all the shareholders must not be less than 30% of the registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

**(ii) Share capital**

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital which the company is authorized to issue and a company is not bound to issue the entire amount of its authorized share capital. The authorized share capital of a Hong Kong company may exceed its issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not recognize the concept of authorized share capital. The registered capital of a joint stock limited liability company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders at a general meeting and by the relevant governmental and regulatory authorities in the PRC (if required).

Under the PRC Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the capital contributions may be in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or under-valuation of the assets. The monetary contribution shall not be less than 30% of a joint stock limited liability company's registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

**(iii) Restrictions on shareholding and transfer of shares**

Under PRC law, the domestic shares in the share capital of a joint stock limited liability company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the State, PRC legal and natural persons. The overseas listed foreign shares issued by a joint stock limited liability company which are denominated in Renminbi and subscribed for in a currency other than Renminbi, except as otherwise permitted under the Trial Measures for the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors (合格境內機構投資者境外證券投資管理試行辦法), may only be subscribed and traded by investors from Hong Kong Special Administrative Region, the Macau Special Administrative Region, Taiwan or any country and territory outside the PRC.

Under the PRC Company Law, shares in a joint stock limited liability company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the Hong Kong Stock Exchange. Shares in a joint stock limited liability company held by its directors, supervisors and management personnel and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lock up on our Company's issue of shares and the 12-month lock up on controlling shareholders' disposal of shares, as illustrated by the undertakings given by our Company to the Hong Kong Stock Exchange as described in the section headed "Underwriting" in this prospectus.

**(iv) Financial assistance for acquisition of shares**

The PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited liability company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Companies Ordinance.

**(v) Variation of class rights**

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variation of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in the appendix headed "Appendix VI — Summary of the Articles of Association" to this prospectus. Under Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of the company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

Our Company (as required by the Hong Kong Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed shares and domestic listed shares are defined in the Articles of Association as different classes of shareholders, provided however that the special procedures for approval by separate class shareholders shall not apply to the following circumstances: (i) where our Company issues, upon the approval by special resolution of the Shareholders in general meeting, either separately or concurrently once every 12 months, not more than 20% of each of our

existing issued Domestic Shares or overseas-listed foreign-invested Shares; (ii) where our Company completes, with 15 months from the date on which approval is given by the securities regulatory authorities of the State Council, our plan (made at the time of our establishment) to issue Domestic Shares and overseas-listed foreign-invested Shares; and (iii) upon the approval by the securities regulatory authorities of the State Council, the unlisted Shares held by our Shareholders become listed or traded on an overseas stock exchange.

**(vi) Directors**

The PRC Company Law, unlike Companies Ordinance, does not contain any requirements relating to the declaration of interests in material contracts by a director, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits such as guarantees in respect of directors' liability and prohibition against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain requirements and restrictions in relation to the foregoing matters similar to those applicable under Hong Kong law.

**(vii) Supervisory committee**

Under the PRC Company Law, the board of directors and managers of a joint stock limited liability company is subject to the supervision and inspection of a supervisory committee. But there is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

**(viii) Derivative action by shareholders**

Hong Kong law permits shareholders, with the permission of a court, to start a derivative action on behalf of and under the name of a company against directors in breach of their duties. The PRC Company Law gives shareholders of a joint stock limited liability company the right that in the event that the directors and senior managers violate their fiduciary obligations to a company, shareholders individually or jointly holding over 1% of the shares in the company for more than 180 days consecutively may request in writing the supervisory committee to initiate proceedings in the people's court. In the event that the supervisory committee violates their fiduciary obligations to a company, the above said shareholders may request in writing the board of directors to initiate proceedings in the people's court. Upon receipt of such request in writing from the shareholders, if the supervisory committee or the board of directors refuse to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall for the benefit of the company's interests, have the right to initiate proceedings directly to the court in its own name.

The Mandatory Provisions further provide that directors, supervisors and officers in breach of their duties to the company shall compensate the company. In addition, every director and supervisor of a joint stock limited liability company applying for a listing of its foreign shares on the Hong Kong Stock Exchange is required to give an undertaking in favor of the company as agent for each shareholder to comply with the articles of association. This allows shareholders to act against directors and supervisors in default.

**(ix) Protection of minorities**

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make a court order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC Company Law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

**(x) Notice of shareholders' meetings**

Under the PRC Company Law, notice of a shareholders' general meeting must be given 20 days before the meeting, while notice of an extraordinary meeting must be given 15 days before the meeting or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made 30 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for considering an ordinary resolution and a special resolution are 14 days and 21 days, respectively; and the notice period for an annual general meeting is 21 days.

**(xi) Quorum for shareholders' meetings**

Under Hong Kong law, the quorum for a general meeting is two members unless the articles of association of the company otherwise provided. For one member companies, one member will be a quorum. The PRC Company Law does not specify any quorum requirement for shareholders' general meeting but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within five days notify shareholders by public announcement and the shareholders' general meeting may be held thereafter.

**(xii) Voting**

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of resolution requires more than one half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share capital, and merger, demerger or dissolution of a joint stock limited liability company or changes to the form of the company, which require two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

**(xiii) Financial disclosure**

A joint stock limited liability company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, changes in financial position and other relevant annexures 20 days before an annual general meeting. In addition, a public company under the PRC Company Law must publish its financial situation. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report which are to be tabled before the company in its annual general meeting not less than 21 days before such meeting.

A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC GAAP, have its accounts prepared and audited in accordance with IFRS or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

**(xiv) Information on directors and shareholders**

The PRC Company Law gives shareholders the right to inspect the articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

**(xv) Receiving agent**

Under both the PRC and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years while that under the PRC law is two years. The Mandatory Provisions require the appointment by the company of a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited liability company in respect of such foreign shares.

**(xvi) Corporate reorganization**

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Companies Ordinance which requires the sanction of the court. Under PRC law, the merger, demerger, dissolution or change to the form of a joint stock limited liability company has to be approved by shareholders in general meeting.

**(xvii) Arbitration of disputes**

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

**(xviii) Mandatory transfers**

Under the PRC Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no such requirements under Hong Kong law.

**(xix) Remedies of a company**

Under the PRC Company Law, if a director, supervisor or management personnel in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or management personnel should be responsible to the company for such damages. In addition, in compliance with the Mandatory Provisions, the Articles of Association set out remedies to our Company similar to those available under Hong Kong law (including recovery of profits made by a director, supervisor or officer).

**(xx) Dividends**

Pursuant to the relevant PRC laws and regulations, the company shall withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

**(xxi) Fiduciary duties**

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, officers, and management personnel owe a fiduciary duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company.

**(xxii) Closure of register of shareholders**

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the PRC Company Law and the Mandatory Provisions, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

**Hong Kong Listing Rules**

The Hong Kong Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited liability company and seeks a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of such principal additional requirements which apply to our Company:

**(i) Compliance Advisor**

A company seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance advisor acceptable to the Hong Kong Stock Exchange for the period from its listing date up to the date of sending of annual report to the shareholders for the first full year's financial results, to provide the company with professional advice on continuous compliance with the Hong Kong Listing Rules and all other applicable laws, regulations, rules, codes and guidelines.

If the Hong Kong Stock Exchange is not satisfied that the compliance advisor is fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor's appointment and appoint a replacement.

The compliance advisor must keep the company informed on a timely basis of changes in the Hong Kong Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

**(ii) Accountants' report**

An accountants' report for a PRC issuer will not normally be regarded as acceptable by the Hong Kong Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such report will normally be required to conform to either Hong Kong or international standards on accounting or PRC accounting standards.

**(iii) Process agent**

Our Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

**(iv) Public shareholdings**

If at any time there are existing issued securities of a PRC issuer other than foreign shares which are listed on the Hong Kong Stock Exchange, the Hong Kong Listing Rules require that the aggregate amount of H shares and other securities held by the public must constitute not less than 25% of the PRC issuer's issued share capital and that the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital, having an expected market capitalization at the time of listing of not less than HK\$50 million.

The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% in the case of issuers with an expected market capitalization at the time of listing of over HK\$10,000 million.

**(v) Independent non-executive directors and supervisors**

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.



**(vi) Restrictions on purchase and subscription of its own securities**

Subject to governmental approvals and the provisions of the Articles of Association, our Company may repurchase our own H Shares on the Hong Kong Stock Exchange in accordance with the provisions of the Hong Kong Listing Rules. Approval by way of special resolution of the holders of Domestic Shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, our Company is required to provide information on any proposed or actual purchases of all or any of our equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Codes on Takeovers and Mergers and any similar PRC law of which they are aware, if any. Any general mandate given to the Directors to repurchase H Shares must not exceed 10% of the total amount of existing issued H Shares.

**(vii) Mandatory Provisions**

With a view to increasing the level of protection afforded to investors, the Hong Kong Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Hong Kong Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the supervisory committee of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in the appendix headed “Appendix VI — Summary of the Articles of Association” to this prospectus.

**(viii) Redeemable Shares**

Our Company must not issue any redeemable Shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected.

**(ix) Right of First Refusal**

Except in the circumstances mentioned below, the Directors are required to obtain the approval by a special resolution of Shareholders in general meeting, and the approvals by special resolutions of the holders of Domestic Shares and H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities.

No such approval will be required under the Hong Kong Listing Rules, but only to the extent that, the existing Shareholders of our Company have by special resolution in general meeting given a mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing Domestic Shares and H Shares as at the date of the passing of the relevant special resolution or of such Shares that are part of our plan at the time of our establishment to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the CSRC.

**(x) Supervisors**

Our Company is required to adopt rules governing dealings by the Supervisors in securities of our Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Hong Kong Listing Rules) issued by the Hong Kong Stock Exchange.

Our Company is required to obtain the approval of the Shareholders in a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to our Company or any of our subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of our Company or our subsidiaries: (i) the contract is for a duration that may exceed three years; or (ii) the contract expressly requires our Company to give more than one year's notice or to pay compensation or make other payments equivalent to more than one year's emoluments.

The remuneration and appraisal committee of our Company or an independent board committee must form a view in respect of service contracts that require Shareholders' approval and advise Shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of our Company and the Shareholders as a whole and advise Shareholders on how to vote.

**(xi) Amendment to the Articles of Association**

Our Company is required not to permit or cause any amendment to be made to the Articles of Association which would cause the same to cease to comply with the mandatory provisions of the Hong Kong Listing Rules relating to such Articles of Association.

**(xii) Documents for inspection**

Our Company is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by Shareholders at reasonable charges of the following:

- a complete duplicate register of Shareholders;
- a report showing the state of the issued share capital of our Company;
- our Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of our Company;

- reports showing the number and nominal value of securities repurchased by our Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- a copy of the latest annual return filed with SAIC or other competent PRC authority; and
- for Shareholders only, copies of minutes of meetings of Shareholders.

**(xiii) Receiving agents**

Our Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

**(xiv) Statements in listing documents and share certificates**

Our Company is required to ensure that all of our listing documents and share certificates include the statements stipulated below and to instruct and cause each of our Share registrars not to register the subscription, purchase or transfer of any of our Shares in the name of any particular holder unless and until such holder delivers to such Share registrar a signed form in respect of such Shares bearing statements to the following effect that the acquirer of the Shares:

- agrees with our Company and each Shareholder of our Company, and our Company agrees with each Shareholder of our Company, to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;
- agrees with our Company, each Shareholder, Director, Supervisor, manager and officer of our Company, and our Company acting for itself and for each Director, Supervisor, manager and officer of our Company agrees with each Shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with our Company and each Shareholder of our Company that the H Shares are freely transferable by the holder thereof; and
- authorizes our Company to enter into a contract on his behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligation to Shareholders as stipulated in the Articles of Association.

**(xv) Compliance with the PRC Company Law, the Special Regulations and the Articles of Association**

Our Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

**(xvi) Contract between our Company and its Directors, officers and Supervisors**

Our Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- that the Director or officer is required to observe and comply with the PRC Company law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement with our Company that remedies shall be provided in accordance with the Articles of Association and that neither their contract nor their office are capable of assignment;
- an undertaking by the Director or officer, acting as agent for each Shareholder, to our Company to observe and comply with his obligations to Shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning the affairs of our Company between our Company and the Directors or officers and between a holder of H Shares and a Director or officer of our Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its securities arbitration rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitration body elected by the claimant. Such arbitration will be final and conclusive;
- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitration body is final and shall be binding on the parties thereto;

- the agreement to arbitrate is made by the Director or officer with our Company on our own behalf and on behalf of each Shareholder; and
- any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award.

Our Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

**(xvii) Subsequent listing**

Our Company must not apply for the listing of any of the H Shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of foreign Shares are adequately protected.

**(xviii) English translation**

All notices or other documents required under Chapter 13 of the Hong Kong Listing Rules to be sent by our Company to the Hong Kong Stock Exchange are required to be in the English language, or accompanied by a certified English translation.

**(xix) General**

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the statements in Rule 19A.01 of the Hong Kong Listing Rules, then the Hong Kong Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including our Company, subject to special conditions as the Hong Kong Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirement and make special conditions in respect of the Listing.

**Other Legal and Regulatory Provisions**

Upon Listing, the provisions of the SFO, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Hong Kong Stock Exchange will apply to our Company.

**Securities arbitration rules**

The Articles of Association provide that certain claims arising from the Articles of Association or the PRC Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The securities arbitration rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases in the following circumstances. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional

upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic communications. For the purpose of the securities arbitration rules, a PRC party means a party domiciled in the PRC.

*This Appendix set out summaries of the main clauses of our Articles of Association adopted on September 3, 2012 and its subsequent amendments which shall become effective as of the date on which the H Shares are listed on the Hong Kong Stock Exchange. As the main purpose of this Appendix is to provide potential investors with an overview of the Articles of Association, it may not necessarily contain all information that is important for investors. As discussed in the appendix headed “Appendix VIII — Documents Delivered to the Registrar of Companies and Available for Inspection” to this prospectus, the full document of the Articles of Association in Chinese is available for examination.*

## **1 DIRECTORS AND BOARD OF DIRECTORS**

### *(a) Power to allocate and issue shares*

The Articles of Association does not contain clauses that authorize the Board of Directors to allocate or issue shares. The Board of Directors shall prepare suggestions for share allotment or issue, which are subject to approval by the Shareholders at the Shareholders’ general meeting in the form of a special resolution. Any such allotment or issue shall be in accordance with the procedures stipulated in appropriate laws and administrative regulations.

### *(b) Power to dispose assets of our Company or our subsidiaries*

If the sum of the expected value of the fixed assets to be disposed of, and the amount or value of the cost received from the fixed assets of our Company disposed of within the four months immediately preceding this suggestion for disposal exceeds 33% of the value of fixed assets of our Company indicated on the latest audited balance sheet submitted to the Shareholders at the Shareholders’ meeting, the Board of Directors shall not dispose of or agree to dispose of such fixed assets without the prior approval of shareholders at the Shareholders’ general meeting. The above disposal refers to the transfer of rights and interests in certain assets, but does not include the provision of guarantees with fixed assets. The validity of the transactions with respect to the disposal of fixed assets of our Company shall not be affected by the violation of the above restrictions contained in the Articles of Association.

### *(c) Indemnification or compensation for loss of office*

As provided in the contract entered into between our Company and the Directors or Supervisors in connection with their emoluments, they are entitled to compensation or other payments for loss of office or retirement as a result of the acquisition of our Company, subject to the approval of the Shareholders at the general Shareholders’ meeting in advance. Acquisition of our Company refers to any of the following circumstances:

- (i) An offer made to all the Shareholders; or
- (ii) An offer is made by any person such that the offeror will become the Controlling Shareholder of our Company (as defined in the Articles of Association).

If the relevant Director or Supervisor fails to comply with the above requirements, any payment received shall belong to the person who sells the shares for accepting the aforesaid offer. The Director or Supervisor shall bear all expenses arising from the distribution of such payments to the person in a proportional manner and all related expenses shall not be deducted from these payments distributed.

*(d) Loans to Directors, Supervisors or other management personnel*

Our Company shall neither provide the Directors, Supervisors or senior management of our Company or our parent company with loans or loan guarantees either directly or indirectly nor provide persons related to the above personnel with loans or loan guarantees.

The following transactions are exempted from the above clauses:

- (i) Our Company provides our subsidiaries with loans or loan guarantees;
- (ii) Our Company provides any of the Directors, Supervisors or senior management with loans, loan guarantees or any other fund pursuant to the employment contracts approved at the Shareholders' meeting to pay all expenses incurred for the purpose of our Company or performing our duties; and
- (iii) In case that the normal scope of business of our Company covers the provision of loans or loan guarantees, our Company may provide any of the Directors, Supervisors or senior management or other related personnel with loans or guarantees for loans, provided that the conditions governing the above loans or loan guarantees shall be normal commercial conditions.

In the event that our Company provides loans in violation of this restriction, the person who receives the loan(s) must payoff the loan(s) immediately, regardless of the conditions of loans. Any loan provided by our Company in violation of the above requirements shall not be mandatorily enforced against us, unless under the following circumstances:

- (i) The loan provider unknowingly provides loans to personnel related to the Directors, Supervisors or senior management of our Company or its parent company; or
- (ii) The collateral provided by our Company is sold lawfully by the lender to the buyer in good faith.

For the purpose of the above provisions, "guarantee" includes the acts of the guarantor bearing the liabilities or providing properties to ensure that the obligor performs the obligations.



*(e) Provide financial aid for acquiring the Shares or shares of any of our subsidiaries*

Pursuant to the Articles of Association:

- (i) Our Company or our subsidiaries shall not provide any financial assistance at any time or in any manner to personnel that acquires or plans to acquire our Shares. Such personnel include any who undertake obligations, directly or indirectly, from acquiring the Shares, and
- (ii) Our Company or any of our subsidiaries shall not provide personnel mentioned in the preceding paragraph with financial aid at any time or in any manner to mitigate or exempt the obligations of the above personnel.

The following transactions are not prohibited:

- (i) Related financial aid provided by our Company which is in good faith in our interest and the main purpose of the financial aid is not to acquire our Shares or is an incidental part of a master plan of our Company;
- (ii) The lawful distribution of our properties by way of dividend;
- (iii) Distribution of dividends in the form of shares;
- (iv) Reducing the registered capital, redeeming the Shares or adjusting the equity structure pursuant to the Articles of Association;
- (v) Our Company grants loans within our scope of business and in the ordinary course of our business, provided that such loans shall not result in reduction in the net assets of our Company or even if the net assets are reduced, this financial aid is paid from the profit available for distribution; and
- (vi) Our Company provides the employee stock ownership plan with fund, provided that such loans shall not result in reduction in the net assets of our Company or, even if the net assets are reduced, this financial aid is paid from the profit available for distribution.

For the purpose of the above provisions:

- (i) "Financial aid" includes, but is not limited to:
  - (aa) Gifts;
  - (bb) Guarantees (including acts of the guarantor assuming liabilities or providing property to ensure that the obligor performs the obligations), compensation (excluding compensation arising from mistakes of our Company), release or waiver of rights;

- (cc) Provision of loans or signing of contracts whereby our Company performs some obligations before others, change of the parties to the loans/ contracts as well as the assignment of the rights in the loans/contracts; or
- (dd) Financial aid provided by our Company in any other manner when it is insolvent, has no net assets, or will suffer significant decreases in net assets.
- (ii) “Assuming obligations” includes obligator undertaking obligations by signing agreements or making arrangements (no matter whether the agreements or arrangements are enforceable on demand or bearing the obligations by itself or jointly with any other person) or changing its financial status in any other manner.
- (f) *Disclose matters relating to the contract rights of our Company and voting on the contract/s*

When any of the Directors, Supervisors and senior management has material interests in the contracts, transactions or arrangements that our Company has entered into or plans to enter into in any manner directly or indirectly (except for employment contracts that our Company has entered into with the Directors, Supervisors and senior management), the above personnel shall disclose the nature and degree of their interests to the Board of Directors as soon as possible no matter whether the above contracts, transactions, arrangements or suggestions are subject to the approval of the Board of Directors in normal circumstances.

With respect to any contract, transaction, arrangement or proposal in which a Director or his associates have a material interest, subject to such certain exceptions available under the Hong Kong Listing Rules or such exceptions as the Hong Kong Stock Exchange may approve, the Director shall withdraw and not participate in voting; and the Director shall not be included when determining whether the number of directors attending the meeting reaches a quorum.

Unless the Directors, Supervisors and senior management who have interests have made disclosure to the Board of Directors in accordance with the above requirements and the Board of Directors approves the matters at the meeting in which they are not included in the quorum nor participate in voting, our Company shall have the right to cancel the contracts, transactions or arrangements, except where the opposite party is a party in good faith without knowledge of the acts of related Directors, Supervisors and senior management violating their obligations.

Where associates of the Directors, Supervisors and senior management have interests in certain contracts, transactions and arrangements, the related Directors, Supervisors and senior management shall be deemed to have interests.

*(g) Remuneration*

Our Company shall sign written agreements with the Directors and Supervisors regarding remuneration, which shall be subject to prior approval of the general Shareholders' meeting, including:

- (i) Remuneration for providing services as the Directors, Supervisors or senior management of our Company;
- (ii) Remuneration for providing services as the Directors, Supervisors or senior management of our subsidiaries;
- (iii) Remuneration for providing other services for management of our Company and our subsidiaries; and
- (iv) Compensation received by the Directors or Supervisors as a result of loss of position or retirement.

No Director or Supervisor shall institute any litigation against our Company over any interests payable relative to the above unless provided for in the above contracts.

*(h) Resignation, Appointment and Dismissal*

None of the following persons shall serve as our Director, Supervisor, president or other senior management:

- (i) Anyone who has no civil capacity or has limited civil capacity;
- (ii) Anyone who has been convicted of the offense of corruption, bribery, embezzlement, larceny, or disrupting the social economic order and is within five years of the expiry date of punishment or has been deprived of political rights because of this conviction and is within five years of the expiry date of the sentence;
- (iii) Anyone who has served as director, factory manager or manager of a company or enterprise that is bankrupt and liquidated as a result of improper management, was personally liable for the bankruptcy of the company or enterprise, and is within three years of the date of completion of bankruptcy and liquidation of the company or enterprise;
- (iv) Anyone who has served as the legal representative of a company or enterprise whose business license was revoked due to violation of the law, was personally liable, and is within three years of the date on which the business license of our Company or enterprise was revoked;
- (v) Anyone who has a large sum of debt, which was not paid at maturity;

- (vi) Anyone who is investigated by the judicial agencies for violation of criminal law and whose case is pending;
- (vii) Anyone who may not serve as a head of the company pursuant to the provisions of the laws and administrative regulations, or regulations of the competent authorities;
- (viii) Anyone who is not a natural person;
- (ix) Anyone judged by the competent agencies to have violated the provisions of relevant securities laws, has been involved in deceptive or dishonest acts and is within five years of the date on which the judgment was made;
- (x) Other circumstances which are applicable pursuant to the provisions of the laws and administrative regulations, or regulations of the competent authorities.

The validity of the acts of the Directors, president or senior management on behalf of our Company to bona fide third parties shall not be affected by any irregularities in their appointment, election or qualifications.

The Board of Directors consists of nine directors and these are elected at the general Shareholders meeting. The Directors need not hold any of our Shares.

The chairman and vice chairman of the Board shall be elected and dismissed by a vote of more than one half of the Directors. Subject to compliance with related laws and administrative regulations, the general Shareholders' meeting may remove any Director whose term has not expired by an ordinary resolution without affecting any claim for damages that may be made pursuant to any contract.

The Directors serve three-year terms. Upon expiration of the term, the Director may be re-elected (an independent non-executive Director may not be elected for more than 6 years consecutively).

Written notice concerning proposed nomination of a director candidate and indication of the candidate's intention to accept the nomination shall be sent to our Company ten days before the general Shareholders' meeting is convened (the period shall commence on the day after the dispatch of the notice of the general meeting appointed for such election by our Company).

*(i) Power to Obtain Loans*

Subject to compliance with the laws and administrative regulations of the State, our Company has the right to raise funds and obtain loans, including (but not limited to) issuing bonds, mortgaging or pledging all or part of the properties of our Company, as well as exercising other rights approved by the laws and administrative regulations of the State, provided that such action shall not undermine or revoke the rights of any shareholder.

The Articles of Association does not include any special provision regarding the manner in which the Directors may exercise the right to obtain loans or the manner in which such a right is created except (a) the provision regarding the power of the Directors to develop schemes for our Company to issue bonds, and (b) the provision that the bond issue must be approved by the Shareholders through a special resolution at the general Shareholders' meeting.

*(j) Responsibilities*

The Directors, Supervisors and senior management shall bear the obligations of good faith and diligence towards our Company. In the event of violation of obligations owed to our Company by the Directors, Supervisors and senior management, we shall have the right to take the following measures in addition to various rights and remedial measures stipulated in legal and administrative regulations:

- (i) Require related Directors, Supervisors or senior management to compensate our Company for losses sustained as a result of their neglect of duty;
- (ii) Cancel any contract or transaction entered into between the Company and related Directors, Supervisors or senior management as well as any contract or transaction entered into between our Company and any third person when the third person knew or should have known that the Directors, Supervisors or senior management acting on behalf of our Company violated their obligations owed to our Company;
- (iii) Require the relevant Directors, Supervisors or senior management to turn over the proceeds obtained from the violation of their obligations;
- (iv) Recover funds collected by the relevant Directors, Supervisors or senior management that should have been collected for our Company, including but not limited to commissions;
- (v) Require the relevant Directors, Supervisors or senior management to return the interest earned or that may be earned from funds that should have been paid to our Company.

When performing their responsibilities, the Directors, Supervisors and senior management must comply with the principle of integrity and shall not put themselves in situations where their own interests may conflict with the obligations they have undertaken. This principle includes, but is not limited to, performing the following obligations:

- (i) Sincerely taking the best interests of our Company as the starting point of any action;
- (ii) Exercising one's rights within but not exceeding the scope of authority;
- (iii) Exercising conferred discretionary powers personally without being manipulated by others; not transferring discretionary powers to other persons unless and to the extent permitted by laws and administrative regulations or with the informed consent of shareholders given in a general meeting;

- (iv) Treating Shareholders of the same type equally and Shareholders of different types fairly;
- (v) Entering into any contract, transaction or arrangement with our Company is not allowed, unless in line with the Articles of Association or otherwise by the approval of the general Shareholders' meeting with its full knowledge;
- (vi) Seeking private gain using the properties of our Company in any manner is not allowed, unless agreed by the general Shareholders' meeting with its full knowledge.
- (vii) Using one's position to take bribes or other illegal gains is not allowed, nor is any form of embezzlement of our property, including, but not limited to, opportunities beneficial to our Company;
- (viii) Accepting commissions associated with transactions of our Company is not allowed unless agreed by the general Shareholders' meeting with its full knowledge;
- (ix) Compliance with the Articles of Association, discharging duties in a faithful manner, safeguarding the interests of our Company rather than seeking private gain by taking advantage of one's position and authority in our Company;
- (x) Competing with our Company in any manner is not allowed, unless agreed by the Shareholders at the general Shareholders' meeting with its full knowledge;
- (xi) Misappropriation of our funds or lending these funds to others is not allowed, nor is depositing the assets of our Company in an account opened in one's own name or other names, nor is using the assets of our Company to provide guarantees for the debts of the Shareholders or other individuals;
- (xii) Disclosure of any confidential information relating to our Company obtained during employment without the consent of the general shareholders' meeting with its full knowledge; unless in the interest of our Company, using such information is also not allowed; however, under the following circumstances the information may be disclosed to a court or other competent government agencies as required by (1) the provisions of the law; (2) the public interest; (3) the interest of the Directors, Supervisors or senior management.

The Directors, Supervisors and senior management may not direct the following personnel or institutions ("related personnel") to do acts that the Directors, Supervisors and senior management is prohibited from doing:

- (i) Spouses or minor children of the Directors, Supervisors and senior management;
- (ii) Trustors of the Directors, Supervisors and senior management or the persons mentioned in (i);

- (iii) Partners of the Directors, Supervisors and senior management or persons mentioned in (i) and (ii);
- (iv) The company under de facto control by the Directors, Supervisors and senior management individually or jointly with the persons or other directors, supervisors and senior management of companies mentioned in (i), (ii) and (iii);
- (v) Directors, Supervisors or senior management of the controlled companies mentioned in (iv).

The good faith obligation owed by the Directors, Supervisors and senior management may not necessarily terminate with the expiration of their terms; their obligation to keep the trade secrets of our Company in confidence shall survive the expiration of their terms, until such secrets become public available. The duration of other obligations shall be determined in accordance with the principle of fairness, depending on the length of time from the occurrence of the events to the time of resignation, as well as the circumstances and conditions under which the relationship with our Company is terminated.

Except as otherwise provided in the Articles of Association, liabilities of Directors, Supervisors and senior management arising from the violation of specific duties may be released by informed shareholders in general meetings.

Apart from the obligations set forth in related laws, administrative regulations or the listing rules of the stock exchange where the Shares are listed, the Directors, Supervisors or senior management shall assume the following obligations for each of the Shareholders when exercising their rights and performing their responsibilities:

- (i) They may not cause our Company to operate beyond the scope of business indicated on our business license;
- (ii) They shall sincerely take the best interests of our Company as the starting point of any action;
- (iii) They may not deprive our Company of our properties in any manner, including, but not limited to, opportunities beneficial to our Company; and
- (iv) They may not deprive the Shareholders of personal rights and interests, including, but not limited to, the right to receive dividends distributed and to vote, except for restructuring of our Company approved at the general Shareholders' meeting pursuant to the provisions of the Articles of Association.

The Directors, Supervisors and senior management have the responsibility when exercising their rights or carrying out their obligations to act with the care, diligence and skill due from a reasonably prudent person under similar circumstances.

**2 MODIFICATION OF THE ARTICLES OF ASSOCIATION**

We may amend the Articles of Association based on the provisions of the relevant laws, administrative regulations and Articles of Association.

Any amendment to the Articles of Association that involves Mandatory Provisions shall be approved by company approval authorities authorized by the State Council before taking effect. Where the amendment of the Articles of Association involves our registration, it shall be necessary to carry out the lawfully prescribed procedures for registration change.

**3 SPECIAL VOTING PROCEDURES OF CLASSIFIED SHAREHOLDERS**

Any Shareholder who holds different types of Shares is a classified Shareholder. Any plan of our Company to change or abolish the rights of a classified Shareholder is subject to the approval of the general Shareholders' meeting in the form of a special resolution and the approval of the affected classified Shareholders at a separately convened Shareholders' meeting in accordance with the Articles of Association before it can be implemented. The rights of a classified Shareholder shall be viewed as changed or abolished under any of the following circumstances:

- (a) Increase/reduce the number of the classified Shares, or increase/reduce the number of classified Shares with equal or more voting rights, distribution rights and other privileges than this type of classified Shares;
- (b) Convert all or part of the classified Shares into other types or convert another type of Shares, partly or wholly, into this type of classified Shares or grant such conversion right;
- (c) Cancel/reduce the right of the classified Shares to obtain dividends generated or cumulative dividends;
- (d) Reduce/cancel the right of the classified Shares to receive dividends on a priority basis or the priority right to receive property distribution in the liquidation of our Company;
- (e) Increase/cancel or reduce the right of the classified Shares to convert Share rights, options rights, voting rights, transfer rights, and pre-emptive rights, or the right to obtain the securities of our Company;
- (f) Cancel/reduce the right of the classified Shares to receive funds payable of our Company in specified currencies;
- (g) Create new classified Shares entitled to equal or more voting rights, distribution rights, or other privileges than the classified Shares;
- (h) Impose restrictions on the transfer or ownership of the classified Shares or increase such restrictions;



- (i) Issue subscription or conversion rights for this or other classified Shares;
- (j) Increase the rights and privileges of other types of Shares;
- (k) The restructuring plan of our Company may constitute different types of Shareholders to assume responsibilities disproportionately;
- (l) Amend or abolish clauses stipulated in our Articles of Association.

Whether or not the affected classified Shareholders have voting rights at the general Shareholders' meeting, in the event of matters described above from (b) through (h), (k) and (l), they have voting rights at the classified Shareholders' meeting, but the Shareholders that have interests at stake (as defined in our Articles of Association) shall have no voting rights at the classified Shareholders' meeting.

The resolution of the classified Shareholders' meeting shall be passed by votes representing more than two thirds of Shareholders with voting rights attending the classified Shareholders' meeting.

When convening a classified Shareholders' meeting, 45 days (excluding the date of the meeting) before the meeting is convened, our Company shall send a written notice to inform all registered holders of the classified Shares on matters to be deliberated at the meeting, as well as the date and venue of the meeting. Shareholders planning to attend the meeting shall send our Company a written reply concerning attendance at the meeting 20 days before the meeting.

In the event that the number of shares with voting power represented by Shareholders planning to attend the meeting accounts for more than one half of the total number of said classified Shares with voting power at the meeting, our Company may convene a classified Shareholders' meeting. If this number is not reached, our Company shall again inform the Shareholders of the matters to be deliberated as well as the date and venue of the meeting within five days in the form of an announcement and our Company may convene a classified Shareholders' meeting once the announcement is delivered.

The notice of the classified Shareholders' meeting needs only to be sent to the Shareholders who have the right to vote at the meeting.

Insofar as possible, any classified Shareholders' meeting shall be held in accordance with the same procedures as those of the general Shareholders' meeting, and any clause that relates to the procedures for convening the general Shareholders' meeting in the Articles of Association shall apply to any classified Shareholders' meeting.

Apart from the holders of other classified Shares, the holders of Domestic Shares and the holders of overseas listed foreign Shares are considered as different classified Shareholders.

The special procedures for voting by the classified Shareholders shall not apply under the following circumstances:

- (a) Upon the approval by a special resolution at the general Shareholders' meeting, our Company either separately or concurrently issues Domestic Shares and overseas-listed foreign shares once every 12 months, and the number of those shares to be issued shall not account for more than 20% of each of its outstanding shares;
- (b) The plan to issue Domestic Shares and overseas listed foreign Shares upon the establishment of our Company is completed within 15 months of the date of approval by the securities regulatory agency of the State Council;
- (c) Upon the approval by the securities regulatory authorities of the State Council, the unlisted Shares held by our Shareholders become listed or traded on an overseas stock exchange.

#### **4 SPECIAL RESOLUTIONS NEEDED TO BE ADOPTED BY MAJORITY VOTE**

The resolutions of the Shareholders' meeting are categorized as ordinary resolutions and special resolutions.

An ordinary resolution can be adopted by a simple majority of the votes held by the Shareholders (including proxies) attending the general Shareholders' meeting.

A special resolution can be adopted by a two-thirds majority of the votes held by the Shareholders (including proxies) attending the general Shareholders' meeting.

#### **5 VOTING RIGHTS (GENERALLY ON A POLL AND RIGHT TO DEMAND A POLL)**

The ordinary Shareholders have the right to attend or appoint a proxy to attend and vote at the general shareholders' meeting. When voting at the general shareholders' meeting, the shareholder (or proxy) may exercise his or her voting rights in accordance with the number of shares with voting power held with each share representing one vote.

When voting at a general meeting, shareholders (including their proxies) who are entitled to two or more votes are not required to vote against or in favor with their total number of votes.

When the number of dissenting votes equals the number of supporting votes, the chairman of the meeting is entitled to one additional vote.

#### **6 GENERAL SHAREHOLDERS' MEETINGS**

The general shareholders' meetings are divided into annual general shareholders' meetings and extraordinary general meetings. General shareholders' meetings are called by the Board of Directors. The annual general shareholders' meeting shall be convened once a year and be held within six months of the end of the previous fiscal year.

**7 ACCOUNTING AND AUDITS***(a) Financial and accounting policies*

Our Company shall develop its financial accounting policies pursuant to PRC laws, administrative regulations, as well as accounting standards developed by the competent department in charge of finance under the State Council.

The Board of Directors shall submit the financial reports of our Company, as required by the laws, administrative regulations or directives promulgated by local governments and competent authorities to be prepared by our Company, at every annual Shareholders' meetings.

Apart from the Chinese accounting standards for business enterprises and regulations, the financial reports of our Company shall also conform to international accounting standards and the accounting standards of overseas areas where the Shares are listed. In the event of any major discrepancy between the financial reports prepared in accordance with the two accounting standards, such difference must be provided in the notes to the financial reports. As to the distribution of after-tax profits of our Company in a fiscal year, the after-tax profits indicated on the two financial reports, whichever is lower, shall prevail.

Our Company shall make its financial reports available for inspection by the Shareholders 20 days before the annual general Shareholders' meeting is convened. Each Shareholder is entitled to obtain one copy of the financial report.

Our Company shall send the aforesaid reports to each of the holders of overseas-listed foreign Shares by the manner as stipulated in the Articles of Association of our Company or by postage-paid mail at least 21 days before the annual general Shareholders' meeting is convened and the recipient's address shall be the address as shown in the register of Shareholders.

Our Company's interim results or financial information published or disclosed by our Company shall at the same time be prepared in accordance with PRC accounting standards, regulations, international accounting standards as well as the accounting standards of the overseas area in which the Shares are listed.

Our Company must publish the financial reports twice in each fiscal year. Interim financial reports shall be published within 60 days of the end of the first six months of a fiscal year, while the annual financial report shall be published within 120 days of the completion of each fiscal year.

The Company shall not keep any accounting books other than those specified by law.

*(b) Appointment and Dismissal of Accountants*

Our Company shall appoint an accounting firm with independent qualifications that meets appropriate requirements of the state to be responsible for auditing its annual report and reviewing its other financial reports.

The term of the accounting firm appointed by our Company shall start at the close of the annual general Shareholders' meeting and continue until the close of the next annual Shareholders' meeting.

Without prejudice to the right of the accounting firm to claim for compensation (if any) for being dismissed and replaced, the Shareholders may replace the accounting firm through an ordinary resolution at the general Shareholders' meeting prior to the expiration of the term of any accounting firm notwithstanding the terms and conditions of the contract howsoever entered into between our Company and the accounting firm.

Remuneration of the accounting firm and the manner in which the remuneration is determined shall be decided on by the Shareholders at the general Shareholders meeting. The remuneration of the accounting firm appointed by the Board of Directors shall be confirmed by the Board of Directors.

Appointment, dismissal/replacement or termination of the contract of the accounting firm by our Company is subject to the resolution of the Shareholders at the general Shareholders' meeting and shall be filed with the securities regulatory agency of the State Council.

Before dismissing, reappointing, replacing or terminating the contract with the accounting firm, our Company shall send a notice to the accounting firm in advance notifying it of the matters relating to the dismissal, reappointment, replacement or contract termination, and the accounting firm shall be entitled to attend the general Shareholders' meeting and make a statement.

In the event that the accounting firm requests to resign, it shall declare to the general Shareholders' meeting whether our Company is affected by any improprieties.

The accounting firm shall resign by sending a written resignation notice to our Company's legal address. The notice shall take effect on the date of delivery to that address or on the date specified in the notice, whichever is later.

The notice shall include the following statements:

- (i) Its resignation does not include any statement that should be disclosed to the Shareholders or creditors of our Company; or
- (ii) Any statement that should be disclosed.

Within 14 days of receipt of the notice mentioned above, our Company shall send the copy of the notice to related competent agencies. If the notice includes statements mentioned in (ii) of the preceding paragraph, our Company shall retain a copy thereof for perusal by the Shareholders and deliver such copy in accordance with Articles of Association or send a copy of the above-mentioned statements to shareholders of overseas listed foreign invested shares in accordance with the addresses registered on the register of Shareholders by postage-prepaid mail.

In the event that the resignation notice of the accounting firm includes any statement that should be disclosed to the Shareholders or creditors, the accounting firm may request the Board of Directors to convene an extraordinary general meeting to hear its explanations regarding the resignation.

## **8 NOTIFICATION AND AGENDA OF GENERAL SHAREHOLDERS' MEETINGS**

The general Shareholders' meeting is the authorized organ of our Company that can perform duties and exercise powers in accordance with the law.

Apart from special circumstances such as where our Company is in crisis, without the approval of a special resolution of the general Shareholders' meeting, our Company shall not enter into a contract with any person other than the Directors, Supervisors and senior management that would make a person responsible for the management of all or part of the main business of our Company.

Under any of the following circumstances, the Board of Directors shall convene an extraordinary general meeting within two months:

- (a) The number of Directors is less than the number specified in the PRC Company Law or less than two thirds of the number required in the Articles of Association;
- (b) The uncovered losses of our Company reach one-third of its total paid-in share capital;
- (c) The Shareholders with 10% or more voting power separately or jointly request to convene an extraordinary general meeting in writing;
- (d) The Board of Directors considers it necessary or the Supervisory Committee proposes convening an extraordinary general meeting; or
- (e) Any other circumstances stipulated in laws, administrative regulations, regulations of the competent authorities or the Articles of Association.

When convening a general Shareholders' meeting, our Company shall send a written notice to inform all registered Shareholders of the matters to be deliberated at the meeting as well as the date and venue of the meeting 45 days before it is convened (excluding the date of meeting). Shareholders planning to attend shall send to our Company a written reply to that effect 20 days before the meeting is held.

At our Company's general Shareholders' meeting, the Shareholders jointly holding 3% or more Shares with voting power are entitled to submit written proposals to our Company.

Our Company shall calculate the number of Shares with voting power represented by the Shareholders planning to attend the general Shareholders' meeting in accordance with the written replies received 20 days before the meeting is convened. In the event that the number of Shares with voting power represented by the Shareholders planning to attend reaches more than one half of our

total number of Shares with voting power, our Company may convene the general Shareholders' meeting. If this number is not reached, our Company shall again inform the Shareholders of the matters to be deliberated and the date and venue of the meeting within five days in the form of an announcement before the general Shareholders' meeting may be convened.

The notice of the general Shareholders' meeting shall be in writing and meet the following requirements:

- (a) Specified venue, date and time of the meeting;
- (b) Specified matters to be deliberated at the meeting;
- (c) Provision to the Shareholders of the detailed information and contract to the shareholder and the materials and explanations about the cause and consequence necessary for the Shareholders to make sound decisions about the matters to be deliberated. This principle includes, but is not limited to, the provision of the detailed terms and contract(s), if any, of the proposed transaction(s) and proper explanations about related causes and effects when our Company proposes merger/s, redemption of shares, restructuring of stock capital or other restructuring;
- (d) In the event that any of the Directors, Supervisors, managers or other senior management has material interests at stake in matters to be deliberated, the nature and extent of the interests at stake shall be disclosed. If the matters to be deliberated affect any Director, Supervisor, manager or other senior management as a Shareholder in a manner different from how they affect other Shareholders of the same type, the difference shall be explained;
- (e) Inclusion of the full text of any special resolution to be proposed for adoption at the meeting;
- (f) A clear explanation that the Shareholder is entitled to attend and vote at the general Shareholders' meeting, or to appoint one or more entrusted representative to attend and vote at the meeting on his or her behalf and that such may not necessarily be Shareholders; and
- (g) Specified delivery time and place of the power of attorney for proxy voting of the meeting.

The notice of the general Shareholders' meeting and circular of the Company shall be sent in person or by postage-paid mail, to the holders of H Shares in accordance with the relevant provisions of the Hong Kong Listing Rules regardless of whether such Shareholders have the right to vote at the general Shareholders' meeting, and each recipient's address shall be according to the address indicated on the register of Shareholders. For holders of Domestic Shares, the notice of our general Shareholders' meeting may be given in the form of an announcement.

This announcement shall be published in one or more newspapers designated by the securities governing authority of the State Council within a period of 45 to 50 days before the meeting is convened. Once the announcement is made, all holders of Domestic Shares shall be deemed to have

received the notice of our general Shareholders' meeting. In the event that the notice of the meeting is not sent to persons entitled to receive it due to accident or oversight, or such persons fail to receive notice of the meeting, the meeting and resolutions made at the meeting shall not be thereby affected.

The Shareholders require to convene an extraordinary general meeting or classified Shareholders' meeting in accordance with the following procedures:

- (a) Shareholders who separately or jointly hold 10% or more of the Shares carrying voting rights may request the Board to convene an extraordinary general meeting or classified Shareholders' meeting by signing a written requirement or several copies with the same format and to illustrate the subject of the meetings. The Board shall convene an extraordinary general meeting or classified Shareholders' meeting as soon as practicably upon receipt of the foresaid written requirement. The aforesaid number of share holdings is calculated as at the date of the submission of the written requirement by the Shareholders.
- (b) In the event that the Board cannot or fails to perform its duty to convene a meeting, the Supervisory Committee shall convene and chair the meeting in time; if the Supervisory Committee fails to convene and chair the meeting, the Shareholders who separately or jointly hold more than 10% of the Shares of our Company within more than 90 consecutive days may convene and chair by themselves.

If the Shareholders call and convene a meeting by themselves since the Board cannot convene a meeting in accordance with the foresaid requirement, the expenses reasonably resulted therefrom shall be borne by our Company and be deducted from the amounts due to the Directors as a result of loss of office.

Shareholders who separately or jointly hold more than 3% of the Shares of our Company may submit a temporary proposal to the Board in writing prior to 10 days since the convening of the general Shareholders' meeting; the Board shall notify other shareholders within 2 days upon receiving the proposal and submit this temporary proposal to the general Shareholders' meeting for consideration. The contents of the temporary proposal shall fall into the category of the terms of reference of the general Shareholders' meeting and it shall have the explicit subject and specific resolutions.

Apart from aforesaid matters, the convener shall not amend the proposals stated in the notice of the general Shareholders' meeting or add new proposals upon issuance of the announcement on the notice of the general Shareholders' meeting.

The general Shareholders' meeting shall be convened by the Board and chaired by the president; if the president cannot or fails to perform his duties, the general Shareholders' meeting shall be chaired by the vice-president; if the vice-president cannot or fails to perform his duties, the general Shareholders' meeting shall be chaired by a director co-elected by more than half of the directors. If the Board cannot or fails to perform its duty to convene the general Shareholders' meeting, the Supervisory Committee shall convene and chair the meeting in time; if the Supervisory Committee cannot or fails to perform its duty to convene the general Shareholders' meeting, the shareholders who

separately or jointly hold more than 10% of our Company's shares within more than 90 consecutive days may convene and chair the meeting by themselves. If the Shareholders cannot elect the chairman due to any reason, the shareholder (including his proxy) presented at the meeting who hold the shares carrying the maximum voting rights shall act as the chairman of the meeting.

The following matters shall be approved by the general Shareholders' meeting through ordinary resolutions:

- (a) Work report of the Board of Directors and Supervisory Committee;
- (b) Plans of earnings distribution and loss make-up schemes drafted by the Board of Directors;
- (c) Appointment or dismissal of the members of the Board of Directors and the members of Supervisory Committee Who are not assumed by staff representatives, their remuneration and payment methods;
- (d) Annual budget/final account report, balance sheet, income and other financial statements of our Company;
- (e) Other matters in addition to those approved by special resolution stipulated in the laws, administrative regulations or the Articles of Association.

The following matters shall be approved by special resolution at the general Shareholders' meeting:

- (a) Our Company's capital stock increases/decreases and issues of any type of shares, warrants and other similar securities;
- (b) Our Company's bond issues;
- (c) Division, merger, dissolution and liquidation of our Company and the change of form of our Company;
- (d) Amendment of the Articles of Association;
- (e) Other matters as required by the laws, administrative regulations or the Articles of Association, and as approved by ordinary resolution of the general Shareholders' meeting which are believed could materially affect our Company and need to be approved by special resolution.

## **9 SHARE TRANSFERS**

All fully paid up overseas listed foreign shares listed in Hong Kong shall be exempted from any restriction on the right of transfer (except when permitted by the Hong Kong Stock Exchange) and shall also be exempted from all lien pursuant to the Articles of Association.



However, unless the overseas listed foreign Shares listed in Hong Kong meet the following conditions, the Board of Director may refuse to recognize any transfer document without giving any reason:

- (a) The payment to our Company of HK\$2.50 per item of transfer document or the maximum fee provided by Hong Kong Stock Exchange at that time to register the share transfer documents and other documents that are related to or may affect the ownership of the Shares;
- (b) The transfer documents only involve overseas listed foreign Shares listed in Hong Kong;
- (c) The stamp duty chargeable on the transfer documents has been paid and this has been registered in accordance with the regulations of the Hong Kong Stock Exchange;
- (d) The relevant Share certificate, and upon the reasonable request of the Board of Directors, any evidence in relation to the right of the transferor to transfer the Shares has been submitted;
- (e) If the Shares are to be transferred to joint holders, the number of the joint holders shall not exceed four; and
- (f) Our Company does not have any lien on the relevant Shares.

No change may be made to the information in the register of Shareholders as a result of the share transfer within 30 days before the general Shareholders' meeting is convened or within five days prior to the record date on which our Company has decided to distribute dividends.

## **10 RIGHTS OF OUR COMPANY TO BUY BACK OUR OUTSTANDING ISSUED SHARES**

Under any of the following circumstances, our Company may buy back our outstanding issued Shares pursuant to the requirements of the laws, administrative rules and regulations and the Articles of Association:

- (a) Cancellation of the shares to reduce our Company's share capital;
- (b) Merger with other companies which hold these Shares;
- (c) Granting Shares to the staff of our Company as incentives;
- (d) Buying back the Shares from Shareholders who vote against any resolutions adopted at the general Shareholders' meeting concerning the merger and division of our Company; or
- (e) Other circumstances as required by the laws and administrative regulations and as approved by the competent authorities of the PRC.

In the event our Company buys back the Shares for reasons stated in (a) through (c) of the preceding paragraph, related resolutions must be adopted at the general Shareholders' meeting. If our Company buys back the Shares according to the provision of the preceding paragraph under the circumstances set forth in (a), the shares bought back must be cancelled within ten days of the date on which they are bought back. In the event of the circumstances set forth in (b) and (d) the Shares bought back must be transferred or cancelled within six months.

In the event that our Company buys back the Shares pursuant to the provisions of (c) in the preceding paragraph, the Shares bought back may not exceed 5% of the total Shares issued. The fund used for such buyback must be allocated from the after-tax net profit of our Company and the Shares bought back must be transferred to the staff within one year.

Our Company may buy back Shares in any of the following ways:

- (a) Making a comprehensive buyback offer on a pro-rata basis to all Shareholders;
- (b) Buying back Shares through public trading on the securities exchange;
- (c) Buying back Shares by an agreement outside a stock exchange;
- (d) In other ways approved by the competent authorities of the PRC.

Where our Company buys back the Shares by an agreement outside a stock exchange, it shall obtain prior approval at the general Shareholders' meeting pursuant to the Articles of Association. Likewise, subject to the prior approval of the general Shareholders' meeting, our Company may dissolve or change the contract signed in the aforesaid manner or waive any of its rights in the contract. As for the redeemable Shares that our Company is entitled to buy back, if they are not bought back in the market or by bidding, the price may not exceed a certain maximum limit. If the Shares are bought back by bidding, a proposal to bid must be made to all Shareholders on equal terms. The contract that buys back the Shares includes, but is not limited to, an agreement that consents to undertake the obligation to buy back the Shares and obtain the rights to buy them back.

Our Company shall not transfer any contract that buys back the Shares or any rights conferred under the contract.

Unless our Company has entered into the liquidation process, we must observe the following provisions for the buyback of issued Shares:

- (a) Where our Company buys back Shares at book value, the funds shall be deducted from the book balance of our distributable earnings and the proceeds obtained from the issue of new Shares to buy back the old Shares;

- (b) Where our Company buys back the Shares at a premium to the book value, the portion of funds equivalent to book value shall be deducted from the book balance of our distributable earnings and the proceeds obtained from the issue of new Shares made for the purpose of buying back of Shares, while the portion of funds higher than book value shall be dealt with in the following manner:
  - (i) Where the Shares bought back were issued at book value, the funds shall be deducted from the book balance of our distributable earnings;
  - (ii) Where the Shares bought back were issued at a premium to the book value, the funds shall be deducted from the book balance of our distributable earnings and the proceeds obtained from the issue of new Shares made for the purpose of buying back of Shares. However, the amount deducted from the proceeds obtained from the issue of new Shares shall not exceed the total premium amount obtained when the Shares bought back were issued or the amount (including the premium amount of the issue of new shares) in our capital reserve account when the Shares are bought back.
- (c) The funds paid by our Company for the following purposes shall be allocated from our distributable earnings:
  - (i) To obtain the right to buy back the Shares;
  - (ii) To modify any contract to buy back the Shares;
  - (iii) To release any obligation of our Company under the share buyback contract.
- (d) After the total book value of the cancelled Shares is deducted from our registered capital pursuant to the relevant provisions, the amount deducted from the distributable earnings for paying up the book value portion of the Shares bought back shall be credited to our capital reserve account.

## **11 DIVIDEND AND DISTRIBUTION METHODS**

Our Company may distribute dividends by way of cash or shares. When our Company pays cash dividends and other funds to the holders of Domestic Shares, payment shall be made in Renminbi.

When our Company pays cash dividends and other funds to holders of overseas listed foreign Shares, payment shall be denominated in Renminbi and paid in Hong Kong dollars. The foreign exchange required by our Company to pay cash dividends and other funds to holders of overseas listed foreign Shares shall be handled in accordance with the related regulations of SAFE.

Our Company shall appoint, on behalf of holders of overseas listed foreign Shares, receiving agents to receive dividends and other payable funds that are distributed with respect to our overseas listed foreign Shares and the receiving agent shall be a trust company registered under the Trustee Ordinance.

The receiving agents appointed by our Company shall comply with related provisions of the laws or the securities exchange where the Shares are listed.

## **12 SHAREHOLDER PROXIES**

Any shareholder who is entitled to attend and vote at our general Shareholders' meeting has the right to appoint one or more persons (who may not necessarily be shareholders) as his or her shareholder proxy to attend and vote at the meeting in his or her place. Pursuant to the authorization of the Shareholder, the proxy may exercise the following rights:

- (a) Speak for the Shareholder at the general Shareholders' meeting;
- (b) Demand a poll individually or with others;
- (c) exercise the right to vote by a show of hands or a poll, but the shareholder proxy may only exercise the right to vote by a poll when more than one proxy is appointed.

The shareholder proxy appointment shall be in writing and shall be signed by the appointor or a person duly authorized in writing. Where the appointor is a legal person, the stamp of the legal person shall be affixed, or signed by the Director or a duly authorized agent. The power of attorney must be kept at the residential address or other location designated in the notice convening the meeting no later than 24 hours before the meeting at which the power of attorney is put to vote is convened or 24 hours before the designated time at which the resolution is adopted. If the power of attorney is signed by another person authorized by the appointor by means of power of attorney or other instrument of authorization, the power of attorney or other instrument must be verified by a notary. The power of attorney or other instrument verified by the notary must be kept together with the power of attorney appointing the entrusted representative at our residential address or other location designated at the notice convening the meeting.

Where the appointor is a legal person, a power of attorney may be signed by its duly authorized person to authorize its legal representative or any person authorized by resolutions of its board of directors or other governing body to attend our general Shareholders' meeting as a representative.

Any form sent by the Directors to the Shareholder for appointing a shareholder proxy shall allow the Shareholder, according to his or her free will, to instruct the proxy to vote and provide instructions separately for matters to be put to vote on each item on the meeting agenda. The power of attorney shall specify that the shareholder proxy may vote at his or her own discretion if the Shareholder does not provide instructions.

The votes of the shareholder proxy given pursuant to the terms of an instrument of proxy shall remain valid notwithstanding the previous death, loss of capacity of the appointor or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Shares in respect of which the proxy is given, provided that our Company does not receive written notice concerning such matters before the related meeting is convened.

**13 REGISTER OF SHAREHOLDERS AND OTHER RIGHTS OF SHAREHOLDERS**

Pursuant to the understanding reached and agreement entered into between the competent agency in charge of securities under the State and the overseas securities regulatory agency, our Company may keep overseas a register of the holders of the overseas listed foreign Shares and entrust an overseas entity to manage it. The original register of the holders of the overseas listed foreign Shares listed in Hong Kong shall be kept in Hong Kong.

Our Company shall keep a copy of the register of the holders of the overseas listed foreign Shares at our residential address. The overseas entrusted entity shall at all times maintain consistency between the original and copy of the register of the holders of the overseas listed foreign Shares.

In case of inconsistency between the original and copy of the register of the holders of the overseas listed foreign Shares, the original shall prevail.

Our Company must keep a complete register of Shareholders.

The register of Shareholders shall include the following:

- (a) Register of Shareholders kept at our residential address other than those specified in (b) and (c);
- (b) Register of the holders of our overseas listed foreign Shares kept at the location of the stock exchange where such Shares are listed;
- (c) Register of Shareholders kept in other locations according to the decision of the Board of Directors as required for the listing of the Shares.

Different parts of the Shareholders' register shall not overlap. The transfer of Shares registered in a certain part of the register of Shareholders shall not be registered elsewhere in the register of Shareholders as long as the Shares remain registered. Any alteration or rectification to any part of the register of Shareholders shall be made in accordance with the laws in the place where such part of the register of Shareholders is maintained.

No change of the register of Shareholders as a result of share transfer shall be made within 30 days before the general Shareholders' meeting is convened or within five days prior to the record date on which our Company decides to pay dividends.

When our Company convenes the general Shareholders' meeting, pays dividends, goes into liquidation or is involved in other actions that require the confirmation of equities, the Board of Directors shall fix a date as the equity registration date, upon expiration of which the Shareholders whose names appear on the register of Shareholders shall be the Shareholders.

Any person who objects to the register of Shareholders and requests to register his or her name (title) in the register of Shareholders or to remove his or her name (title) from the register of Shareholders may apply to the court with jurisdiction to amend the register of Shareholders.

The Shareholders are entitled to obtain the following information, including but not limited to:

- (a) The Articles of Association after paying the cost;
- (b) The right to inspect and copy the following after paying a reasonable fee:
  - (i) All parts of the register of Shareholders;
  - (ii) Personal data of the Directors, Supervisors and senior management;
  - (iii) Status of the share capital of our Company;
  - (iv) counterfoil of bonds of our Company;
  - (v) Report on the total book value, quantity, maximum and minimum prices of each class of own Shares repurchased by our Company since the previous accounting year and all expenses paid by our Company for this purpose;
  - (vi) Minutes of the general Shareholders' meeting, resolutions of the Board of Directors' meeting, resolutions of the supervisory committee meeting and financial accounting reports.

Whenever a Shareholder proposes to inspect the relevant information as described above or requests materials, he or she shall provide our Company with written documents certifying the type and number of the Shares held and our Company shall provide the relevant information and materials in accordance with the requirements of the Shareholder after verifying his or her identity.

#### **14 QUORUM OF GENERAL SHAREHOLDERS' MEETINGS**

If the number of Shares carrying voting rights represented by the Shareholders intending to attend the meeting exceeds one half of the total number of Shares carrying voting rights, our Company may convene the general Shareholders' meeting. If the number of a class of Shares carrying voting rights represented by the Shareholders intending to attend the meeting exceeds one half of the total number of such class of Shares, our Company may convene a classified Shareholders' meeting.

**15 RESTRICTIONS ON RIGHTS OF THE CONTROLLING SHAREHOLDERS**

Apart from the obligations required in laws, administrative regulations or the listing rules of the stock exchange on which the Shares are listed, the Controlling Shareholder shall not make any decision that is detrimental to the interest of all or part of the Shareholders on the following issues by exercising his or her Shareholder voting rights:

- (a) Releasing the Directors and Supervisors from the responsibility of acting honestly in the best interest of our Company;
- (b) Permitting the Directors and Supervisors (for their own or others' interests) to deprive our Company of assets in any form, including, but not limited to, any opportunity that is beneficial to our Company;
- (c) Permitting the Directors and Supervisors (for their own or others' interests) to deprive the Shareholders of their personal rights and interests, including, but not limited to, any dividend distribution or voting right, but excluding the restructuring of our Company approved at the general Shareholders' meeting pursuant to the Articles of Association.

**16 COMPANY LIQUIDATION**

Under any of the following circumstances, our Company shall be lawfully dissolved and liquidated:

- (a) The general Shareholders' meeting adopts a resolution to dissolve our Company;
- (b) Our Company needs to be dissolved for the purpose of merger or division;
- (c) Our Company is declared legally bankrupt as a result of failure to pay debts as they fall due;
- (d) The business license is revoked, or our Company is ordered to close or be eliminated according to applicable law;
- (e) Where our Company encounters significant difficulties in business and management, continuous survival may be significantly detrimental to the interests of the Shareholders, and the difficulties may not be overcome through other means, Shareholders who hold more than 10% of the Shares carrying voting rights may request the court to dissolve our Company.

Where our Company is dissolved due to the provisions set forth in (a), (d) and (e) above, the liquidation team shall be established within 15 days and the personnel of the liquidation team shall consist of the persons determined by the Board of Directors or the general Shareholders' meeting. In the event the liquidation team is not established during such period, the creditors can request the people's court to appoint relevant personnel to establish the liquidation team for liquidation. In the event that our Company is dissolved in accordance with the provisions set forth in (c) above, the people's court shall organize the Shareholders, related agencies and professionals to form the liquidation team pursuant to relevant provisions of the law.

If the Board of Directors decides to liquidate our Company (except where our Company is liquidated after declaring bankruptcy), the Board of Directors shall state in the notice of the general Shareholders' meeting convened for this purpose that the Board of Directors has performed a comprehensive investigation of the status of our Company and believes that our Company is able to payoff all of our debts within 12 months of the start of liquidation.

After the resolution to liquidate our Company is adopted by the general Shareholders' meeting, the powers and duties of the Board of Directors shall terminate immediately.

In accordance with the instructions of the general Shareholders' meeting, the liquidation team shall at least once a year report at the general Shareholders' meeting on the income and expenditure of the liquidation team, progress of the business and liquidation of our Company, and submit a final report at the general Shareholders' meeting upon completion of liquidation.

Within ten days of the establishment of the liquidation team, the creditors shall be notified and an announcement shall be published in newspaper within 60 days. The creditors shall declare their claims to the liquidation team within 30 days of the date on which the notice is received or 45 days of the date of announcement if the notice is not received. The liquidation team shall carry out registration of the creditors' claims.

The liquidation team shall exercise the following powers during the liquidation period:

- (a) Take stock of our Company's assets and prepare a balance sheet and a list of assets respectively;
- (b) Notify or publish an announcement to all creditors;
- (c) Deal with and liquidate any pending business associated with our Company;
- (d) Payoff all outstanding taxes and taxes in connection with liquidation;
- (e) Settle claims and debts;
- (f) Dispose of the remaining assets of our Company after paying up all the debts; and
- (g) Represent our Company in any civil litigation proceedings.

After taking stock of the assets of our Company and preparing the balance sheet and list of properties, the liquidation team shall draw up a liquidation scheme and submit it to the Shareholders' meeting or the people's court for recognition.

In the event of liquidation in connection with dissolution of the Company and the liquidation team finds that, after taking stock of our Company's assets and preparing the balance sheet and list of assets, that the assets are insufficient to pay the debts, it shall immediately apply to the court to declare bankruptcy.



After our Company is declared insolvent by ruling of the court, the liquidation team shall turn over matters regarding the liquidation to the court. Upon completion of liquidation of our Company, the liquidation team shall prepare a liquidation report, income and expenditure report and financial record during the liquidation period, which, after being verified by a China-registered accountant, shall be submitted to our general Shareholders meeting or the people's court for recognition.

Within 30 days of the date of approval by the Shareholders' meeting or people's court, the liquidation team shall submit the above-mentioned documents to the company registration authority and apply for cancellation of our registration and publish an announcement on our termination.

## **17 OTHER IMPORTANT PROVISIONS FOR OUR COMPANY OR THE SHAREHOLDERS**

### *(a) General Provisions*

Our Company is a permanently existing joint stock limited liability company.

Our Company may invest in other limited liability companies or joint stock limited liability companies, provided that the liabilities of our Company to be invested in are limited to the amount of its capital contribution.

The Articles of Association is binding on our Company, the Shareholders, Directors, Supervisors and senior management. These personnel may assert their rights in connection with the affairs of our Company based on the Articles of Association. Pursuant to the Articles of Association, Shareholders may sue Shareholders, Shareholders may sue the Directors, Supervisors and senior management, Shareholders may sue our Company, and our Company may sue Shareholders, Directors, Supervisors and senior management.

### *(b) Our Company may increase stock capital by the following means:*

- (i) Issue new Shares to unspecified investors;
- (ii) Place new Shares with existing Shareholders;
- (iii) Give new Shares to existing Shareholders;
- (iv) Convert the reserve funds into share capital;
- (v) Other means approved by the laws, administrative regulations and securities regulatory agency of the State Council.

Upon approval to increase our Company's stock capital according to the provisions of the Articles of Association, the matter shall be dealt with in accordance with the procedures of related laws and administrative regulations of the State.

Subject to compliance with related laws and administrative rules and regulations of the State, our Company may decrease our registered share capital in line with the provisions of the Articles of Association.

If our Company decreases our registered capital, we must prepare a balance sheet and a list of properties.

After our Company's reduction in capital, our registered capital may not be less than the statutory minimum amount.

*(c) Shareholders*

The Shareholders are persons lawfully holding the Shares and whose names (titles) are already listed in the register of Shareholders. Each Share of the same type has the same rights.

Shares issued by our Company to overseas investors and subscribed to in foreign currencies are known as foreign Shares. Foreign Shares that are listed overseas are known as overseas listed foreign Shares. Overseas investors refer to investors in other countries, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan who subscribe to the Shares issued by our Company. Domestic Shareholders refer to investors within the territory of the PRC that subscribe to the Shares issued by our Company. Both domestic Shareholders and foreign Shareholders are ordinary Shareholders, entitled to the same rights and assuming the same obligations. The rights of our ordinary Shareholders are as follows:

- (i) To receive distribution of dividends and other forms of benefits according to the number of Shares held;
- (ii) To participate in or appoint a shareholder proxy to participate in and exercise voting rights at the Shareholders' meeting;
- (iii) To supervise and manage our business and operational activities, provide suggestions or submit queries;
- (iv) To transfer the shares held according to the provisions of the laws, administrative regulations and the Articles of Association;
- (v) To obtain relevant information according to the provisions of the Articles of Association;
- (vi) To participate in the distribution of the remaining assets of our Company according to the number of shares held upon our termination or liquidation;
- (vii) Other rights conferred by laws, administrative regulations and the Articles of Association.

When any person is interested directly or indirectly in the shares of our Company, our Company shall not freeze or otherwise impair any of the rights attaching to any share by reason only that the person has failed to disclose his interests to our Company.

Our Company shall adopt the registered method for the Shares.

The Share certificates are signed by the chairman of the Board of Directors. Where the stock exchange on which the Shares are listed requires our other senior management to sign the Share certificates, they shall also be signed by other such personnel. The Share certificates shall become effective after being affixed with the stamp of our Company (including our securities stamp) or print-stamped. Affixing our Company stamp or our securities stamp to the Share certificates is subject to the authorization of the Board of Directors. The signature of the chairman of the Board of Directors or other related senior management may also be printed on the Share certificates.

If any person whose name appears in the register of Shareholders or requests to register his or her name (title) in the register of Shareholders loses his or her Share certificates (that is, “original Share certificates”), he or she may apply to our Company to reissue new Share certificates for those Shares.

In the event holder of Domestic Shares applies to our Company for a reissue after losing the Share certificates, the matter shall be dealt with pursuant to related provisions of the PRC Company Law.

In the event a holder of overseas listed foreign Shares applies to our Company for reissue after losing the Share certificates, the matter shall be dealt with pursuant to the laws and rules of the stock exchange where the original register of holders of the overseas listed foreign Shares is kept, or other related provisions. If a holder of H Shares loses Share certificates and applies for a replacement issue, the Share certificates shall be issued in compliance with the following requirements:

- (i) The applicant shall submit the application in the standard format designated by our Company and attach a notary certificate or legal declaration. The contents of the notary certificate or legal declaration shall include the reason for the applicant’s request, circumstances and evidence of loss of Share certificates, as well as a statement that nobody else may request to be registered as a Shareholder with respect to the pertinent Shares.
- (ii) Before deciding to issue new Share certificates, our Company does not receive any statement in which any person other than the applicant requests to be registered as the Shareholder with respect to the Shares.
- (iii) If our Company decides to issue new Share certificates to the applicant, we shall publish an announcement in a newspaper designated by the Board of Directors indicating that we plan to reissue new Share certificates. The announcement period shall be 90 days and the announcement shall be published at least once every 30 days.
- (iv) Before publishing the announcement indicating that we plan to re-issue new Share certificates, our Company shall submit a copy of the announcement to be published to the securities exchange on which the Shares are listed and may publish the announcement after receiving a reply from the stock exchange confirming that the announcement has been displayed at the stock exchange. The period of displaying the announcement at the stock exchange is 90 days.

If the application for reissue of new Share certificates is not approved by the registered Shareholders of the related Shares, our Company shall mail the copy of the announcement to be published to the Shareholders.

- (v) In the event that nobody raises any objection to the reissue of new Share certificates to our Company, upon expiration of the 90-day display period of the announcement specified in (iii) and (iv) above, the new Share certificates may be reissued according to the application.
- (vi) When re-issuing new Share certificates, our Company shall immediately cancel the original Share certificates and register the cancellation and replacement issue on the register of Shareholders.
- (vii) All expenses incurred by our Company from the cancellation of the original Share certificates and replacement issue of the new Share certificates shall be borne by the applicant. Before the applicant has provided reasonable security, our Company shall have the right to refuse to take any action.

*(d) Shareholders Failing to be Contacted*

Our Company is entitled to reclaim without payment the Shares of a Shareholder failing to be contacted under the circumstances indicated below and sell them to any other persons:

- (i) Our Company has paid dividends at least three times on these Shares within 12 years, but no one has claimed the dividends during that period;
- (ii) Upon expiration of the 12-year period, our Company publishes an announcement in a newspaper, indicating our intention to sell the Shares and notifies the Hong Kong Stock Exchange of such intention.

*(e) Regulations on the Powers of the Board of Directors and Convening the Board of Directors' Meetings*

The Board of Directors is responsible to the general Shareholders' meeting and exercises the following powers:

- (i) To convene the general Shareholders' meeting and report on work to the general Shareholders' meeting;
- (ii) Implement the resolutions of the general Shareholders' meeting;
- (iii) Determine our business and investment plans;
- (iv) Devise our annual financial budget and closing account plans;
- (v) Devise our earnings distribution and loss offset plans;

- (vi) Formulate the policy for our debt and finance, plans for increasing or decreasing our registered capital, the issuance of corporate bonds or other securities, as well as the listing or the repurchase of the stock of our Company;
- (vii) Formulate plans for major acquisition or disposal, corporate merger, separation, changing the form and dissolution of our Company;
- (viii) Determine such matters as our external investment, purchase/sale of assets, asset pledge, entrusting wealth management and connected transaction within the scope authorized by the general Shareholders' meeting;
- (ix) Review the matters on external guarantees provided by our Company pursuant to the laws and regulations as well as this Articles of Association;
- (x) Decide on the setup of our Company's internal management organization;
- (xi) Appoint or dismiss the president of our Company; based on the nomination of the president, appoint or dismiss our vice president, the chief financial officer; appoint or dismiss the secretary of the Board of Directors, and determine their remuneration;
- (xii) Decide the establishment of the branch of our Company;
- (xiii) Make the modification plan to this Articles of Association;
- (xiv) Set our basic management systems;
- (xv) Manage the disclosure of company information;
- (xvi) Propose the appointment or replacement of the accounting firm that performs audits for our Company at the general Shareholders' meeting;
- (xvii) Attend to the work report of our president and review the work of the president;
- (xviii) Review and supervise the Company's policies and standards in complying with relevant laws and regulatory rules;
- (xix) Review and supervise the training and continuing occupational development for the Directors, Supervisors and senior management;
- (xx) Review the status of the Company in complying with the Corporate Governance Code in the Hong Kong Listing Rules and the disclosures in the corporate governance report;
- (xxi) Decide on other major matters and administrative affairs other than those specified in the laws, administrative regulations, regulations of the competent authorities and this Articles of Association to be decided by the general Shareholders' meeting and sign other important agreements;

(xxii) Other powers and duties authorized by the laws, administrative regulations, regulations of the competent authorities and this Articles of Association as well as the general Shareholders' meeting.

All of the above resolutions adopted by the Board of Directors, except those in (vi), (vii) and (xiii) and those that must be approved by more than a two-thirds vote of the Directors otherwise specified in laws, administrative regulations and the Articles of Association, shall be approved by a simple majority of votes by the Directors.

Meetings of the Board of Directors shall be convened at least four times a year and be called by the chairman of the Board of Directors, and a notice of at least 14 days shall be sent to all Directors before the meeting is convened.

The chairman of the Board of Directors shall convene and preside over a special meeting of the Board of Directors within ten days since receiving the proposal in case of the occurrence of any one of the following events:

- (i) When the shareholders representing over 10% of voting rights make a proposal;
- (ii) When the chairman of the Board of Directors deems necessary;
- (iii) When over one third of directors make a proposal;
- (iv) When two or over half of independent non-executive Directors make a proposal;
- (v) When the board of supervisors makes a proposal;
- (vi) When the president makes a proposal.

Notice of the special meeting of the Board of Directors and meeting documents shall be served during a reasonable period before the meeting is convened.

The Directors shall attend the Board of Directors meeting in person. In the event that Directors are unable to attend the meeting for some reason, the Directors may appoint in writing other directors to attend the Board of Directors meeting. The proxy letter shall specify the proxy's name, entrusted matters, authority domain and the valid term, and shall be affixed with the signature or seal of the consignor. The director who attends the meeting on behalf of another director shall exercise the right of the director within the scope of authorization. If any director fails to attend the meeting of the Board of Directors or entrusts a proxy to be present on his/her behalf, such director shall be deemed to have waived his/her voting rights at that meeting.

Meetings of the Board of Directors shall be attended by more than one-half of the Directors (including Directors that appoint in writing other Directors to attend the Board of Directors in their place pursuant to the provisions of the Articles of Association) before the Board of Directors meeting can be convened. Each Director has one vote. Resolutions made by the Board of Directors must be approved by more than one-half of the Directors' votes.

When the number of affirmative votes equals the number of dissenting votes, the chairman of the Board of Directors is entitled to one additional vote.

Apart from certain exceptions specified in Note 1 of Appendix 3 to the Listing Rules or those permitted by Hong Kong Stock Exchange, a director shall abstain from voting on passing of any contract or arrangement in which he/she himself/herself or any of his/her associates (as defined in the Listing Rules) is materially interested or any resolution proposed at a board meeting; such director shall not be counted in the quorum of the relevant meeting. Where the number of the directors who can vote on this matter is less than three, such issue shall be submitted to the general Shareholders' meeting for voting. If a substantial shareholder (holding 10% or more shares) or a director has a material conflict of interest in a matter to be considered by the Board of Directors, the matter would be dealt with by way of the meeting of the Board of Directors (rather than the written resolution). Also, the independent non-executive Directors who do not have material interest in such matter should attend the meeting.

*(f) Independent Director*

The Board of Directors includes three independent Directors. The independent Directors shall carry out responsibilities in accordance with appropriate requirements of the laws, administrative rules and regulations, as well as regulations of the departments.

*(g) Secretary of the Board of Directors*

The secretary of the Board of Directors must be a natural person with the requisite expertise and experience and be appointed by the Board of Directors.

*(h) Supervisory Committee*

Our Company shall set up a Supervisory Committee.

The Supervisory Committee consists of seven Supervisors and includes one chairman. The Supervisors serve three-year terms and may be re-elected. The chairman of the Supervisory Committee shall be elected and dismissed by more than a two-thirds vote of the members of the Supervisory Committee.

The Supervisory Committee shall consist of three staff representatives of our Company. The Supervisors assumed by non-staff representatives shall be elected and dismissed by the general Shareholders' meeting. The Supervisors assumed by the staff representatives shall be elected and dismissed through the staff representatives meetings, staff meetings or through other forms of democratic election.

The Directors and senior management shall not also serve as Supervisors.

The Supervisory Committee shall convene at least two regular meetings every year. Where it is deemed necessary by the chairman of the Supervisory Committee or where other supervisors propose, the chairman shall convene extraordinary meetings of the Supervisory Committee. The chairman shall

convene meetings of the Supervisory Committee. Notices and other documents in relation to the meetings shall be delivered to all supervisors ten days before the meetings. Notices and other documents in relation to extraordinary meetings of the Supervisory Committee shall be delivered within a reasonable time before the meetings.

The Supervisory Committee lawfully exercises the following powers:

- (i) Examine the financial standing of our Company;
- (ii) Supervise the Directors and senior management to ensure that they do not, in performing their duties to our Company, act in contravention of any laws, administrative regulations or the Articles of Association, and to put forward suggestions for dismissing any directors or senior management who are in breach of the laws, administrative regulations, the Articles of Association or resolutions of the general Shareholders' meetings;
- (iii) Require the Directors and senior management to take corrective measures when their actions are detrimental to our interests;
- (iv) Verify the financial information such as the financial reports, business reports and profit distribution plans to be submitted by the Board to the general Shareholders' meetings and, should any queries arise, to authorize, in the name of our Company, a re-examination by the certified public accountants and practicing auditors;
- (v) Submit proposals at the general Shareholders' meetings;
- (vi) Propose to convene an extraordinary general meeting, where the Board of Directors fails to perform the duties in relation to convening or presiding over the general Shareholders' meeting as required by the PRC Company Law, to convene and preside over the general Shareholders' meeting;
- (vii) Propose to convene extraordinary meetings of the Board of Directors;
- (viii) Represent our Company in negotiating with or in bringing actions against the Directors and senior management;
- (ix) Investigate into any abnormalities in operation of our Company; if necessary, to engage accounting firms, law firms and other professional institutions to assist its work, and the expenses shall be borne by our Company;
- (x) Other powers and duties stipulated in the Articles of Association.

The Supervisors shall attend the Board meeting as observers, query or provide suggestions on the resolutions of the Board meeting.



*(i) President*

Our Company includes one president, nominated, appointed or dismissed by the Board of Directors. The president is responsible to the Board of Directors and exercises the following powers:

- (i) Be in charge of the producing and operational management of our Company, to organize the enforcement of resolutions of the Board of Directors and report to the Board of Directors on work;
- (ii) Organize the implementation of the annual operation plans and investment schemes of our Company;
- (iii) Formulate the structure scheme of the internal management agency of our Company;
- (iv) Formulate the structure scheme of the branch of our Company;
- (v) Formulate the substantial management system of our Company;
- (vi) Formulate the detailed rules of our Company;
- (vii) Propose the appointment or dismissal of the vice president, financial officer or other senior management of our Company;
- (viii) Appoint or dismiss other management except those who shall be appointed or dismissed by the Board of Directors;
- (ix) Determine the salaries, benefits, rewards and punishment for the staff of our Company, and to determine the appointment and dismissal of the staff of our Company;
- (x) Propose to convene extraordinary meetings of the Board of Directors;
- (xi) Other responsibilities authorized by the Articles of Association and the Board of Directors.

*(j) Reserves*

When the annual after-tax earnings of our Company are distributed, our Company must allocate 10% of the earnings to our statutory reserve. When the total amount of the statutory reserve reaches or exceeds 50% of our Company's registered capital, no more allocations need to be provided.

If our statutory reserve is insufficient to offset our losses incurred during the previous year, the earnings generated during the current year must be used to make up the losses before allocating the statutory reserve in accordance with the requirements set forth in the preceding paragraph.

After allocation to the statutory reserve from the after-tax earnings of our Company, we may also allocate to the reserves at will from after-tax earnings in line with the resolution(s) adopted at the general Shareholders' meeting.

After offsetting the losses and allocating to the reserve, all remaining earnings may be distributed to the Shareholders based on the proportion of respective shareholdings upon obtaining the approval from general Shareholders' meeting.

Our statutory reserves must be used only for offsetting our losses, expanding the scale of business and operations or for conversion into capital to increase our capital, but the capital reserve shall not be used to offset our losses.

*(k) Settlement of Disputes*

Our Company shall comply with the following rules governing the settlement of disputes:

- (i) Whenever there occur any disputes or claims between holders of the overseas listed foreign investment shares and our Company, holders of the overseas listed foreign investment shares and our Company's Directors, Supervisors or senior management, or holders of the overseas listed foreign investment shares and holders of domestic shares regarding the rights or obligations relating to the affairs of our Company conferred or imposed by the Articles of Association, the PRC Company Law or any other relevant laws and administrative regulations, such disputes or claims shall be referred by the relevant parties to arbitration;

Where the aforesaid dispute or claim of rights is referred to arbitration, the entire claim or the dispute as a whole must be referred to arbitration, and any parties who have a cause of action based on the same facts giving rise to the dispute or the claim or whose participation is necessary for the settlement of such dispute or claim, are bound by the award of the arbitration provided that such person is our Company or a shareholder of our Company, a director, a supervisor or senior management. Disputes in relation to the definition of shareholders and disputes in relation to the shareholders' register need not be resolved by arbitration;

- (ii) A claimant may elect for arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body so elected by the claimant.

If a claimant elects for arbitration at Hong Kong International Arbitration Centre, any party to the dispute or claim may request the arbitration to be conducted in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre;

- (iii) The laws of the PRC are applicable to the arbitration for the disputes or claims of rights referred to in paragraph (i), unless otherwise provided in the laws and administrative regulations;
  
- (iv) The award of an arbitration body shall be final and binding on all parties.

**1. FURTHER INFORMATION****A. Incorporation**

We were established under the PRC law as a joint stock limited liability company on August 28, 2012. We established a place of business in Hong Kong at 9th Floor, Three Exchange Square, Central, Hong Kong, and was registered as a non-Hong Kong company under Part XI of the Companies Ordinance on November 12, 2012. LIU Xiaohong of Flat H, 25th Floor, Hoi Tien Mansion, 18 Taikoo Wan Road, Hong Kong has been appointed as our agent for the acceptance of service of process in Hong Kong.

As we are established in the PRC, we are subject to the relevant laws and regulations of the PRC. A summary of the relevant aspects of PRC laws and principal regulatory provisions is set out in Appendix V to this prospectus. A summary of our Articles of Association is set out in Appendix VI to this prospectus.

**B. Changes in the registered capital of our Company**

The predecessor of our Company was established on July 24, 2007 with a registered capital of RMB400,000,000, which has been fully paid.

At the time of the establishment of our Company on August 28, 2012, our initial registered capital was RMB3,100,000,000, divided into 3,100,000,000 Domestic Shares with nominal value of RMB1.00 each, 98% and 2% of which were fully paid up or credited as fully paid up and were held by our promoters, Sinopec Group and SAMC, respectively.

Immediately upon completion of the Global Offering, the registered capital of our Company will be RMB4,428,000,000, made up of 2,967,200,000 Domestic Shares and 1,460,800,000 H Shares (including 132,800,000 H Shares converted from Domestic Shares and held by NSSF), with nominal value of RMB1.00 each, assuming the Over-allotment Option is not exercised.

Immediately upon completion of the Global Offering, the registered capital of our Company will be RMB4,627,200,000, made up of 2,947,280,000 Domestic Shares and 1,679,920,000 H Shares (including 152,720,000 H Shares converted from Domestic Shares and held by NSSF), with nominal value of RMB1.00 each, assuming the Over-allotment Option is exercised in full.

Save as disclosed in this Appendix, there has been no alteration in our share capital since our establishment.

**C. Resolutions passed at our extraordinary shareholders' meetings on September 3, 2012 and December 17, 2012**

At our extraordinary shareholders' meetings held on September 3, 2012 and 17 December 2012, among other things, the following resolutions were passed by the Shareholders:

- (a) approving the issue of the H Shares by the Company and the Listing, whereby the number of H Shares to be issued shall not exceed 30% of the total number of Shares after Listing; the issue price of the H Shares will be decided upon completion of the bookbuilding process

for the Listing; upon the approval of the relevant PRC regulatory authorities, the state-owned shareholders of the Company will transfer to NSSF such number of Domestic Shares as in aggregate would be equivalent to 10% of the number of the Offer Shares (such number of Domestic Shares will be increased if the Over-allotment Option is exercised);

- (b) subject to the completion of the Global Offering, the Articles of Association has been approved and adopted, which shall become effective on the Listing Date;
- (c) the Company has granted a general mandate to the Board to issue such number of Domestic Shares and/or H Shares which are less than 20% of the H Shares in issue or Domestic Shares in issue (as the case may be). Such general mandate will become effective from the Listing Date and ends on the earlier of the date of first annual general meeting of the Company after Listing or the date of shareholders' meeting on which the Shareholders withdraw or revise the terms of the general mandate; and
- (d) approving the Board to handle all matters relating to, among other thing, the issue of the H Shares and the Listing.

## 2. REORGANIZATION

In preparation for the Global Offering, we underwent the Reorganization, details of which are set out in the section headed "History, Reorganization and Corporate Structure" in this prospectus. As confirmed by King & Wood Mallesons, our legal advisor as to PRC law, we have obtained all necessary approval from relevant PRC regulatory authorities required for the implementation of the Reorganization. These approvals include:

- (a) on June 1, 2012, SASAC issued an approval document (Guo Zi Gai Ge [2012] 305) approving the proposal relating to the Reorganization;
- (b) ZhongHe Appraisal Co., Ltd. appraised the assets which were to be injected into the Company as of June 30, 2012 and issued an appraisal report (Zhong He Ping Bao Zi (2012) No. BJV2112);
- (c) the appraisal report as referred to in paragraph (b) above was filed with SASAC (Filing Form No. 20120045);
- (d) on August 17, 2012, SASAC issued an approval (Guo Zi Chan Quan [2012] 676) approving the Company's management plan of the state-owned shares;
- (e) on August 20, 2012, SASAC issued an approval (Guo Zi Gai Ge [679]) approving the establishment of the Company;
- (f) on August 24, 2012, the Company convened an inaugural meeting and shareholders' meeting, passing resolutions on the establishment of the Company; and

- (g) on August 28, 2012, a new business license was issued by the State Administration for Industry and Commerce, whereupon we were formally established as a joint stock limited company.

### **3. FURTHER INFORMATION OF OUR SUBSIDIARIES**

Our principal subsidiaries (for the purpose of the Hong Kong Listing Rules) as of December 31, 2012 are set out under the financial statements in the Accountants' Report as included in Appendix I to this prospectus. Save as disclosed below, there has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this prospectus:

- on April 6, 2012, the registered capital of LPEC was changed from RMB219,500,000 to RMB500,000,000 as part of its conversion into a limited liability company;
- on April 9, 2012, the registered capital of TCC was changed from RMB324,750,000 to RMB350,000,000 as part of its conversion into a limited liability company;
- on April 10, 2012, the registered capital of SEI was changed from RMB347,691,000 to RMB500,000,000 as part of its conversion into a limited liability company; and
- on April 11, 2012 the registered capital of SFCC was changed from RMB127,775,000 to RMB350,000,000 as part of its conversion into a limited liability company.

### **4. FURTHER INFORMATION ABOUT OUR BUSINESS**

#### **A. Summary of our material contracts**

We have entered into the following contracts (not being contracts entered into in the ordinary course of our business) within two years immediately preceding the date of this prospectus which are or may be material:

- (a) the Hong Kong Underwriting Agreement;
- (b) the Non-Competition Agreement;
- (c) the nil-consideration transfer agreement dated March 27, 2012 and entered into between Sinopec Group and SE in respect of the transfer of the entire interest held by Sinopec Group in 中國石化工程建設公司 (Sinopec Engineering Incorporation) to SE at nil consideration;
- (d) the nil-consideration transfer agreement dated March 27, 2012 and entered into between Sinopec Group and SE in respect of the transfer of the entire interest held by Sinopec Group in 中國石化集團洛陽石油化工工程公司 (Sinopec Luoyang Petrochemical Engineering Corporation) to SE at nil consideration;

- (e) the nil-consideration transfer agreement dated March 27, 2012 and entered into between Sinopec Group and SE in respect of the transfer of the entire equity interest held by Sinopec Group in 中國石化集團上海工程有限公司 (Sinopec Shanghai Engineering Co., Ltd.) to SE at nil consideration;
- (f) the nil-consideration transfer agreement dated March 27, 2012 and entered into between Sinopec Group and SE in respect of the transfer of the entire equity interest held by Sinopec Group in 中國石化集團寧波工程有限公司 (Sinopec Ningbo Engineering Company Limited) to SE at nil consideration;
- (g) the nil-consideration transfer agreement dated March 27, 2012 and entered into between Sinopec Group and SE in respect of the transfer of the entire equity interest held by Sinopec Group in 中國石化集團南京工程有限公司 (Sinopec Nanjing Engineering & Construction Incorporation) to SE at nil consideration;
- (h) the nil-consideration transfer agreement dated March 27, 2012 and entered into between Sinopec Group and SE in respect of the transfer of the entire interest held by Sinopec Group in 中國石化集團第四建設公司 (Sinopec The Fourth Construction Company Limited) to SE at nil consideration;
- (i) the nil-consideration transfer agreement dated March 27, 2012 and entered into between Sinopec Group and SE in respect of the transfer of the entire interest held by Sinopec Group in 中國石化集團第五建設公司 (The Fifth Construction Company of Sinopec) to SE at nil consideration;
- (j) the nil-consideration transfer agreement dated March 27, 2012 and entered into between Sinopec Group and SE in respect of the transfer of the entire interest held by Sinopec Group in 中國石化集團第十建設公司 (Sinopec Tenth Construction Company) to SE at nil consideration;
- (k) the nil-consideration transfer agreement dated April 10, 2012 and entered into between Sinopec Group and SE in respect of the transfer of the entire interest held by Sinopec Group in 中國石化集團寧波技術研究院 (Sinopec Group Ningbo Technology Research Institute) to SE at nil consideration;
- (l) the cornerstone investment agreement dated April 25, 2013 and entered into between China Aerospace Investment Holdings Ltd., Goldman Sachs (Asia) L.L.C., CITIC Securities Corporate Finance (HK) Limited and the Company, pursuant to which China Aerospace Investment Holdings Ltd. has agreed to acquire at the Offer Price such number of Offer Shares that may be purchased with US\$60 million, rounded down to the nearest whole board lot of 500 H Shares;










- (m) the cornerstone investment agreement dated April 26, 2013 and entered into between Aerospace Science & Technology Finance Co., Ltd., Goldman Sachs (Asia) L.L.C., China International Capital Corporation Hong Kong Securities Limited and the Company, pursuant to which Aerospace Science & Technology Finance Co., Ltd. has agreed to acquire at the Offer Price such number of Offer Shares that may be purchased with US\$50 million, rounded down to the nearest whole board lot of 500 H Shares;
- (n) the cornerstone investment agreement dated April 28, 2013 and entered into between Zhongrong International Trust Co., Ltd., The Hongkong and Shanghai Banking Corporation Limited and the Company, pursuant to which Zhongrong International Trust Co., Ltd. has agreed to acquire at the Offer Price such number of Offer Shares that may be purchased with US\$50 million, rounded down to the nearest whole board lot of 500 H Shares;
- (o) the cornerstone investment agreement dated April 30, 2013 and entered into between China Export & Credit Insurance Corporation, CITIC Securities Corporate Finance (HK) Limited and the Company, pursuant to which China Export & Credit Insurance Corporation has agreed to acquire at the Offer Price such number of Offer Shares that may be purchased with US\$50 million, rounded down to the nearest whole board lot of 500 H Shares;
- (p) the cornerstone investment agreement dated May 3, 2013 and entered into between China Shipping (Hong Kong) Holdings Co., Limited, China International Capital Corporation Hong Kong Securities Limited and the Company, pursuant to which China Shipping (Hong Kong) Holdings Co., Limited has agreed to acquire at the Offer Price such number of Offer Shares that may be purchased with US\$100 million, rounded down to the nearest whole board lot of 500 H Shares;
- (q) the cornerstone investment agreement dated May 3, 2013 and entered into between China CAMC Engineering CO., Ltd., Citigroup Global Markets Asia Limited and the Company, pursuant to which China CAMC Engineering CO., Ltd. has agreed to acquire at the Offer Price such number of Offer Shares that may be purchased with US\$10 million, rounded down to the nearest whole board lot of 500 H Shares; and
- (r) the cornerstone investment agreement dated May 3, 2013 and entered into between Albertson Capital Limited, Haitong International Securities Company Limited and the Company, pursuant to which Albertson Capital Limited has agreed to acquire at the Offer Price such number of Offer Shares that may be purchased with US\$30 million, rounded down to the nearest whole board lot of 500 H Shares.



**B. Our intellectual property rights***Trademarks*

As at the Latest Practicable Date, we have registered the following trademarks in the PRC:

No.	Owner	Trademark	Registration Number	Duration	Class
1.	SEI		1171833	April 28, 2008 — April 27, 2018	42
2.	SEI	SEI	3226213	April 7, 2004 — April 6, 2014	42
3.	SEI	SEI	3226214	February 28, 2004 — February 27, 2014	37
4.	SEI		3345884	July 14, 2004 — July 13, 2014	42
5.	FCC		3186587	April 14, 2004 — April 13, 2014	37
6.	LPEC		1129760	November 21, 2007 — November 20, 2017	42
7.	LPEC		5406770	September 14, 2009 — September 13, 2019	42
8.	Luoyang Gaoxinlongpu Petrochemical Development Co., Ltd.		956010	March 7, 2007 — March 6, 2017	1
9.	Luoyang Gaoxinlongpu Petrochemical Development Co., Ltd.		956580	March 7, 2007 — March 6, 2017	4

No.	Owner	Trademark	Registration Number	Duration	Class
10.	Luoyang Gaoxinlongpu Petrochemical Development Co., Ltd.		958658	March 7 2007 — March 6, 2017	9
11.	SSEC		1671695	November 21, 2011 — November 20, 2021	42
12.	SSEC		1671696	November 21, 2011 — November 20, 2021	42
13.	SSEC		4883134	May 14, 2010 — May 13, 2020	42
14.	SSEC		4991299	November 28, 2009 — November 27, 2017	42
15.	SNEC		7387283	August 21, 2010 — August 20, 2020	7
16.	SNEC		7387294	October 21, 2010 — October 20, 2020	37
17.	SNEC		7387304	October 21, 2010 — October 20, 2020	40
18.	SNEC		7387311	December 7, 2011 — December 6, 2021	42

*Patents*

As at the Latest Practicable Date, the following are patents that our subsidiaries have been granted in the PRC and which we consider to be or may be material to our business:

No.	Patent Name	Patentees	Class of patents	Patent No.	Application Date	Grant Date
1	A separation method of catalytic cracking gasoline (一種催化裂化汽油的分離方法)	Sinopec Corp. / SEI	Invention	03128433.7	April 29, 2003	January 11, 2006
2	An improved light hydrocarbon deep cooling separation method (一種改進的輕烴深冷分離方法)	Sinopec Corp. / SEI	Invention	01132960.2	September 11, 2001	October 1, 2008
3	Method of recovering low-carbon olefins from the product gas when producing olefins (從製備烯烴的產品氣中回收低碳烯烴的方法)	Sinopec Corp. / SEI	Invention	200510105587.3	September 29, 2005	October 21, 2009
4	Ethylene cracking furnace with new arrangement of one-pass tubes (新型排布單程爐管乙烯裂解爐)	Sinopec Corp. / SEI / Sinopec Corp. Chemical Engineering Research Institute	Invention	200710097704.5	April 28, 2007	May 4, 2011
5	A type of cracking furnace with its radiant section furnace tube using the "U"-shaped structure arrangement (一種輻射段爐管採用"U"形結構排佈的裂解爐)	Sinopec Corp. / SEI / Sinopec Corp. Chemical Engineering Research Institute	Invention	200710097706.4	April 28, 2007	May 4, 2011

## APPENDIX VII

## STATUTORY AND GENERAL INFORMATION

No.	Patent Name	Patentees	Class of patents	Patent No.	Application Date	Grant Date
6	Method for recovering and cooling of catalytic reaction oil and gas heat energy (催化反應油氣熱能回收及冷卻方法)	SEI	Invention	01123974.3	August 10, 2001	February 16, 2005
7	A type of cracking furnace with two-tube radiance passes (一種兩程輻射爐管的裂解爐)	Sinopec Corp. / SEI / Beijing Petrochemical Research Institute / Tian Hua Petrochemical Mechanics and Automation Research Institute	Invention	200710097707.9	April 28, 2007	June 15, 2011
8	A type of two-tube radiance passes used in ethylene cracking furnace (一種用於乙烯裂解爐的兩程輻射段爐管)	Sinopec Corp. / SEI / Beijing Petrochemical Research Institute / Tian Hua Petrochemical Mechanics and Automation Research Institute	Invention	200410088701.1	October 29, 2004	October 29, 2008
9	A type of cracking furnace with single-tube reducing passes (一種單程變徑爐管的裂解爐)	Sinopec Corp. / SEI / Beijing Petrochemical Research Institute / Tian Hua Petrochemical Mechanics and Automation Research Institute	Invention	200410086298.9	October 29, 2004	September 19, 2007
10	A method for stopping alkene gas-phase polymerization reaction (一種中止烯烴氣相聚合反應的方法)	Sinopec Group / SEI	Invention	200610112784.2	September 1, 2006	July 18, 2009

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No.	Patent Name	Patentees	Class of patents	Patent No.	Application Date	Grant Date
11	Improved deflegmation and fractional tower system (改進的分凝分餾塔系統)	Sinopec Group / SEI	Invention	97111162.6	May 14, 1997	September 5, 2001
12	Lapping type two-stage regeneration technology for heavy oil fluid catalytic cracking (重油流化催化裂化重疊式兩段再生技術)	Sinopec Group / SEI	Invention	97121795.5	December 23, 1997	May 21, 2003
13	Catalytic conversion process for counter-flow moving bed with multiple reactors (多個反應器逆流移動床催化轉化工藝)	Sinopec Group / SEI	Invention	98117972.X	September 11, 1998	July 25, 2001
14	Method and device for stripping butyl rubber in three autoclaves (丁基橡膠三釜汽提方法及其裝置)	Sinopec Group / SEI	Invention	200910087203.8	June 19, 2009	April 18, 2012
15	Catalytic distillation selective hydrogenation process for cracking petroleum hydrocarbon vapor for producing C3 fraction composition (石油烴蒸汽裂解碳三餾分催化蒸餾選擇加氫工藝)	Sinopec Group / SEI	Invention	99112272.0	June 16, 1999	July 10, 2002

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## STATUTORY AND GENERAL INFORMATION

No.	Patent Name	Patentees	Class of patents	Patent No.	Application Date	Grant Date
16	Method for separation of petroleum cracking C5 fraction by liquid phase feeding extraction rectification (液相進料萃取精餾法分離石油裂解碳五餾份的方法)	Sinopec Group / SEI / Beijing Petrochemical Research Institute / Shanghai Petrochemical Company Limited	Invention	96116289.9	March 20, 1996	August 9, 2000
17	Method for recovering ethylene from dilute ethylene containing gas (從含稀乙烯氣體中回收乙烯的方法)	Sinopec Group / SEI / Sinopec Jinan Refinery Factory / Peking University / Sinopec Jinning Petrochemical Company Refinery Factory	Invention	95117068.6	October 24, 1995	January 5, 2000
18	A hydrofining process integration method (一種加氫精製的聯合工藝方法)	Sinopec Group / SEI	Invention	200710178207.8	November 28, 2007	July 4, 2012
19	A type of fluid bed reactor used for gasoline desulfuration (一種用於汽油脫硫的流化床反應器)	Sinopec Corp. / SEI	Invention	200910076756.3	January 19, 2009	August 29, 2012
20	A high-temperature axial-flow type tail gas turbine (一種高溫軸流式尾氣透平)	Sinopec Group / SEI	Invention	200910084939.X	June 4, 2009	May 23, 2012
21	A method for stripping spent catalyst or regenerated catalyst (一種待生催化劑或再生催化劑的汽提方法)	Sinopec Group / SEI	Invention	200910163079.9	August 24, 2009	July 4, 2012

No.	Patent Name	Patentees	Class of patents	Patent No.	Application Date	Grant Date
22	A combined hydrocracking method (一種組合加氫裂化方法)	Sinopec Corp. / Sinopec Zhenhai Petrochemical Engineering Company Limited / Sinopec Corp. Fushun Petrochemical Research Institute / LPEC	Invention	200610008413.X	January 19, 2006	June 10, 2009
23	Stripping method and equipment for catalytic conversion catalyst-regenerating (催化轉化再生催化劑的汽提方法和設備)	LPEC	Invention	00107162.9	April 29, 2000	February 4, 2004
24	A method for hydrocarbons fluid catalytic conversion (一種烴類流化催化轉化方法)	LPEC	Invention	00107163.7	April 29, 2000	January 8, 2003
25	Resultant oil separating method during hydrocarbon hydrotreatment (烴類加氫處理過程生成油的分離方法)	Sinopec Group / LPEC	Invention	98112915.3	July 10, 1998	October 1, 2003
26	Resultant oil separating method during hydrocarbon hydrogen conversion (烴類加氫轉化過程生成油的分離方法)	LPEC	Invention	98112925.0	July 16, 1998	April 18, 2001
27	A type of radial gas-solid reactor (一種氣固徑向反應器)	LPEC	Invention	99104594.7	May 10, 1999	February 5, 2003

No.	Patent Name	Patentees	Class of patents	Patent No.	Application Date	Grant Date
28	Method and equipment for hydrocarbon-conversion catalyst regeneration (烴轉化催化劑的再生方法及其設備)	LPEC	Invention	00101537.0	January 10, 2000	February 5, 2003
29	A process for hydrocarbons fluid catalytic conversion (一種烴類流化催化轉化工藝)	LPEC	Invention	00108519.0	April 29, 2000	February 5, 2003
30	Quenching tower and quenching method for reaction product of hydrocarbon fluid catalytic conversion (烴類流化催化轉化反應產物的急冷塔及急冷方法)	LPEC	Invention	00108832.7	April 29, 2000	February 5, 2003
31	Continuous reforming device with four reaction areas (含有四個反應區的連續重整裝置)	LPEC	Invention	01115290.7	June 7, 2001	June 9, 2004
32	A type of moving-bed radial gas-solid reactor (一種移動床氣固徑向反應器)	LPEC	Invention	01128724.1	July 14, 2001	March 3, 2004
33	Method for separating hydrocarbon hydrocracking products (烴類加氫裂化產物的分離方法)	LPEC	Invention	02114456.7	March 2, 2002	February 11, 2004



No.	Patent Name	Patentees	Class of patents	Patent No.	Application Date	Grant Date
34	A process for hydrocarbons catalytic conversion (一種烴類催化轉化工藝)	LPEC	Invention	03114517.5	February 21, 2003	August 17, 2005
35	Process and device for petroleum atmospheric vacuum distillation (石油常減壓蒸餾工藝及其裝置)	LPEC	Invention	03108050.2	May 8, 2003	March 23, 2005
36	A type of method and device for preparing low carbon olefin hydrocarbon with oxygen-containing compounds (一種由含氧化合物生成低碳烯烴的方法及裝置)	LPEC	Invention	200710111668.3	June 8, 2007	October 26, 2011
37	Method and device for cool coking effluent treatment (冷焦汗水處理方法及裝置)	East China Polytechnic University / Sinopec Zhenhai Petrochemical Company Limited / LPEC	Invention	200410068149.X	November 15, 2004	January 23, 2008
38	A new process for recovery and utilization of saturated hydrocarbons (一種回收利用飽和烴的新工藝)	LPEC	Invention	99104229.8	April 27, 1999	January 16, 2002
39	A regeneration process for hydrocarbon conversion catalyst (一種烴轉化催化劑的再生工藝)	LPEC	Invention	99106878.5	May 19, 1999	August 28, 2002

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No.	Patent Name	Patentees	Class of patents	Patent No.	Application Date	Grant Date
40	A type of method and device for upgrading low-quality gasoline (一種劣質汽油催化改質方法及其裝置)	Sinopec Group / LPEC	Invention	02139066.5	September 16, 2002	November 24, 2004
41	A type of catalyst for hydrogen generation using hydrocarbons and its preparation method (一種烴類制氫催化劑及其製備方法)	LPEC	Invention	200410060203.6	November 2, 2004	February 7, 2007
42	A type of catalytic cracking method and device (一種催化裂化方法及裝置)	LPEC	Invention	200510017751.5	July 1, 2005	September 19, 2007
43	A type of catalyst for upgrading low-quality gasoline and its preparation method and application (一種劣質汽油改質催化劑及其製備方法和應用)	LPEC	Invention	200610048409.6	July 17, 2006	June 25, 2008
44	Direct conversion method for producing olefins from multi-feeds of hydrocarbons (多種進料烴類直接轉化制烯烴方法)	Sinopec Group / LPEC	Invention	97119048.8	October 20, 1997	September 20, 2000
45	Moving-bed continuous regeneration equipment for hydrocarbon conversion catalyst (烴轉化催化劑移動床連續再生設備)	Sinopec Group / LPEC	Invention	98112931.5	July 24, 1998	March 7, 2001

No.	Patent Name	Patentees	Class of patents	Patent No.	Application Date	Grant Date
46	An aromatic extraction process (一種芳烴抽提工藝)	Sinopec Group / LPEC	Invention	99101697.1	March 16, 1999	February 4, 2004
47	A regeneration method for hydrocarbon conversion catalyst (一種烴轉化催化劑的再生方法)	Sinopec Group / LPEC	Invention	99106877.7	May 19, 1999	August 28, 2002
48	Spent catalyst distributor for fluid catalytic cracker (流化催化裂化裝置待生催化劑分配器)	LPEC	Invention	03126336.4	September 2, 2003	June 29, 2005
49	A type of riser catalytic cracking method and device (一種提升管催化裂化方法與裝置)	LPEC	Invention	200610106993.6	September 6, 2006	May 14, 2008
50	A hydrogenation method for making clean fuels (一種生產清潔燃料的加氫方法)	LPEC	Invention	200610128328.7	December 4, 2006	November 26, 2008
51	An integrated process for malodorous gas treatment (一種惡臭氣體處理組合工藝)	LPEC	Invention	200810049515.5	April 4, 2008	September 7, 2011
52	A type of catalyst for production of ethylene and propylene from low-value olefins and its application (一種由低附加值烴生產乙烯和丙烯的催化劑及其應用)	Sinopec Group / LPEC	Invention	02138789.3	July 13, 2002	February 16, 2005

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<b>No.</b>	<b>Patent Name</b>	<b>Patentees</b>	<b>Class of patents</b>	<b>Patent No.</b>	<b>Application Date</b>	<b>Grant Date</b>
53	A type of catalytic conversion method and device for upgrading low-quality gasoline (一種改質劣質汽油的催化轉化方法及其裝置)	LPEC	Invention	02139064.9	September 16, 2002	November 17, 2004
54	A type of method and device for reducing gasoline olefins (一種降低汽油烯烴的方法及其裝置)	LPEC	Invention	02139065.7	September 16, 2002	October 20, 2004
55	A conversion method for light olefins (一種輕烯烴催化轉化方法)	Sinopec Group / LPEC	Invention	03126213.9	June 19, 2003	February 16, 2005
56	A type of catalytic cracking method and equipment (一種催化裂化方法及設備)	LPEC	Invention	03126241.4	July 3, 2003	November 17, 2004
57	An integrated process for heavy oil processing (一種重油加工組合工藝)	LPEC	Invention	200310110205.7	December 9, 2003	June 28, 2006
58	A type of method and device for riser reactor catalytic cracking (一種提升管催化裂化方法與裝置)	LPEC	Invention	200410060430.9	July 28, 2004	November 9, 2005
59	An integrated process for amine production (一種氨精製組合工藝)	LPEC	Invention	200410060461.4	August 16, 2004	April 5, 2006

No.	Patent Name	Patentees	Class of patents	Patent No.	Application Date	Grant Date
60	A type of method and device for down-flow riser catalytic cracking (一種下行管式催化裂化方法和裝置)	LPEC	Invention	200410060494.9	September 3, 2004	April 11, 2007
61	A hydro-upgrading process for low-quality gasoline (一種劣質汽油加氫改質工藝)	LPEC	Invention	200410060574.4	October 18, 2004	November 8, 2006
62	A catalytic conversion method for producing ethylene and propylene (一種生產乙烯、丙烯的催化轉化方法)	Sinopec Group / LPEC	Invention	200410060575.9	October 18, 2004	August 23, 2006
63	A hydrogen generation method using hydrocarbons (一種烴類制氫方法)	LPEC	Invention	200410060202.1	November 2, 2004	September 13, 2006
64	A type of aromatization catalyst and its preparation method and application (一種芳構化催化劑及其製備方法和應用)	Sinopec Group / LPEC	Invention	200410060301.X	December 1, 2004	February 7, 2007
65	A type of riser reactor for fluid catalytic cracking of hydrocarbons (一種烴類流化催化轉化提升管反應器)	Sinopec Group / LPEC	Invention	200410060332.5	December 16, 2004	April 11, 2007
66	A low-quality diesel pre-treating method (一種劣質柴油預處理方法)	LPEC	Invention	200510017365.6	February 17, 2005	November 8, 2006

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No.	Patent Name	Patentees	Class of patents	Patent No.	Application Date	Grant Date
67	A low-quality gasoline upgrading method (一種劣質汽油改質方法)	Sinopec Group / LPEC	Invention	200510017373.0	February 17, 2005	November 8, 2006
68	A method for producing dimethyl carbonate (一種生產碳酸二甲酯的方法)	Sinopec Group / LPEC	Invention	200510017781.6	July 12, 2005	May 27, 2009
69	A method for reducing sulfur content of fuel oil (一種降低燃料油硫含量的方法)	LPEC	Invention	200510017835.9	August 1, 2005	May 16, 2007
70	A type of dual-riser catalytic cracking method and device for upgrading low-quality gasoline (一種改質劣質汽油的雙提升管催化裂化方法及裝置)	LPEC	Invention	200510017861.1	August 8, 2005	February 7, 2007
71	A p-xylene producing method (一種對二甲苯生產方法)	Sinopec Group / LPEC	Invention	200510017946.X	August 31, 2005	September 19, 2007
72	A tube type heating furnace (一種管式加熱爐)	Sinopec Group / LPEC	Invention	200610017305.9	January 5, 2006	December 17, 2008
73	An process for processing heavy oil (一種重油加工的組合工藝)	LPEC	Invention	200610017653.6	April 17, 2006	February 6, 2008
74	Separating method for converting methanol to prepare low carbon olefin gas (甲醇轉化制取低碳烯烴氣體的分離方法)	Sinopec Group / LPEC	Invention	200610017775.5	May 15, 2006	July 2, 2008

No.	Patent Name	Patentees	Class of patents	Patent No.	Application Date	Grant Date
75	A method for preparing ethylene and propylene and catalyst used in such method (一種制取乙烯和丙烯的方法及用於該方法的催化劑)	Sinopec Group / LPEC	Invention	200610018060.1	July 3, 2006	July 30, 2008
76	A type of catalytic cracking desulfurization method and device for low-quality gasoline (一種劣質汽油催化裂化脫硫方法及裝置)	LPEC	Invention	200610048408.1	July 17, 2006	October 8, 2008
77	A hydrocarbon hydrocracking method (一種烴類加氫裂化方法)	LPEC	Invention	200610106992.1	September 6, 2006	February 27, 2008
78	A method for producing clean fuels (一種生產清潔燃料的方法)	LPEC	Invention	200610128327.2	December 4, 2006	June 24, 2009
79	A process for treating acidic dirt water containing hydrogen sulfide and ammonia (一種處理含硫化氫和氨酸性污水的工藝)	LPEC	Invention	200710053952.X	February 5, 2007	October 14, 2009
80	A type of method and device for upgrading gasoline (一種汽油改質方法及裝置)	LPEC	Invention	200710054770.4	July 13, 2007	December 15, 2010
81	A method for converting by-product of MTO reaction to alkane (一種將MTO反應副產物轉化成烷烴的方法)	Sinopec Group / LPEC	Invention	200710054769.1	July 13, 2007	May 19, 2010

No.	Patent Name	Patentees	Class of patents	Patent No.	Application Date	Grant Date
82	A type of inhibitor restraining H <sub>2</sub> S/CO <sub>2</sub> corrosion and its preparation method (一種抑制H <sub>2</sub> S/CO <sub>2</sub> 腐蝕的緩蝕劑及其製備方法)	Sinopec Group / LPEC / Luoyang Gaoxin Longpu Petrochemical Development Company	Invention	200910065569.5	July 29, 2009	February 1, 2012
83	Catalyzing cracking regeneration catalyst on-line conversion device and system (催化裂化再生催化劑在線轉移裝置及其系統)	Sinopec Group / LPEC	Invention	96109518.0	August 23, 1996	April 18, 2001
84	A new integrated process for delayed coking and solvent extraction (新的延遲焦化與溶劑抽提聯合工藝)	Sinopec Group / LPEC	Invention	97100673.3	March 11, 1997	October 3, 2001
85	Reaction method and device for dimethyl benzene isomerization and methylbenzene disproportionation (二甲苯異構化和甲苯歧化的反應方法及裝置)	East China Polytechnic University / LPEC	Invention	01126968.5	October 8, 2001	September 21, 2005
86	A hydrocarbon oil hydrogenation process (一種煙油加氫工藝)	Sinopec Group / LPEC	Invention	200810141293.X	September 5, 2008	July 4, 2012
87	A liquid-solid two-phase hydrogenation method (一種液固兩相加氫方法)	Sinopec Group / LPEC	Invention	200810141352.3	September 12, 2008	August 22, 2012
88	A delayed coking process (一種延遲焦化工藝)	Sinopec Group / LPEC	Invention	200910065261.0	June 25, 2009	June 27, 2012



No.	Patent Name	Patentees	Class of patents	Patent No.	Application Date	Grant Date
89	A type of fluid catalytic cracking method and device (一種流化催化裂化方法及其裝置)	Sinopec Group / LPEC	Invention	200910065264.4	June 25, 2009	September 26, 2012
90	An integrated process for boiling bed hydrogenation and fixed bed hydrogenation (一種沸騰床加氫與固定床加氫的組合工藝)	Sinopec Group / LPEC	Invention	200910065260.6	June 25, 2009	June 27, 2012
91	Method for separating catalytic splitting gas with high content of propylene and propane (富含丙烯、丙烷催化裂解氣的分離方法)	SSEC	Invention	200410093433.2	December 23, 2004	August 9, 2006
92	Propylene multistage polymerization process and polymerization reactor (丙烯多段聚合工藝及聚合反應器)	Sinopec Group / SSEC	Invention	03150757.3	September 3, 2003	June 10, 2009
93	Separation method for diene hydrocarbon in five fractions of petroleum cracked carbon (石油裂解碳五餾分中雙烯烴的分離方法)	Sinopec Group / SSEC	Invention	200710043975.2	July 19, 2007	March 10, 2010

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No.	Patent Name	Patentees	Class of patents	Patent No.	Application Date	Grant Date
94	Heat-exchange method for ketone-benzol dewaxing device solvent recovery system (酮苯脫蠟裝置溶劑回收系統中的換熱方法)	SSEC	Invention	200710171796.7	December 6, 2007	March 10, 2010
95	Method for separating isoprene by combined rectification (組合精餾分離異戊二烯的方法)	SSEC	Invention	200710043973.3	July 19, 2007	October 6, 2010
95	Postheating dimerization method for separating C5 diene (後熱二聚分離碳五雙烯烴的方法)	SSEC	Invention	200710043976.7	July 19, 2007	March 23, 2011
97	Method for preparing ethanol from wood fiber raw material (木質纖維原料製備乙醇的方法)	Sinopec Group / SSEC	Invention	200810033185.0	January 29, 2008	January 11, 2012
98	Equipment and process for treating waste liquid from production of acrylonitrile (丙烯腈生產廢液處理設備及工藝)	SNEC	Invention	200610029088.5	July 16, 2006	July 1, 2009
99	A stripping method for process condensate in CO conversion (一種CO變換中工藝冷凝液的汽提方法)	Sinopec Group / SNEC / Ningbo Institute	Invention	200910098944.6	May 22, 2009	April 27, 2011

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No.	Patent Name	Patentees	Class of patents	Patent No.	Application Date	Grant Date
100	Separation method for dimethyl ether prepared with synthetic gas through one-step process (合成氣一步法制二甲醚的分離方法)	SNEC	Invention	03134277.9	May 21, 2003	November 9, 2005
101	Low temperature methanol cleaning process (低溫甲醇洗工藝)	Sinopec Group / SNEC	Invention	02114514.8	April 3, 2002	September 14, 2005
102	A waste heat recovery method for CO conversion (一種用於CO變換的餘熱回收方法)	Sinopec Corp. / SNEC	Invention	200710068402.5	April 27, 2007	July 21, 2010
103	Process for recovery of acidic gases by methanol absorption (甲醇吸收回收酸性氣的工藝)	SNEC / PetroChina Company Limited	Invention	02116578.5	April 12, 2002	May 25, 2005
104	A sulfur resisting conversion process under low water/gas for gasifying powdered coal (一種粉煤氣化低水/氣耐硫變換工藝)	Qingdao Lianxin Chemical Company Limited / Liuzhou Chemical Industry Company Limited / SNEC	Invention	200710087573.2	March 30, 2007	April 13, 2011
105	Method for producing wet method phosphoric acid by medium- and low-grade phosphorus mine (利用中低品位磷礦生產濕法磷酸的方法)	SNEI	Invention	200510022547.2	December 23, 2005	May 23, 2007

No.	Patent Name	Patentees	Class of patents	Patent No.	Application Date	Grant Date
106	Process for two-effect evaporation of phosphoric acid with wet method (濕法磷酸兩效蒸發工藝)	SNEI	Invention	200810236248.2	November 27, 2008	April 13, 2011
107	Method for producing high-purity concentrated hydrochloric acid by adopting hydrogen chloride gas containing chlorosilane (含氯矽烷的氯化氫氣體生產高純度濃鹽酸的方法)	SNEI	Invention	200910183870.6	August 3, 2009	January 26, 2011

Under PRC law, a granted invention has a validity period of 20 years from the date of its application and a granted utility model has a validity period of 10 years from the date of its application.

In respect of the jointly-owned patents with Sinopec Corp. described above, we entered into an agreement with Sinopec Corp. in December 2012, pursuant to which we are entitled to a complete and non-restricted usage thereof. In addition, in respect of jointly-owned patents with Sinopec Group and its associates described above, we have been advised by our PRC legal advisor, King and Wood Mallesons, that we have the rights to use such jointly-owned patents independently and license others to use them by means of ordinary license in the course of our business and operations. The joint patent owners who are not subsidiaries of Sinopec Group are Independent Third Parties.

As of the Latest Practicable Date, we have made the following patent applications in the PRC:

No.	Application Name	Applicant(s)	Class of patents	Application No.
1	A fluidized bed reactor for gasoline desulfurization (一種用於汽油脫硫的流化床反應器)	Sinopec Corp. / SEI	Invention	200910076756.3
2	A startup method for olefins conversion units (一種烯烴轉化裝置的開工方法)	Sinopec Corp. / SEI	Invention	200910170274.4

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No.	Application Name	Applicant(s)	Class of patents	Application No.
3	A cracking furnace with double-row arranged radiant furnace tubes (一種雙排佈置輻射段爐管裂解爐)	Sinopec Corp. / SEI	Invention	901004646.0
4	A cracking furnace with double-row arranged radiant furnace tubes (一種雙排佈置輻射段爐管裂解爐)	Sinopec Corp. / SEI	Invention	98135111.0
5	An ethylene cracking furnace (一種乙烯裂解爐)	Sinopec Corp. / SEI	Invention	98135112.0
6	An ethylene cracking furnace (一種乙烯裂解爐)	Sinopec Corp. / SEI	Invention	901004655.0
7	An ethylene cracking furnace with hydrocarbon steam cracking system (一種烴類蒸汽裂解製乙烯裂解爐)	Sinopec Corp. / SEI	Invention	200910181015.1
8	High efficient purified desulfurizer for high acid oil and gas (高酸性石油天然氣的高效淨化脫硫劑)	Sinopec Corp. / SEI	Invention	200910233505.1
9	A method for storing bulk sulfur (一種散裝硫磺儲存方法)	Sinopec Corp. / SEI	Invention	201010271431.3
10	An automated loading method at designated points in fixed quantity for bulk sulfur (一種散裝硫磺定點定量自動化裝車方法)	Sinopec Corp. / SEI	Invention	201010271448.9
11	A film-increasing bundle for evaporative air coolers (一種蒸發式空冷器增膜板管束)	Sinopec Corp. / SEI	Invention	201110212044.7
12	A multi-liquid phase parallel distributed heat exchanger (一種多液相平行分佈的換熱器)	Sinopec Corp. / SSEC	Invention	200910047174.2
13	A heat exchanger for evaporating immiscible liquid (用於不互溶液體蒸發的換熱器)	Sinopec Corp. / SSEC	Invention	200910053207.4
14	A porous feeding heat exchanger for immiscible liquid (一種不互溶液體多孔進料的換熱器)	Sinopec Corp. / SSEC	Invention	200910055179.X
15	A continuous production method for separating acetic acid and water through azeotropic distillation (共沸精餾分離醋酸和水的連續生產方法)	Sinopec Corp. / SSEC	Invention	200910195451.4

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No.	Application Name	Applicant(s)	Class of patents	Application No.
16	A method for recovering purified terephthalic acid (回收精對苯二甲酸的方法)	Sinopec Corp. / SSEC	Invention	201010022748.3
17	A method for synthetic preparing butyraldehyde from propylene and syngas carbonyl (丙烯與合成氣羰基合成製備丁醛的方法)	Sinopec Corp. / SSEC	Invention	201010222948.3
18	A method for preparing butyraldehyde from propylene and synthesis gas (丙烯與合成氣製備丁醛的方法)	Sinopec Corp. / SSEC	Invention	201010222941.1
19	A method for preparing butyraldehyde from propylene and synthesis gas (由丙烯與合成氣製備丁醛的方法)	Sinopec Corp. / SSEC	Invention	201010222903.6
20	A method for crushing raw material of expanded plant fiber (粉碎膨化植物纖維原料的方法)	Sinopec Corp. / SSEC	Invention	201010263143.3
21	A method for separating propane in cumene devices (分離異丙苯裝置中丙烷的方法)	Sinopec Corp. / SSEC	Invention	201010504807.0
22	A method for separating propane in cumene devices (異丙苯裝置分離丙烷的方法)	Sinopec Corp. / SSEC	Invention	201010504814.0
23	A method for recovering solvent in oligomers (低聚物中回收溶劑的方法)	Sinopec Corp. / SSEC	Invention	201110002378.1
24	A method for recovering solvent in oligomers (低聚物中溶劑回收方法)	Sinopec Corp. / SSEC	Invention	201110002377.7
25	Pollution preventive emission system for cleaning and sterilizing sewage and its application in aseptic manufacturing process (無菌製造過程中清洗滅菌下水的防污染排放系統及其應用)	Sinopec Corp. / SSEC	Invention	201110091642.3
26	An impermeable sealing method for vertical shaft in underground water-sealed oil storage cave (地下水封石洞油庫豎井防滲密封方法)	Sinopec Corp. / SSEC	Invention	201110093781.X

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## STATUTORY AND GENERAL INFORMATION

No.	Application Name	Applicant(s)	Class of patents	Application No.
27	An impermeable backfilling sealing method for vertical shaft in underground water-sealed oil storage cave (地下水封石油庫豎井防滲回填密封方法)	Sinopec Corp. / SSEC	Invention	201110093782.4
28	Anti-floating method in pond for joint level strut of cone anchor pier (方錐型錨墩聯合水平撐杆的水池抗浮方法)	Sinopec Corp. / SSEC	Invention	201110094837.3
29	Combined oil collecting device of surrounding floating weir in sewage conditioning tank (污水調節罐內周邊浮動堰組合收油裝置)	Sinopec Corp. / SSEC	Invention	201110107463.4
30	A method for producing a hydrogen peroxide diisopropylbenzene (生產一過氧化氫二異丙苯的方法)	Sinopec Corp. / SSEC	Invention	201110221449.7
31	A method for producing a hydrogen peroxide diisopropylbenzene (一過氧化氫二異丙苯的生產方法)	Sinopec Corp. / SSEC	Invention	201110221431.7
32	A method for preparing bis - (peroxide hydrogen isopropyl) benzene (製備雙-(過氧化氫異丙基) 苯的方法)	Sinopec Corp. / SSEC	Invention	201110221471.1
33	A method for preparing bis - (peroxide hydrogen isopropyl) benzene (雙-(過氧化氫異丙基) 苯的製備方法)	Sinopec Corp. / SSEC	Invention	201110221473.0
34	A method for producing 2 - (2 - hydroxy-isopropyl) benzene (生產二-(2-羥基異丙基) 苯的方法)	Sinopec Corp. / SSEC	Invention	201110221487.2
35	A method for producing 2 - (2 - hydroxy-isopropyl) benzene (二-(2-羥基異丙基) 苯的生產方法)	Sinopec Corp. / SSEC	Invention	201110221562.5
36	One step method for producing bis - (peroxide hydrogen isopropyl) benzene (一步法生產雙-(過氧化氫異丙基) 苯的方法)	Sinopec Corp. / SSEC	Invention	201110221591.1

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No.	Application Name	Applicant(s)	Class of patents	Application No.
37	A group welding process at the top of the tank for single-inclusive double-walled cryogenic tanks (一種單包容雙壁低溫儲罐的罐頂組焊工藝)	Sinopec Corp. / SNEC / Ningbo Institute	Invention	201010257199.8
38	A pretreatment system for magnetic mechanical oxygen analyzer samples (一種磁機械式氧分析儀樣品預處理系統)	Sinopec Corp. / SNEC / Ningbo Institute	Invention	201110220190.4
39	A method for lowering the height of slip tail at the tail of equipment (一種降低設備尾部溜尾高度的方法)	Sinopec Corp. / SNEC / Ningbo Institute	Invention	201010257208.3
40	A method for recovering purge gas in the Fischer-Tropsch synthesis process (一種費托合成工藝馳放氣的回收方法)	Sinopec Corp. / SNEC / Ningbo Institute	Invention	201010514849.2
41	A panel structure for fixed hydraulic balanced ultra-large tank (固定式液壓平衡超大型儲罐壁板結構)	Sinopec Corp. / SNEC / Ningbo Institute	Invention	201110094079.5
42	A method for treating acidic water (一種酸性水處理方法)	Sinopec Corp. / SNEC / Ningbo Institute	Invention	201110112859.8
43	A method for manufacturing head module of quenching heat exchangers (一種急冷換熱器封頭模組的製造方法)	Sinopec Corp. / SNEC / Ningbo Institute	Invention	201110204294.6
44	A method for treating acrylic sewage (腈綸廢水處理方法)	Sinopec Corp. / SNEC / Ningbo Institute	Invention	201110307877.1
45	A process for recovering CO <sub>2</sub> from flue gas (煙道氣CO <sub>2</sub> 的回收工藝)	Sinopec Corp. / SNEC / Ningbo Institute	Invention	201110387163.6
46	A separation device and separation method for CO <sub>2</sub> of transformation gas (一種變換氣中二氧化碳的分離裝置及分離方法)	Sinopec Corp. / SNEC / Ningbo Institute	Invention	201110387740.1
47	A type of sootblower (一種吹灰器)	Sinopec Corp. / LPEC	Invention	201010219844.7
48	A type of gas-solid contact device for fluidized bed (一種流化床氣固接觸設備)	Sinopec Corp. / LPEC	Invention	201010219845.1



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No.	Application Name	Applicant(s)	Class of patents	Application No.
49	A method for recovering naphthenate from hydrocarbon oil and its device (一種從烴油中回收環烷酸的方法及其裝置)	Sinopec Corp. / LPEC	Invention	201010219925.7
50	A method for injecting catalyst and its device (一種催化劑注入方法與裝置)	Sinopec Corp. / LPEC	Invention	201010219922.3
51	A type of flame-heating furnace tube rack (一種火焰加熱爐管架)	Sinopec Corp. / LPEC	Invention	201010219933.1
52	A method for utilizing mixed C <sub>4</sub> (一種混合碳四利用方法)	Sinopec Corp. / LPEC	Invention	201010256506.0
53	A method for catalytic conversion of C <sub>4</sub> (一種碳四催化轉化方法)	Sinopec Corp. / LPEC	Invention	201010256488.6
54	A method and process for preparing light olefins catalyst (一種制取低碳烯烴催化劑及其製備方法)	Sinopec Corp. / LPEC	Invention	201010256552.0
55	A salt deposition inhibitors and its preparation process (一種結鹽抑制劑及其製備方法)	Sinopec Corp. / LPEC	Invention	201010256542.7
56	A method for preventing fractionator from salt depositing (一種防止分餾塔結鹽的方法)	Sinopec Corp. / LPEC	Invention	201010256536.1
57	A device for waste oil dehydration (一種污油脫水裝置)	Sinopec Corp. / LPEC	Invention	201010261697.X
58	A method for recovering residual heat from flue gas (一種煙氣餘熱回收方法)	Sinopec Corp. / LPEC	Invention	201010261623.6
59	A device for hydrocarbon oil electric dehydration (一種烴油電脫水裝置)	Sinopec Corp. / LPEC	Invention	201010261592.4
60	A device for waste oil electric dehydration (一種污油電脫水裝置)	Sinopec Corp. / LPEC	Invention	201010261601.X
61	A method for preparing alloy coating on steel surface (一種在鋼鐵表面製備合金塗層的方法)	Sinopec Corp. / LPEC	Invention	201010261614.7

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No.	Application Name	Applicant(s)	Class of patents	Application No.
62	A method for producing aromatics from coker gasoline (一種焦化汽油生產芳烴的方法)	Sinopec Corp. / LPEC	Invention	201010267301.2
63	A method for alkylation (一種烷基化方法)	Sinopec Corp. / LPEC	Invention	201010267290.8
64	A process for degassing liquid sulfur (一種液硫脫氣工藝)	Sinopec Corp. / LPEC	Invention	201010267190.5
65	A dust collector (一種除塵器)	Sinopec Corp. / LPEC	Invention	201010600706.3
66	An alkylation catalyst (一種烷基化催化劑)	Sinopec Corp. / LPEC	Invention	201010605454.3
67	A passivation treatment solution on zinc coating surface (一種鋅層表面鈍化處理液)	Sinopec Corp. / LPEC	Invention	201110008435.7
68	A method for removing NO from flue gas (一種脫除煙氣中NO的方法)	Sinopec Corp. / LPEC	Invention	201110039827.X
69	A catalyst for removing NO from flue gas and its preparation process (一種脫除煙氣中NO的催化劑及其製備方法)	Sinopec Corp. / LPEC	Invention	201110039828.4
70	A type of nonionic aqueous polyurethane dispersion and its preparation process (一種非離子水性聚氨酯分散體及其製備方法)	Sinopec Corp. / LPEC	Invention	201110039939.5
71	A type of sewage treatment process for anoxic - aerobic biological fluidized bed (一種缺氧-好氧生物流化床污水處理工藝)	Sinopec Corp. / LPEC	Invention	201110039932.3
72	A type of electrostatic coalescence crude oil dehydrator (一種靜電聚結原油脫水器)	Sinopec Corp. / LPEC	Invention	201110099620.1
73	A method for demetallization of crude oil (一種原油的脫金屬方法)	Sinopec Corp. / LPEC	Invention	201110099618.4
74	An anaerobic fluidized bed reactor (一種厭氧流化床反應器)	Sinopec Corp. / LPEC	Invention	201110105526.2

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No.	Application Name	Applicant(s)	Class of patents	Application No.
75	A material handling method for ethylbenzene preparation process from raw material containing ethylene (一種含乙烯原料製乙苯工藝的原料處理方法)	Sinopec Corp. / LPEC	Invention	201110105517.3
76	A separation process for light olefin gases (一種低碳烯烴氣體的分離工藝)	Sinopec Corp. / LPEC	Invention	201110105507.X
77	A type of aluminum hot rolling oil (一種鋁熱軋油)	Sinopec Corp. / LPEC	Invention	201110105482.3
78	A type of oil-soluble corrosion inhibitor and its preparation process (一種油溶性緩蝕劑及其製備方法)	Sinopec Corp. / LPEC	Invention	201110105529.6
79	A type of oil-soluble corrosion inhibitor and its preparation process and application (一種油溶性緩蝕劑及其製備方法和應用)	Sinopec Corp. / LPEC	Invention	201110105469.8
80	A type of enhanced heat transfer tube with twisted-leaves (一種帶有旋流片的強化傳熱管)	Sinopec Corp. / LPEC	Invention	201110114493.8
81	A type of air preheater and its application (一種空氣預熱器及其應用)	Sinopec Corp. / LPEC	Invention	201110145098.6
82	A type of gas soot blower (一種氣體吹灰器)	Sinopec Corp. / LPEC	Invention	201110145083.£Ø
83	A type of soot bellowing method for furnace (一種加熱爐吹灰方法)	Sinopec Corp. / LPEC	Invention	201110166075.3
84	A device for waste oil dehydration (一種污油脫水裝置)	Sinopec Corp. / LPEC	Invention	201110166109.9
85	A type of flame heating furnace (一種火焰加熱爐)	Sinopec Corp. / LPEC	Invention	201110192495.9
86	A type of sealing device for graphite-tube heat exchange tubes and sheets and heat exchange tubes (一種石墨管式換熱器管板與換熱管的密封裝置)	Sinopec Corp. / LPEC	Invention	201110211107.7

No.	Application Name	Applicant(s)	Class of patents	Application No.
87	A dry distillation method for coal and its device (一種煤的乾餾方法及裝置)	Sinopec Corp. / LPEC	Invention	201110219229.0
88	A method for lowering energy consumption of oxygenates olefins units (一種降低含氧化合物製烯烴裝置能耗的方法)	Sinopec Corp. / LPEC	Invention	201110253698.4
89	A method for lowering energy consumption of oxygenates olefins units (一種降低含氧化合物製烯烴裝置能耗的方法)	Sinopec Corp. / LPEC	Invention	201110253681.9
90	A method for producing liquid ammonia (一種液氨生產方法)	Sinopec Corp. / LPEC	Invention	201110253741.7
91	A type of composition of cold rolling sheet rolling oil (一種冷軋薄板軋製油組合物)	Sinopec Corp. / LPEC	Invention	201110253720.5
92	A type of liquid collecting, mixing and dispensing device (一種液體收集 / 混合和均佈的設備)	Sinopec Corp. / LPEC	Invention	201110341005.7
93	A process for producing alkyl aromatics (一種生產烷基芳烴的方法)	Sinopec Corp. / LPEC	Invention	201110341009.5
94	A method for treatment of refinery wastewater organics (一種處理煉油污水有機物的方法)	Sinopec Corp. / LPEC	Invention	201110354173.X
95	A catalytic cracking process for reducing carbon dioxide emissions (一種減少二氧化碳排放的催化裂化方法)	Sinopec Corp. / LPEC	Invention	201110354175.9
96	A fine desulfurization method for carbon fraction (一種碳四餾分的精脫硫方法)	Sinopec Corp. / LPEC	Invention	201110354202.2
97	A process for removing oxynitride in flue gas with ozone oxidization method (臭氧氧化法脫除煙氣中氮氧化合物的方法)	Sinopec Corp. / LPEC	Invention	201110360702.7
98	A type of dust collector (一種除塵器)	Sinopec Corp. / LPEC	Invention	201110420240.3

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No.	Application Name	Applicant(s)	Class of patents	Application No.
99	A process for coker gasoline upgrading (一種焦化汽油改質方法)	Sinopec Corp. / LPEC	Invention	201110420264.9
100	A type of scalable gas-type soot blower (一種可伸縮氣體吹灰器)	Sinopec Corp. / LPEC	Invention	201110419810.7
101	A composite metal removal agent and preparation method thereof (一種複合脫金屬劑及其製備方法)	Sinopec Corp. / LPEC	Invention	201110420348.2
102	A method for reducing oxynitride emissions with char (一種用煤焦減少氮氧化合物排放的方法)	Sinopec Corp. / LPEC	Invention	201110437093.0
103	A type of water-soluble grinding fluid (一種水溶性磨削液)	Sinopec Corp. / LPEC	Invention	201110437052.1
104	A type of dry distillation method and device for fluidized bed of oil shale (一種油頁岩的流化床乾餾方法及裝置)	Sinopec Corp. / LPEC / China Coal Group Company Limited	Invention	201110413789.X
105	Dry distillation method and device for fluidized bed of oil shale (油頁岩的流化床乾餾方法及裝置)	Sinopec Corp. / LPEC / China Coal Group Company Limited	Invention	201110413756.5
106	Dry distillation method and device for fluidized bed of oil shale (油頁岩的流化床乾餾方法與裝置)	Sinopec Corp. / LPEC / China Coal Group Company Limited	Invention	201110413811.0
107	Dry distillation method and device for fluidized bed of oil shale (一種油頁岩的流化床乾餾方法和裝置)	Sinopec Corp. / LPEC / China Coal Group Company Limited	Invention	201110413827.1
108	Dry distillation method and device for fluidized bed of oil shale (油頁岩的流化床乾餾方法和裝置)	Sinopec Corp. / LPEC / China Coal Group Company Limited	Invention	201110413866.1
109	A type of dry distillation method and device for fluidized bed of oil shale (一種油頁岩的乾餾方法及裝置)	Sinopec Corp. / LPEC / China Coal Group Company Limited	Invention	201110413869.5
110	A method for removing sulfolane in hydrocarbon oil (一種脫除烴油中環丁磺的方法)	Sinopec Corp. / LPEC / Guangzhou Zhongyuan	Invention	201010267178.4
111	A specimen holder for corrosion test (一種腐蝕試驗試片支架)	Sinopec Corp. / LPEC / Guangzhou Zhongyuan	Invention	201110253661.1

No.	Application Name	Applicant(s)	Class of patents	Application No.
112	A method for replacing low temperature economizer of waste heat boiler (一種餘熱鍋爐低溫省煤氣更換方法)	Sinopec Corp. / Sinopec Group / Ningbo Institute	Invention	201010290716.1
113	A type of gas-type soot blower (一種氣體吹灰器)	Sinopec Corp. / Guangzhou Zhongyuan / LPEC	Invention	201110105498.4
114	A type of cracking furnace with double-row arranged radiant section furnace tubes (一種雙排佈置輻射段爐管裂解爐)	Sinopec Corp. / SEI	Invention	200810224279.6
115	A type of series reactor process for olefin polymerization (research) (一種烯烴聚合的串聯反應器工藝(研究))	Sinopec Corp. / SEI	Invention	200910009747.2
116	Device and process for olefin polymerization reaction (一種烯烴聚合反應的裝置和方法)	Sinopec Corp. / SEI	Invention	201010160512.6
117	Process and device for rapidly leading oil and gas to prevent coking of heavy oil catalytic settler (抑制重油催化沉降器結焦的油氣快速引出方法及設備)	Sinopec Corp. / SEI	Invention	201010263125.5
118	Process for separating acetic acid and water (醋酸和水的分離方法)	Sinopec Corp. / SSEC	Invention	201010530505.0
119	Process for acetic acid dehydration (醋酸脫水的方法)	Sinopec Corp. / SSEC	Invention	201010530484.2
120	Distillation method of acetic acid dehydrator (醋酸脫水塔精餾方法)	Sinopec Corp. / SSEC	Invention	201010530479.1
121	Process for separating acetic acid and water (分離醋酸和水的方法)	Sinopec Corp. / SSEC	Invention	201010530473.4
122	Process for separating acetic acid and water (用於分離醋酸和水的方法)	Sinopec Corp. / SSEC	Invention	201010529840.9
123	Process for separating acetic acid and water with acetic acid dehydrator (醋酸脫水塔分離醋酸和水的方法)	Sinopec Corp. / SSEC	Invention	201010529836.2

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No.	Application Name	Applicant(s)	Class of patents	Application No.
124	Process for distillation separation of acetic acid and water with acetic acid dehydrator (醋酸脱水塔精餾分離醋酸和水的方法)	Sinopec Corp. / SSEC	Invention	201010529823.5
125	Process for producing acetic acid with water gas (用水煤氣製備醋酸的方法)	Sinopec Corp. / SSEC	Invention	201110303455.7
126	Centrifugal sedimentation method for treatment of catalyst liquid waste in the acrylonitrile industry (處理丙烯腈工業中含催化劑廢液的離心沉降方法)	Sinopec Corp. / SNEC / Ningbo Institute	Invention	201010223178.4
127	A type of tube array support device in methanol reactor (一種用於甲醇反應器的列管支撐裝置)	Sinopec Corp. / SNEC / Ningbo Institute	Invention	201010514820.4
128	Process for delivering lignite (一種褐煤輸送工藝)	Sinopec Corp. / SNEC / Ningbo Institute	Invention	201110067835.5
129	Catalytic cracking process and device for reducing gasoline olefin (一種降低汽油烯烴的催化裂化方法與裝置)	Sinopec Corp. / LPEC	Invention	201010219944.X
130	A type of delayed coking process (一種延遲焦化方法)	Sinopec Corp. / LPEC	Invention	201010256498.X
131	A process for flue gas desulfurization and denitrification (一種煙氣脫硫脫硝方法)	Sinopec Corp. / LPEC	Invention	201010256555.4
132	A process for treatment of salt fouling in fractionator (一種處理分餾塔結鹽的工藝)	Sinopec Corp. / LPEC	Invention	201010256526.8
133	Process and device for oil blending online (一種油品線上調合方法及裝置)	Sinopec Corp. / LPEC	Invention	201010261679.1
134	Device for electric desalting and dehydration (一種電脫鹽脫水裝置)	Sinopec Corp. / LPEC	Invention	201010267281.9
135	Hydrogenation anti-scaling and corrosion inhibitor and application thereof (一種加氫阻垢緩蝕劑及應用)	Sinopec Corp. / LPEC	Invention	201010267284.2

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No.	Application Name	Applicant(s)	Class of patents	Application No.
136	A type of hydrogenation combined process (一種加氫組合工藝)	Sinopec Corp. / LPEC	Invention	201010605419.1
137	A type of filament oil agent for poly phthalimido phenylenediamine fiber (一種聚對苯二甲酰對苯二胺纖維用長絲油劑)	Sinopec Corp. / LPEC	Invention	201010605429.5
138	A type of automatic catalyst feeder and method for automatic catalyst feeding (一種催化劑自動加料器和催化劑自動加料方法)	Sinopec Corp. / LPEC	Invention	201110039830.1
139	A type of fixed bed residuum hydrogenation process (一種固定床渣油加氫工藝)	Sinopec Corp. / LPEC	Invention	201110069595.2
140	A method for slowing down coking of oil-gas pipeline on top of coke drum (一種減緩焦炭塔頂油氣管線結焦的方法)	Sinopec Corp. / LPEC	Invention	201110089927.3
141	A type of delayed coking process (一種延遲焦化方法)	Sinopec Corp. / LPEC	Invention	201110089909.5
142	A type of process and device for catalytic cracking (一種催化裂化方法及裝置)	Sinopec Corp. / LPEC	Invention	201110096827.3
143	A type of catalytic cracking process (一種催化裂化方法)	Sinopec Corp. / LPEC	Invention	201110096794.2
144	A type of process and device for catalytic cracking (一種催化裂化方法及裝置)	Sinopec Corp. / LPEC	Invention	201110096836.2
145	A type of process and device for catalytic cracking (一種催化裂化方法及裝置)	Sinopec Corp. / LPEC	Invention	201110096829.2
146	A type of delayed coking process (一種延遲焦化方法)	Sinopec Corp. / LPEC	Invention	201110211077.x
147	A type of coking process (一種焦化方法)	Sinopec Corp. / LPEC	Invention	201110210997.x
148	Ultrasonic demulsification dehydration unit (一種超聲波破乳脫水裝置)	Sinopec Corp. / LPEC	Invention	201110210925.5



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<b>No.</b>	<b>Application Name</b>	<b>Applicant(s)</b>	<b>Class of patents</b>	<b>Application No.</b>
149	A type of delayed coking process (一種延遲焦化的方法)	Sinopec Corp. / LPEC	Invention	201110210974.9
150	Regenerable wet flue gas desulfurization process (可再生濕法 煙氣脫硫工藝)	Sinopec Corp. / LPEC	Invention	201110211142.9
151	A type of regenerable wet flue gas desulfurization process (一種可再生 濕法煙氣脫硫工藝)	Sinopec Corp. / LPEC	Invention	201110211171.5
152	Process for electric desalting and dehydration (一種電脫鹽脫水方法)	Sinopec Corp. / LPEC	Invention	201110253718.8
153	A type of electric desalting and dehydrator and electric desalting and dehydration process (一種電脫 鹽脫水器 and 電脫鹽脫水方法)	Sinopec Corp. / LPEC	Invention	201110272247.5
154	A type of device and process for electric desalting and dehydration of crude oil (一種原油電脫鹽脫水 裝置與方法)	Sinopec Corp. / LPEC	Invention	201110272257.9
155	A type of delayed coking process (一種延遲焦化方法)	Sinopec Corp. / LPEC	Invention	201110341026.9
156	A type of hydrogenation process for deep desulfurization of gasoline (一種汽油深度脫硫的加氫方法)	Sinopec Corp. / LPEC	Invention	201110360714.X
157	Process for removing metals in crude oil (一種原油脫金屬方法)	Sinopec Corp. / LPEC	Invention	201110420371.1
158	A type of catalytic cracking process (一種催化裂化方法)	Sinopec Corp. / LPEC	Invention	201110341017.X

In respect of the patent applications jointly submitted by our Group and Sinopec Corp. as described above, we entered into an agreement with Sinopec Corp. in December 2012, pursuant to which we are entitled to a complete and non-restricted usage of the relevant patent once the relevant application has been approved.

***Domain Name***

As at the Latest Practicable Date, we have registered the following domain name:

<b>Domain Name</b>	<b>Registrant</b>
www.segroup.cn	Our Company

**5. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUPERVISORS****A. Particulars of Directors' and Supervisors' Contracts**

Each of the executive Director and non-executive Directors, entered into a service contract with our Company on April 22, 2013. The principal particulars of these service agreements are (a) for a term of three years commencing from the date on which the relevant Shareholders' approvals for the appointment were obtained and (b) are subject to termination in accordance with their respective terms. The service agreements may be renewed in accordance with our Articles of Association and the applicable rules and regulations.

Each of the Supervisors entered into a contract in respect of, among others, compliance with relevant laws and regulations, observation of the Articles of Association and provision on arbitration with our Company on April 22, 2013.

Save as disclosed above, none of the Directors or Supervisors has or is proposed to have a service contract with any member of our Group (other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation)).

**B. Remuneration of Directors and Supervisors**

The aggregate amounts of compensation (including fees, salaries, contributions to pension schemes, housing allowances and other allowances, benefits in kind and discretionary bonuses) which were paid to the Directors and Supervisors during the three years ended December 31, 2010, 2011 and 2012 were approximately RMB1,645,000, RMB2,038,000 and RMB2,769,000, respectively.

Save as disclosed above, no other payments have been paid or are payable by us to the Directors and Supervisors in respect of the three years ended December 31, 2012.

There is no arrangement under which any Director has waived or agreed to waive future emoluments, nor has there been any waiver of emoluments by any Director during the current financial year.

Under the existing arrangements currently in force, the aggregate remuneration payable and benefits in kind granted to the Directors and the Supervisors for the year ending December 31, 2013 are estimated to be approximately RMB776,849 and RMB2,274,799, respectively.

Each of the Directors is entitled to reimbursement for all reasonable expenses properly incurred in the performance of his or her duties.

## 6. DISCLOSURE OF INTERESTS

### A. Disclosure of Interests

To the best of the knowledge of our Directors, the following person(s) will, immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised), have an interest or short position in the Shares or underlying shares which are required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% 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 the Company:

Shareholder	Number of shares held after the Global Offering	Nature of interest	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering <sup>(1)</sup>	Approximate percentage of shareholding in the total share capital of the Company after the Global Offering <sup>(2)</sup>
Sinopec Group <sup>(3)</sup> .....	2,967,200,000 Domestic Shares	Beneficial owner/Interest of controlled corporation	100%	67.01%

*Notes:*

- (1) The calculation is based on the percentage of shareholding in Domestic Shares (excluding 132,800,000 H Shares to be converted from Domestic Shares and held by NSSF) (as applicable) of the Company after the Global Offering.
- (2) The calculation is based on the total number of 4,428,000,000 Shares in issue immediately after the Global Offering (assuming the Over-allotment Option is not exercised).
- (3) Immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Sinopec Group will directly or indirectly hold 2,967,200,000 Domestic Shares, representing 100% of the domestic share capital and approximately 67.01% of the total share capital of the Company, respectively. SAMC is a wholly-owned subsidiary of Sinopec Group and will hold 59,344,000 Domestic Shares, representing 2% of the domestic share capital and approximately 1.34% of the total share capital of the Company, respectively. Pursuant to the SFO, Sinopec Group is also deemed to be interested in the Domestic Shares held by SAMC.

**B. Disclaimers**

Save as disclosed in this prospectus:

- (a) none of the Directors or Supervisors is interested in the promotion of our Company, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, our Company, or are proposed to be acquired or disposed of by or leased to our Company;
- (b) none of the Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business taken as a whole;
- (c) save in connection with the Hong Kong Underwriting Agreement and the International Underwriting Agreement, none of the parties in the aforesaid paragraph:
  - (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiary; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities;
- (d) none of the Directors or Supervisors is a director or employee of a company which is expected to have an interest in the Shares falling to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once the H Shares are listed on the Hong Kong Stock Exchange;
- (e) as at the Latest Practicable Date, none of the Directors, Supervisors, their respective associates, or any of the Shareholders (who to the knowledge of the Directors owns more than 5% of our issued share capital), had any interest in any of our top five suppliers and top five clients in respect of each of our business segments;
- (f) none of the Directors, Supervisors and chief executives of our Company has for the purpose of Divisions 7 and 8 of Part XV of the SFO or the Hong Kong Listing Rules, nor is any of them taken to or deemed to have under Divisions 7 and 8 of Part XV of the SFO, any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO) or any interests which will have to be entered in the register to be kept by the Company pursuant to section 352 of the SFO or which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies once the H Shares are listed on the Hong Kong Stock Exchange;

- (g) no amount, securities or benefit has been paid, allotted or given within the two years preceding the date of this prospectus to the promoter nor is any such amount, securities or benefit intended to be paid, allotted or give. None of the Directors is interested in any business which competes or is likely to compete, either directly or indirectly, with our business; and
- (h) none of the Directors or Supervisors has been paid in cash or shares or otherwise by any person in respect of the years ended December 31, 2010, 2011 and 2012 as an inducement to join or upon joining the Company, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

## **7. OTHER INFORMATION**

### **A. Estate Duty**

Our Directors have been advised that no material liability for estate duty under PRC law is likely to fall upon any member of our Group.

### **B. Litigation**

Save as disclosed in the section headed “Business — Regulatory Compliance and Legal Proceedings” in this prospectus, as at the Latest Practicable Date, we are not involved in any material litigation, arbitration or administrative proceedings. So far as the Directors are aware, no such material litigation, arbitration or administrative proceedings are pending or threatened against any member of our Group.

### **C. Joint Sponsors**

Each of the Joint Sponsors, namely, J.P. Morgan Securities (Far East) Limited, CITIC Securities Corporate Finance (HK) Limited and UBS Securities Hong Kong Limited has respectively declared its independence pursuant to Rule 3A.07 of the Hong Kong Listing Rules.

The Joint Sponsors have made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for listing of, and permission to deal in, our H Shares. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

### **D. Compliance advisor**

We will appoint CMB International Capital Limited as our compliance advisor, or the Compliance Advisor, upon Listing in compliance with Rule 3A.19 of the Hong Kong Listing Rules.

### **E. Preliminary expenses**

Our estimated preliminary expenses are approximately HK\$4,300,000 and have been paid by us.

**F. Qualification of experts**

The qualifications of the experts, as defined under the Hong Kong Listing Rules, who have given opinions in this prospectus are as follows:

Name	Qualification
J.P. Morgan Securities (Far East) Limited	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
CITIC Securities Corporate Finance (HK) Limited	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
UBS Securities Hong Kong Limited	Licensed to conduct type 1 (dealing in securities), type 6 (advising on corporate finance) and type 7 (Providing Automated Trading Services) regulated activities as defined under the SFO
Grant Thornton Hong Kong Limited	Certified Public Accountants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Certified professional surveyors and independent property valuer and consultant
King & Wood Mallesons	PRC legal advisor
CBI (Shanghai) Co., Ltd.	Industry consultant
China International Chemical Consulting Corporation	Industry consultant
Beijing Jingdu Management Consultants Co., Ltd.	Internal control consultant

**G. Taxation of holders of H Shares**

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty if such sale, purchase and transfer is effected on the H Share register of members of our Company, including in circumstances where such transaction is effect on the Hong Kong Stock Exchange. The current rate of Hong Kong stamp duty for such sale, purchase and transfer is HK\$2.00 for every HK\$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold or transferred. For further information in relation to taxation, see “Appendix IV — Taxation and Foreign Exchange” to this prospectus.

**H. No material adverse change**

Save as disclosed in this prospectus, our Directors confirm that there has been no material adverse change in our financial or trading position since December 31, 2012.

**I. Binding effect**

This prospectus shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

**J. Miscellaneous**

Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus, we have not issued or agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of our Group, if any, is under option or is agreed conditionally or unconditionally to be put under option;
- (c) no member of our Group has issued or agreed to issue any founder or management or deferred shares;
- (d) no member of our Group has issued or agreed to issue any debentures;
- (e) the Company has no outstanding convertible debt securities or debentures;
- (f) within the two years immediately preceding the date of this prospectus, no commission, discount, brokerage or other special term has been granted in connection with the issue or sale of any of the shares or loan capital of the Company or any of our subsidiaries;
- (g) there is no arrangement under which future dividends are waived or agreed to be waived;
- (h) there has been no interruption in our business which may have or have had a significant effect on the financial position in the last 12 months;
- (i) no part of the equity or debt securities of our Company, if any, is currently listed on or dealt in on any stock exchange or trading system, and no such listing or permission to list on any stock exchange other than the Hong Kong Stock Exchange is currently being or agreed to be sought; and
- (j) we currently do not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the PRC Sino-Foreign Joint Venture Law.

**K. Consents**

Each of the Joint Sponsors, Grant Thornton Hong Kong Limited as our reporting accountants and independent auditors, Jones Lang LaSalle Corporate Appraisal and Advisory Limited as our independent property valuer and consultant, King & Wood Mallesons as our PRC legal advisor, CBI (Shanghai) Co., Ltd. and China International Chemical Consulting Corporation as our industry consultants, and Beijing Jingdu Management Consultants Co., Ltd. as our internal control consultant has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of any of its certificates, letters, opinions or reports and the references to its name included herein in the form and context in which it is included.

**L. Promoters**

The Promoters of our Company are Sinopec Group and SAMC. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, security or benefit has been paid, allotted or given or is proposed to be paid, allotted or given to the Promoters named above in connection with the Global Offering or the related transactions described in this prospectus.

**M. Related party transactions**

Our Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in the section headed “Connected Transactions” in this prospectus and in note 42 of the “Accountants’ Report” in Appendix I to this prospectus.

**N. Personal guarantees**

The Directors and Supervisors have not provided personal guarantees in favor of lenders in connection with banking facilities granted to us.

**O. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

This prospectus is written in the English language and contains a Chinese translation for information purposes only. Should there be any discrepancy between the English language of this prospectus and the Chinese translation, the English language version of this prospectus shall prevail.



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## **APPENDIX VIII                      DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION**

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### **DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in the paragraph headed “Statutory and General Information — 7. Other Information — K. Consents” in Appendix VII to this prospectus; and
- (c) a copy of each of the material contracts referred to in the paragraph headed “Statutory and General Information — 4. Further Information about our Business — A. Summary of our material contracts” in Appendix VII to this prospectus.

### **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Allen & Overy at 9th Floor, Three Exchange Square, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles of Association in Chinese;
- (b) the Accountants’ Report prepared by Grant Thornton Hong Kong Limited, the text of which is set out in “Appendix I — Accountants’ Report”;
- (c) the audited consolidated financial statements of the Group for each of the three financial years ended December 31, 2010, December 31, 2011 and December 31, 2012;
- (d) the letter relating to the unaudited pro forma financial information of the Group, the texts of which are set out in “Appendix II — Unaudited Pro Forma Financial Information”;
- (e) the PRC legal opinions issued by King & Wood Mallesons, our PRC legal advisor, dated May 10, 2013 in respect of our general matters and property interests of the Group;
- (f) the material contracts referred to in the paragraph headed “Statutory and General Information — 4. Further Information about our Business — A. Summary of our material contracts” in Appendix VII to this prospectus;
- (g) the written consents referred to in the paragraph headed “Statutory and General Information — 7. Other Information — K. Consents” in Appendix VII to this prospectus;
- (h) the service contracts referred to in the paragraph headed “Statutory and General Information — 5. Further Information about our Directors and Supervisors — A. Particulars of Directors’ and Supervisors’ Contracts” in Appendix VII to this prospectus; and
- (i) the PRC Company Law, the Special Regulations and the Mandatory Provisions together with unofficial English translations thereof.



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