Stock Code: 2386

中石化煉化工程（集團）股份有限公司
SINOPEC ENGINEERING (GROUP) CO., LTD.

2014 INTERIM REPORT

Important Notice

The Board of Directors and directors of SINOPEC ENGINEERING (GROUP) CO., LTD. ("SINOPEC SEG" or the "Company") warrant that there are no false representations, misleading statements or material omissions contained in this interim report and hereby are jointly and severally liable for the authenticity, accuracy and completeness of the content hereof. SINOPEC SEG's directors, Mr. LEI Dianwu and Mr. LING Yiqun, were engaged with official duties and could not attend the twelfth meeting of the First Session of the Board of Directors (the "Meeting"). Director, Mr. LEI Dianwu, authorised Mr. YAN Shaochun, and director, Mr. LING Yiqun, authorised Mr. CHANG Zhenyong to attend the Meeting and vote on their behalf. Mr. CAI Xiyou, Chairman of the Board, Mr. YAN Shaochun, President, Mr. JIA Yiqun, Chief Financial Officer and Mr. WANG Yi, head of the finance department warrant the authenticity and completeness of the financial statements contained in this interim report.

The interim financial statements for the six-month period ended 30 June 2014 (the "Reporting Period") prepared by SINOPEC SEG and its subsidiaries (the "Group") in accordance with the International Financial Reporting Standards was audited by Grant Thornton Hong Kong Limited, which has issued a standard unqualified audit report.

This interim report contains forward-looking statements. All statements, other than statements of historical facts, that address business activities, events or developments that the Group expects or anticipates will or may occur in the future (including, but not limited to, projections, targets, estimates and business plans) are forward-looking statements. The future actual results or development trends may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties. The Group makes the forward-looking statements referred to herein as at 15 August 2014 and, unless otherwise required by the relevant regulatory authorities, undertakes no obligation or responsibility to update these statements.

Contents

Company Profile

SINOPEC SEG is a leading oil refining, petrochemical, and new coal chemical engineering company in the PRC. The Group provides engineering services for a broad range of industries including oil refining, petrochemicals, new coal chemicals, inorganic chemicals, pharmaceutical chemicals, and clean energy with a complete service chain involving technology licensing, consulting, financing assistance, engineering, procurement, construction, and pre-commissioning/start-up services and etc. Leveraging over 60 years of industry experience and continual innovation in technical expertise, the Group has achieved great success in engineering and constructing large-scale complexes of oil refining, petrochemical, new coal chemical and other industries with strong competitiveness.

Basic Information of the Company

LEGAL NAME
中石化煉化工程(集團)股份有限公司

CHINESE ABBREVIATION
中石化煉化工程

ENGLISH NAME
SINOPEC ENGINEERING (GROUP) CO., LTD.

ENGLISH ABBREVIATION
SINOPEC SEG

LEGAL REPRESENTATIVE
Mr. CAI Xiyou

AUTHORISED REPRESENTATIVES
Mr. YAN Shaochun

Mr. SANG Jinghua

SECRETARY TO THE BOARD OF DIRECTORS
Mr. SANG Jinghua

REGISTERED ADDRESS
A6 Huixindong Street, Chaoyang District, Beijing, PRC

PLACE OF BUSINESS AND CORRESPONDENCE ADDRESS
Tower B, No.19, Anyuan, Anhuibeili, Chaoyang District, Beijing, PRC

Postcode: 100101

Tel: +86-10-6499-8114

Website: www.segroup.cn

E-mail: seg.ir@sinopec.com

WEBSITES PUBLISHING THIS INTERIM REPORT

Website Designated by The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"):

http://www.hkex.com.hk

The Company's Website:

http://www.segroup.cn

PLACE WHERE THIS INTERIM REPORT IS AVAILABLE FOR INSPECTION

Tower B, No.19, Anyuan, Anhuibeili,
Chaoyang District, Beijing, PRC

SINOPEC ENGINEERING (GROUP) CO., LTD.

Office of Board of Directors

PLACE OF LISTING OF SHARES, STOCK NAME AND STOCK CODE

H Shares: Hong Kong Stock Exchange

Stock name: SINOPEC SEG

Stock code: 2386

ENTERPRISE LEGAL BUSINESS LICENSE REGISTRATION NO.

100000000041054

TAXATION REGISTRATION NO.

110105710934908

ORGANISATION CODE

71093490-8

NAMES AND ADDRESSES OF AUDITORS OF THE COMPANY

Domestic:

Grant Thornton China (Special General Partnership)

4th, 5th and 10th Floor, Scitech Place, 22 Jianguomen Wai Avenue, Chaoyang District, Beijing, PRC

Overseas:

Grant Thornton Hong Kong Limited

Level 12, 28 Hennessy Road, Wan Chai, Hong Kong

Principal Financial Data and Indicators

Principal Financial Data and Indicators

Financial Data and Indicators Prepared in Accordance with International Financial Reporting Standards (the "IFRS")

Unit: RMB'000

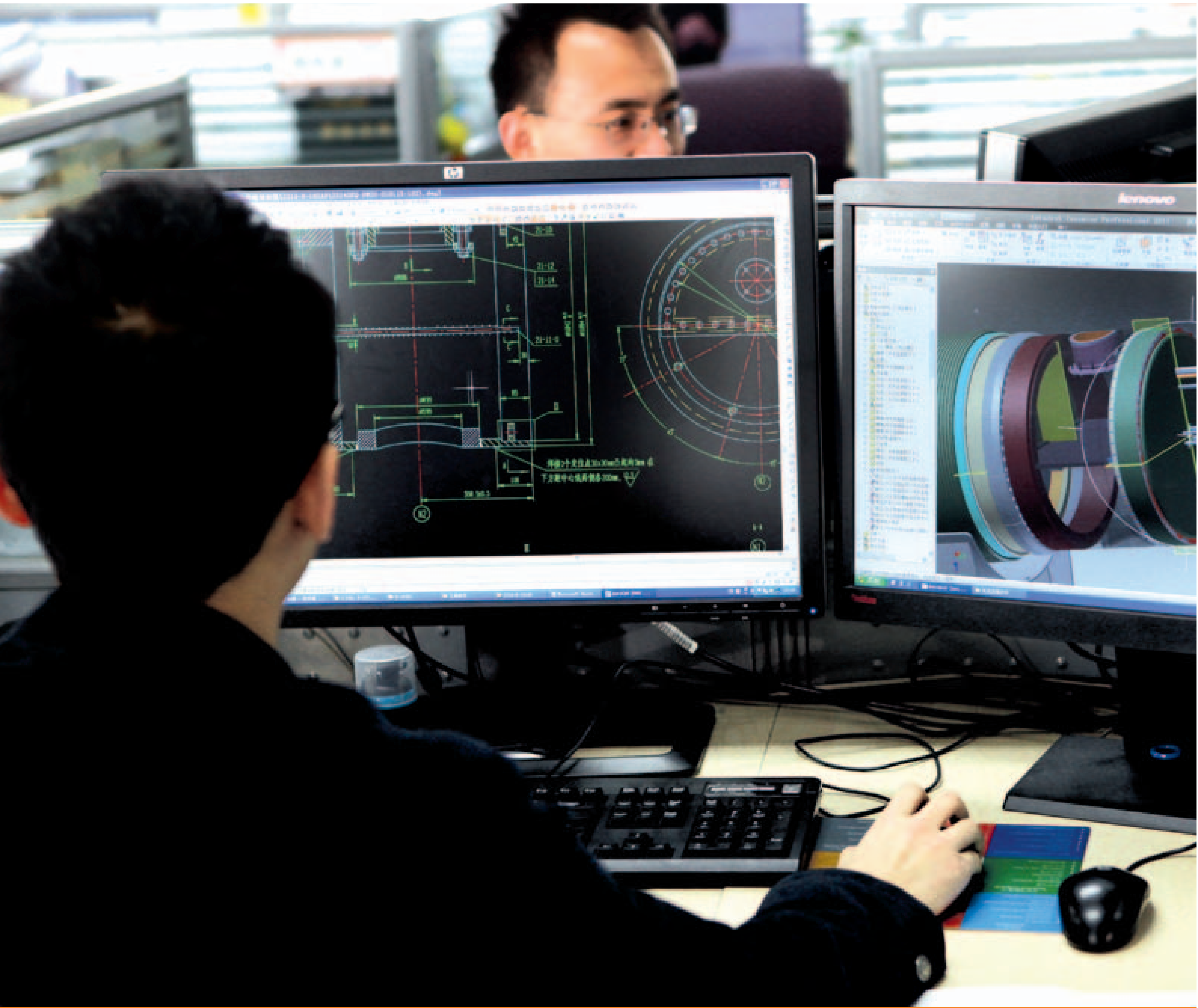
Items	As at 30 June 2014	As at 31 December 2013	Change from the end of last year (%)
Total assets	47,990,695	47,365,269	1.3
Total equity attributable to shareholders of the Company	21,893,630	20,976,714	4.4
Net assets per share attributable to shareholders of the Company (RMB)	4.94	4.74	4.2

Unit: RMB'000

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

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

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



Changes in Share Capital and Shareholdings of Substantial Shareholders

Changes in Share Capital and Shareholdings of Substantial Shareholders

1 Changes in the Share Capital of the Company

Unit: Share

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

2 Shareholdings of Substantial Shareholders

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

(1) Shareholdings of the top ten shareholders

Unit: Share

Name of Shareholders	Increase/ Decrease during the Reporting Period (+, –)	Number of Domestic Shares held at the end of the Reporting Period	Number of H Shares held at the end of the Reporting Period	Percentage at the end of the Reporting Period	
				In total share capital (%)	In relevant class of shares (%)
China Petrochemical Corporation	—	2,967,200,000	—	67.01	100.00
HKSCC (Nominees) Limited	-1,958,500	—	1,456,578,000	32.89	99.71
HIGH SUMMIT GROUP LIMITED	+2,000,000	—	2,000,000	0.05	0.14
CHAN LAI KUEN SELINA	—	—	195,500	0.00	0.01
WONG CHUI CHUNG	—	—	195,500	0.00	0.01
WONG MAY JANE	—	—	131,000	0.00	0.01
CHENG KOON WING	—	—	30,000	0.00	0.00
LEUNG HING WA	—	—	20,000	0.00	0.00
LEE YUEN WAI IRENE	—	—	17,500	0.00	0.00
WONG KWOK WAI PHILIP	—	—	16,500	0.00	0.00
Statement on the connected relationship or acting in concert among or between the aforementioned shareholders	The Company is not aware of any connection or acting in concert among or between the aforementioned top ten shareholders.				

(2) Information disclosed according to the Securities and Futures Ordinance

Except for the information disclosed below, as at the end of the Reporting Period, so far as is known to the Board of Directors of the Company (the "Board"), no person(s) (not being a director, chief executive or supervisor of the Company) had an interest or short position in the shares or underlying shares or debentures of the Company which would fail to be disclosed under the provisions of Division 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO") or, who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of any other member of the Company:

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

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

Notes:
(1) China Petrochemical Corporation ("Sinopec Group") directly and/or indirectly holds 2,967,200,000 Domestic Shares, representing 100% of the Domestic Shares and approximately 67.01% of the total share capital of the Company, respectively. Sinopec Assets Management Co., Ltd. is a wholly-owned subsidiary of Sinopec, directly holds 59,344,000 Domestic Shares, representing 2% of the domestic share and approximately 1.34% of the total share capital of the Company, respectively. For the purposes of the SFO, Sinopec is also deemed to be interested in the Domestic Shares held by Sinopec Assets Management Co., Ltd.
(2) The information is based on the Corporate Substantial Shareholders Notices dated 19 November 2013 and filed by the National Council for Social Security Fund of the PRC with the Hong Kong Stock Exchange.
(3) According to the Corporate Substantial Shareholders Notices dated 4 June 2013 and filed with by each of (i) the State Administration of Foreign Exchange of the PRC ("SAFE"), (ii) Pagoda Tree Investment Company Limited (中國華馨投資有限公司), (iii) Compass Investment Company Limited (博遠投資有限公司), (iv) GUOXIN International Investment Corporation Limited (國新國際投資有限公司) and (v) Metroson Holdings Corporation Limited (都盛控股有限公司) with the Hong Kong Stock Exchange; Metroson Holdings Corporation Limited directly holds 131,756,000 H shares of the Company. As each of Pagoda Tree Investment Company Limited, Compass Investment Company Limited, GUOXIN International Corporation Limited and Metroson Holdings Corporation Limited is a subsidiary directly or indirectly controlled by SAFE, each of SAFE, Pagoda Tree Investment Company Limited, Compass Investment Company Limited and GUOXIN International Investment Corporation Limited is deemed interested in the long positions held by Metroson Holdings Corporation Limited for the purposes of the Securities and Futures Ordinance.
(4) The information is based on the Corporate Substantial Shareholders Notice dated 17 June 2014 and filed by the Franklin Mutual Advisers, LLC with Hong Kong Stock Exchange.
(5) The information is based on the Corporate Substantial Shareholders Notice dated 29 May 2014 and filed by the The Bank of New York Mellon Corporation with Hong Kong Stock Exchange.
(6) The information is based on the Corporate Substantial Shareholders Notice dated 9 June 2014 and filed by the JPMorgan Chase & Co. with Hong Kong Stock Exchange.
(7) The calculation is based on the 2,967,200,000 Domestic Shares or 1,460,800,000 H Shares issued by the Company.
(8) The calculation is based on the 4,428,000,000 Shares issued in total.

Business Review and Prospects

Market Environment

In the first half of 2014, the global economy has recovered moderately, with steady economic growth in the United States, slow recovery of the European recession, and slowing growth in other emerging economies. The world economy is still recovering while facing many uncertain factors. The economy of the PRC is relatively stable amid slowing growth. In the first half of 2014, the PRC's GDP growth rate reached 7.4%. The PRC's economy is generally stable with steady improvement in restructuring, with momentum in its upgrading and transformation.

As the oil refining and chemical industry is an important pillar of the national economy, with long industrial chains and wide product coverage, in June 2014, the PRC instituted oil refining and chemical industry scientific layout and intensive safety and environmental protection development. These programs promote the oil refining and chemical industry and people's livelihoods by prioritizing safety and environmental protection, implementing scientific plans, improving industrial efficiency, and ensuring safe energy principles. Relevant planning will build on the existing industry base and develop potential enterprise advantages, focusing on quality and efficiency. Once the layout scheme is introduced, it is anticipated that it will further promote greener, safer, and more efficient development of the domestic oil refining and chemical industry.

In terms of the new coal chemical industry, in February 2014, the National Energy Administration organised an expert consultation conference regarding the clean use of coal, where experts expressed their views on a multitude of problems in the coal chemical industry. The conference believes that the new coal chemical industry suits the PRC's national circumstances, under the "rich in coal, poor in oil, and lacking in gas" resource conditions, and that protection of the country's oil and gas supply safety and promotion of the structural adjustments in energy is the urgent and practical choice. It is anticipated that the new coal chemical industry will develop in a scientific, healthy and orderly manner.

BUSINESS REVIEW

During the Reporting Period, the Group's total revenue and profit attributable to shareholders of the Company were RMB22.65 billion and RMB1.877 billion, respectively. As at the end of the Reporting Period, the Group's backlog was RMB95.366 billion. The value of new contracts the Group entered into during the Reporting Period was RMB25.448 billion.

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

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

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

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

During the Reporting Period, the total revenue of the Group was RMB22.650 billion, representing an increase of 15.3% from the same period of the previous year, which is mainly attributable to several large Engineering, Procurement and Construction Contracting (the "EPC Contracting") projects that completed great amount of work during the Reporting Period, including the Yuanba Gas Field natural gas purification complex of Sinopec ("Yuanba Natural Gas Purification Project"), Quanzhou 12 million-tons oil refining complex of Sinochem ("Sinochem Quanzhou Project"), Shaanxi Yulin methanol acetic acid deep processing and comprehensive utilisation Complex ("Yulin Coal Chemical Project"), Shandong liquefied natural gas project tankage in receiving terminal of Sinopec ("Shandong LNG Tankage Project"), the Shijiazhuang oil products quality upgrading and poor-quality crude oil improvement project of Sinopec ("Shijiazhuang Refining Project"), ZhongTianHeChuang Coal Chemical Project and U.S. JUMBO PTA and PET Project.

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

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

The Group derived its revenue mainly from services provided to clients in the oil refining, petrochemical and new coal chemical industries. During the Reporting Period, the Group's revenue from the oil refining industry was RMB4.958 billion, similar to that of the same period in 2013; the revenue derived from the petrochemical industry was RMB9.070 billion, which was slightly higher as compared to that of the same period in 2013; the revenue derived from the new coal chemical industry was RMB4.875 billion, representing an increase of 32.2% as compared to that of the same period in 2013. This increase was mainly due to the significant increase of revenue generated from large coal chemical industry projects such as the Yulin coal Chemical Project and the ZhongTianHeChuang Coal Chemical Project. Revenue derived from other industries was RMB3.746 billion, representing an increase of 70.0% as compared to that of the same period in 2013; this increase was mainly due to the significant increase of revenue generated from clean energy projects such as the Yuanba Natural Gas Purification Project and Shandong LNG Tankage Project.

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

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

During the Reporting Period, the Group continues to steadily expand its overseas business. The overseas revenue of the Group amounted to RMB3.288 billion.

On 13 August 2014, the Company and Kazakhstan Petrochemical Industries ("**KPI Company**") decided to terminate an EPC contract (the "**KPI Contract**"). Please refer to the announcement entitled "Termination of an EPC Contract with KPI Company" published by the Company on 14 August 2014 for more details. As at the end of the Reporting Period, the backlog of the Group was RMB95.366 billion (excluding the contract value of the KPI Contract), representing an increase of 3.0% as compared to RMB92.568 billion as at 31 December 2013, or 2.2 times of the total revenue of RMB43.572 billion in 2013. During the Reporting Period, the value of new contracts amounted to RMB25.448 billion, representing a decrease of 24.4% as compared to RMB33.680 billion in the same period in 2013 excluding the contract value of the KPI Contract.

During the Reporting Period, the Group's domestic representative projects with new contracts signed included: (1) an EPC contract for the receiving terminal station under the Shandong liquefied natural gas (LNG) project of Sinopec Qingdao LNG Co., Ltd. ("Shandong LNG Terminal Station Project"), with a contract value of RMB2.640 billion; (2) an EPC contract for the 180/400 thousand tons per annum ("Ktpa") ethylene oxide/ethylene glycol (EO/EG) project of Fujian Refining & Petrochemical Co., Ltd. ("Fujian EO/EG Project") with a contract value of RMB1.368 billion; and (3) an engineering, procurement (EP) contract for the detailed engineering design and procurement of the air separation and oil processing units for the 4 million tons per annum ("Mtpa") demonstrative indirect coal liquefaction project of Shenhua Ningxia Coal Industry Group ("Shenhua Ningxia Coal Indirect-Liquefaction Project"), with a contract value of RMB3.356 billion; and (4) an EPC contract of polypropylene unit of comprehensive utilisation of exhaust-to-olefin project in Qinghai Damei Ganhe Industrial Zone, with a contract value of RMB714 million. Overseas representative projects signed included: (1) an EPC contract for a sulphuric acid and power plant in Saudi Arabia, with a contract value of USD 257 million; and (2) a construction contract for the hydrocracking and diesel hydrotreating project of Saudi Aramco Oil Company, with a contract value of USD 194 million.

During the Reporting Period, our capital expenditure was approximately RMB204 million, which was mainly used for construction equipment updating, supporting production base enhancement, security management, IT system configuration, and IT software purchase.

Business Highlights

1 Successful Implementation of Major Projects

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

Sinochem Quanzhou Project: The scope of work under the contract of this project includes the major processing units of 12 Mtpa CDU/VDU unit, 2 Mtpa continuous catalytic reforming unit, 1.6 Mtpa delayed coking unit, 3.3 Mtpa residue hydrotreating unit, 3.4 Mtpa fluid catalytic cracking unit, 2.6 Mtpa wax oil hydrocracking unit, and a hydrogen production unit with a capacity of 140,000 normal cubic meter per hour, etc.. Currently, this project is half complete and has entered the commissioning phase.

Shijiazhuang Refining Project: The crude oil processing capacity of this project expanded from 4 Mtpa to 8 Mtpa. Adaptability improvement was implemented for the processing of heavy crude oil and the upgrade of the gasoline and diesel products, in order to meet the requirements for motor gasoline and diesel under the National Phase V Emission Standard. Currently, the principal device of this project is half complete.

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

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

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

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

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

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

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

2 Success in market development under difficult market situation

2014 has witnessed a further declining trend in capital expenditures of large-scale domestic oil companies in traditional oil refining and petrochemical engineering projects. Part of the domestic project investment plans was postponed. There is a bright future for new coal chemical industry market and the preliminary work of partial track projects has been advancing steadily. To counter a difficult market situation, the Group has strengthened its market development efforts. During the Reporting Period, the total value of new contracts was RMB25.448 billion, representing approximately 40% of the annual new contracts target, including RMB22.671 billion for domestic projects and approximately USD450 million for overseas projects.

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

For overseas, the Group's newly signed projects during the Reporting Period include an EPC contract for the 3×1.8 Mtpa sulphuric acid and power plant of Saudi Arabian Mining Company between the Group and Canadian SNG LAVALIN Company, with a contract value of USD764 million, among which the Group is responsible for USD257 million, with a project term of 32 months, and a construction contract for the hydrocracking and diesel hydrotreating units of Saudi Aramco Jazan Refinery Plant with a Spain company, TR Company, with a contract value of USD194 million, with a project term of 30 months.

On 25 July 2014, the Group received a letter of award from PRPC Refinery and Cracker Sdn. Bhd., a subsidiary of Petroliam Nasional Bhd (PETRONAS), with respect to a package contract of engineering, procurement, construction and commissioning (EPCC) of an oil refining and petrochemical integrated engineering project. For more details, please refer to the Company's announcement entitled "Letter of Award from PETRONAS" dated 7 August 2014. The contract value is expected to be approximately USD1.329 billion. Upon signing of the contract, it will be implemented and recorded as backlog of the Company.

3 Leading Technologies

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

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

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

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

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

Technology licensing is orderly launched. RMB67.80 million technology licensing contracts were signed during the Reporting Period.

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

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

4 Intensified Enterprise Reform

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

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

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

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

5 Sustained Safe Operations

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

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

6 Other Aspects

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

Business Prospects

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

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

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

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

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

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

Management's Discussion and Analysis

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

Management Discussion and Analysis

1 Consolidated Results of Operations

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

	Six-month periods ended 30 June				
	2014		2013		
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Change
	(RMB'000)	(%)	(RMB'000)	(%)	(%)
Revenue	22,649,791	100.0	19,645,416	100.0	15.3
Cost of sales	(19,620,895)	(86.6)	(15,999,600)	(81.4)	22.6
Gross profit	3,028,896	13.4	3,645,816	18.6	(16.9)
Other income	115,760	0.5	23,271	0.1	397.4
Selling and marketing expenses	(48,823)	(0.2)	(38,243)	(0.2)	27.7
Administrative expenses	(455,115)	(2.0)	(422,935)	(2.1)	7.6
Research and development costs	(312,295)	(1.4)	(254,823)	(1.3)	22.6
Other operating expenses	(96,392)	(0.4)	(133,639)	(0.7)	(27.9)
Other gains - net	295	0.0	1,963	0.0	(85.0)
Operating profit	2,232,326	9.9	2,821,410	14.4	(20.9)
Finance income	301,042	1.3	159,441	0.8	88.8
Finance expenses	(55,589)	(0.2)	(54,703)	(0.3)	1.6
Finance income - net	245,453	1.1	104,738	0.5	134.3
Share of profits/(losses) of joint arrangements	1,314	0.0	(112)	0.0	N/A
Share of profits of associates	5,518	0.0	4,251	0.0	29.8
Profit before taxation	2,484,611	11.0	2,930,287	14.9	(15.2)
Income tax expense	(607,068)	(2.7)	(716,132)	(3.6)	(15.2)
Profit for the period	1,877,543	8.3	2,214,155	11.3	(15.2)
Fair value losses on available- for-sale financial assets	(776)	0.0	(268)	0.0	189.6
(Losses) /Gains on revaluation of retirement benefit plans obligations	(111,673)	(0.5)	51,105	0.3	N/A
Exchange differences arising on translation of foreign operations	(6,793)	0.0	—	—	—
Total comprehensive income for the period	1,758,301	7.8	2,264,992	11.6	(22.4)

(1) Revenue

The revenue of the Group increased by 15.3% from RMB19.645 billion for the six months ended 30 June 2013 to RMB22.650 billion for the six months ended 30 June 2014. The increase was mainly due to a relatively large workload completion during the Reporting Period in a number of large EPC Contracting projects, such as Yuanba Natural Gas Purification Project, Sinochem Quanzhou Project, Yulin Coal Chemical Project, Shandong LNG Tankage Project, Shijiazhuang Oil Refining and Chemical Project, ZhongTianHeChuang Coal Chemical Project, and U.S. JUMBO PTA and PET Project.

(2) Cost of sales

The cost of sales of the Group increased by 22.6% from RMB16.000 billion for the six months ended 30 June 2013 to RMB19.621 billion for the six months ended 30 June 2014, primarily due to increased direct costs, including labor costs and the procurement of equipment and machinery costs, which were caused by the increase of business volume.

(3) Gross profit

The gross profit of the Group declined by 16.9% from RMB3.646 billion for the six months ended 30 June 2013 to RMB3.029 billion for the six months ended 30 June 2014; the gross profit margin dropped from 18.6% during the same period of last year to 13.4% during the Reporting Period, which were mainly due to a decrease in income of the high gross profit margin engineering business and reduced large-scale general contract projects in settlement stage, causing a greater increase of sales cost than that of revenue and a decrease in gross profit margin comparing to the same period of last year.

(4) Other income

The other income of the Group increased by 397.4% from RMB23 million for the six months ended 30 June 2013 to RMB116 million for the six months ended 30 June 2014, mainly due to the net exchange gain.

(5) Selling and marketing expenses

The selling and marketing expenses of the Group increased by 27.7% from RMB38 million for the six months ended 30 June 2013 to RMB49 million for the six months ended 30 June 2014, mainly due to net the Group's increased investment in marketing during the Reporting Period.

(6) Administrative expenses

The administrative expenses of the Group increased by 7.6% from RMB423 million for the six months ended 30 June 2013 to RMB455 million for the six months ended 30 June 2014, mainly due to the remuneration structure adjustment and increased employee benefits of the Group.

(7) Research and development costs

The research and development costs of the Group increased by 22.6% from RMB255 million for the six months ended 30 June 2013 to RMB312 million for the six months ended 30 June 2014, mainly due to the efforts made by the Group to the integration of technological resources and intensified R&D efforts.

(8) Other operating expenses

The other operating expenses of the Group declined by 27.9% from RMB134 million for the six months ended 30 June 2013 to RMB96 million for the six months ended 30 June 2014. There was no net exchange loss during the Reporting Period.

(9) Other gains – net

The net other gains of the Group declined from RMB2 million for the six months ended 30 June 2013 to RMB0.3 million for the six months ended 30 June 2014, mainly due to the reduction in gains on disposal of fixed assets.

(10) Operating profit

As a result of the reasons above, the operating profit of the Group declined by 20.9% from RMB2.821 billion for the six months ended 2013 to RMB2.232 billion for the six months ended 30 June 2014.

(11) Finance income – net

The net financial income of the Group increased by 134.3% from RMB105 million for the six months ended 2013 to RMB245 million for the six months ended 30 June 2014, mainly due to an increase in the interest income receivable from the ultimate holding company as compared with the same period of the previous year.

(12) Income tax expense

The income tax expense of the Group declined by 15.2% from RMB716 million for the six months ended 2013 to RMB607 million for the six months ended 30 June 2014. The main reason was that the Group's profit before taxation declined from RMB2.930 billion for the six months ended 2013 to RMB2.485 billion for the six months ended 30 June 2014. The effective income tax rate of 24.4% remained stable as compared with the same period of the previous year.

(13) Profit for the period

Due to the above reasons, the net profit for the Reporting Period of the Group declined by 15.2% from RMB2.214 billion for the six months ended 30 June 2013 to RMB1.878 billion.

(14) Total comprehensive income for the period

As a combined result of the reasons above and the effect of the Group's other comprehensive income, the total amount of the comprehensive income in the Reporting Period of the Group declined by 22.4% from RMB2.265 billion for the six months ended 30 June 2013 to RMB1.758 billion.

2 Discussion on the Results by Business segments

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

	Segment revenue		Segment gross profit		Segment gross profit margin		Segment operating profit		Segment operating profit margin	
	Six-month periods ended 30 June		Six-month periods ended 30 June		Six-month periods ended 30 June		Six-month periods ended 30 June		Six-month periods ended 30 June	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	(RMB'000)		(RMB'000)		(%)		(RMB'000)		(%)	
Engineering, consulting and licensing	1,688,536	2,263,920	837,266	1,228,052	49.6	54.2	607,043	966,188	36.0	42.7
EPC Contracting	13,366,117	10,594,811	1,732,626	1,972,716	13.0	18.6	1,333,250	1,602,544	10.0	15.1
Construction	9,091,497	8,098,838	456,282	457,702	5.0	5.7	288,270	275,421	3.2	3.4
Equipment manufacturing	318,231	365,763	2,722	(12,654)	0.9	(3.5)	(9,171)	(29,786)	(2.9)	(8.1)
Unallocated	N/A	N/A	N/A	N/A	N/A	N/A	12,934	7,043	N/A	N/A
Subtotal	24,464,381	21,323,332	3,028,896	3,645,816	N/A	N/A	2,232,326	2,821,410	N/A	N/A
Total after inter-segment elimination[3]	22,649,791	19,645,416	3,028,896	3,645,816	13.4[1]	18.6[1]	2,232,326	2,821,410	9.9[2]	14.4[2]

(1) Total gross profit margin is calculated based on total gross profit divided by total revenue, and total revenue is the gross earnings generated after inter-segment elimination in all the business segments.
(2) Total operating profit margin is calculated based on the total operating profit of the business segments divided by total revenue, and total revenue is the gross earnings generated after inter-segment elimination in all the business segments.
(3) Inter-segment elimination is mainly caused by the inter-segment sales made by the Construction and Equipment Manufacturing segments to the EPC Contracting segment. Other information on inter-segment sales is set out in Note 7 to the Financial Statements contained in this interim report.

Engineering, Consulting and Licensing

The operating results of the Group's Engineering, Consulting, and Licensing business are as follows:

	Six-month periods ended 30 June			
	2014		2013	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(RMB'000)	(%)	(RMB'000)	(%)
Revenue	1,688,536	100.0	2,263,920	100.0
Cost of sales	(851,270)	(50.4)	(1,035,868)	(45.8)
Gross profit	837,266	49.6	1,228,052	54.2
Selling and marketing expenses	(2,605)	(0.2)	(1,934)	(0.1)
Administrative expenses	(39,015)	(2.3)	(32,839)	(1.5)
Research and development costs	(197,125)	(11.7)	(154,254)	(6.7)
Other incomes and expenses	8,522	0.5	(72,837)	(3.2)
Operating profit	607,043	36.0	966,188	42.7

(1) Revenue

The revenue of the Group's Engineering, Consulting, and Licensing segment declined by 25.4% from RMB2.264 billion for the six months ended 30 June 2013 to RMB1.689 billion for the six months ended 30 June 2014. The main cause is that some engineering projects within the Reporting Period are in detailed engineering stage that the implementation cycle is long.

(2) Cost of sales

The cost of sales of the Group's Engineering, Consulting, and Licensing segment declined by 17.8% from RMB1.036 billion for the six months ended 30 June 2013 to RMB851 million for the six months ended 30 June 2014 as there was a decline in revenue.

(3) Gross profit

The gross profit of the Group's Engineering, Consulting, and Licensing segment declined by 31.8% from RMB1.228 billion for the six months ended 30 June 2013 to RMB837 million for the six months ended 30 June 2014. The main cause is that there was a decline in revenue of this segment. At the same time, fixed overheads such as labour costs caused a smaller decrease of sales cost of this segment than that of the revenue. Gross profit margin of the Group's Engineering, Consulting and Licensing segment declined from 54.2% for the six months ended 30 June 2013 to 49.6% for the six months ended 30 June 2014, but still maintained a high level.

(4) Selling and marketing expenses

The selling and marketing expenses of the Group's Engineering, Consulting and Licensing segment increased by 34.7% from RMB1.934 million for the six months ended 30 June 2013 to RMB2.605 million for the six months ended 30 June 2014. The amount of expenses increased slightly over the same period of last year.

(5) Administrative expenses

The administrative expenses of the Group's Engineering, Consulting and Licensing segment increased by 18.8% from RMB33 million for the six months ended 30 June 2013 to RMB39 million for the six months ended 30 June 2014, mainly due to the remuneration structure adjustment and increased employee benefits of the Group.

(6) Research and development costs

The research and development costs of the Group's Engineering, Consulting, and Licensing segment increased by 27.8% from RMB154 million for the six months ended 30 June 2013 to RMB197 million for the six months ended 30 June 2014. The increase was mainly because of the Group's continuing large investment in R&D in order to maintain the Group's advantage in engineering technology.

(7) Operating profit

As a result of the reasons discussed above, the operating profit of the Group's Engineering, Consulting and Licensing segment declined by 37.2% from RMB966 million for the six months ended 30 June 2013 to RMB607 million for the six months ended 30 June 2014.

EPC Contracting Business

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

	Six-month periods ended 30 June			
	2014		2013	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(RMB'000)	(%)	(RMB'000)	(%)
Revenue	**13,366,117**	**100.0**	10,594,811	100.0
Cost of sales	**(11,633,491)**	**(87.0)**	(8,622,095)	(81.4)
Gross profit	**1,732,626**	**13.0**	1,972,716	18.6
Selling and marketing expenses	**(30,795)**	**(0.2)**	(21,565)	(0.2)
Administrative expenses	**(231,473)**	**(1.7)**	(219,246)	(2.0)
Research and development costs	**(104,770)**	**(0.8)**	(93,884)	(0.9)
Other incomes and expenses	**(32,338)**	**(0.2)**	(35,477)	(0.4)
Operating profit	**1,333,250**	**10.0**	1,602,544	15.1

(1) Revenue

The revenue of the Group's EPC Contracting segment increased by 26.2% from RMB10.595 billion for the six months ended 30 June 2013 to RMB13.366 billion for the six months ended 30 June 2014. The main reasons for this increase included the smooth progress of (i) Yuanba Natural Gas Purification Project, Sinochem Quanzhou Project, Yulin Coal Chemical Project, Shandong LNG Tankage Project, ZhongTianHeChuang Coal Chemical Project and U.S. JUMBO PTA and PET Complex construction projects (ii) the continuous increase of new projects and (iii) the growth in the Group's business volume.

(2) Cost of sales

The cost of sales of the Group's EPC Contracting segment increased by 34.9% from RMB8.622 billion for the six months ended 30 June 2013 to RMB11.633 billion for the six months ended 30 June 2014. This was mainly due to the increase in equipment and materials procurement costs, subcontracting costs and labor costs, resulting from the growth in business volume.

(3) Gross profit

The gross profit of the Group's EPC Contracting segment declined by 12.2% from RMB1.973 billion for the six months ended 30 June 2013 to RMB1.733 billion for the six months ended 30 June 2014, and the gross profit margin fell from 18.6% for the six months ended 30 June 2013 to 13.0% for the six months ended 30 June 2014. A main cause is that some large-scale general contract projects during the Reporting Period were at an early stage of project construction compared to the same period of 2013 and only a few projects were in the settlement stage, which resulted in a decline in gross profit margin compared to the same period of 2013.

(4) Selling and marketing expenses

The selling and marketing expenses of the Group's EPC Contracting segment increased by 42.8% from RMB22 million for the six months ended 30 June 2013 to RMB31 million for the six months ended 30 June 2014, which was mainly caused by an increase in the Group's sales and marketing efforts in EPC Contracting.

(5) Administrative expenses

The administrative expenses of the Group's EPC Contracting segment increased by 5.6% from RMB219 million for the six months ended 30 June 2013 to RMB231 million for the six months ended 30 June 2014, which remained relatively stable.

(6) Research and development costs

The research and development costs of the Group's EPC Contracting segment increased by 11.6% from RMB94 million for the six months ended 30 June 2013 to RMB105 million for the six months ended 30 June 2014, primarily due to the Group's intensified R&D effort.

(7) Operating profit

As a result of the reasons discussed above, the operating profit of the Group's EPC Contracting segment declined by 16.8% from RMB1.603 billion for the six months ended 30 June 2013 to RMB1.333 billion for the six months ended 30 June 2014.

Construction

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

	Six-month periods ended 30 June			
	2014		2013	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(RMB'000)	(%)	(RMB'000)	(%)
Revenue	9,091,497	100.0	8,098,838	100.0
Cost of sales	(8,635,215)	(95.0)	(7,641,136)	(94.3)
Gross profit	456,282	5.0	457,702	5.7
Selling and marketing expenses	(13,877)	(0.2)	(13,225)	(0.2)
Administrative expenses	(173,002)	(1.9)	(160,227)	(2.0)
Research and development costs	(10,224)	(0.1)	(6,185)	(0.1)
Other incomes and expenses	29,091	0.3	(2,644)	0.0
Operating profit	288,270	3.2	275,421	3.4

(1) Revenue

The revenue of the Group's Construction segment increased by 12.3% from RMB8.099 billion for the six months ended 30 June 2013 to RMB9.091 billion for the six months ended 30 June 2014, primarily because the part of the construction projects entered their peak stage of construction with a sharp increase in workload.

(2) Cost of sales

The cost of sales of the Group's Construction segment increased by 13.0% from RMB7.641 billion for the six months ended 30 June 2013 to RMB8.635 billion for the six months ended 30 June 2014. This was mainly due to the increase in workload that brought man-hours, material costs, and machine days.

(3) Gross profit

The gross profit of the Group's Construction segment declined by 0.3% from RMB458 million for the six months ended 30 June 2013 to RMB456 million for the six months ended 30 June 2014, which remained relatively stable. The gross profit margin declined from 5.7% for the six months ended 30 June 2013 to 5.0% for the six months ended 30 June 2014, which was mainly caused by a greater growth of cost of sales than that of income.

(4) Selling and marketing expenses

The selling and marketing expenses of the Group's Construction segment increased by 4.9% from RMB13 million for the six months ended 30 June 2013 to RMB14 million for the six months ended 30 June 2014, which remained relatively stable.

(5) Administrative expenses

The administrative expenses of the Group's Construction segment increased by 8.0% from RMB160 million for the six months ended 30 June 2013 to RMB173 million for the six months ended 30 June 2014, which was mainly due to the remuneration structure adjustment and increased employee benefits of the Group.

(6) Research and development costs

The research and development costs of the Group's Construction segment increased by 65.3% from RMB6 million for the six months ended 30 June 2013 to RMB10 million for the six months ended 30 June 2014.

(7) Operating profit

As a result of the reasons discussed above, the operating profit of the Group's Construction segment increased by 4.7% from RMB275 million for the six months ended 30 June 2013 to RMB288 million for the six months ended 30 June 2014.

Equipment Manufacturing Business

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

	Six-month periods ended 30 June			
	2014		2013	
	Amount	Percentage of segment revenue	Amount	Percentage of segment revenue
	(RMB'000)	(%)	(RMB'000)	(%)
Revenue	318,231	100.0	365,763	100.0
Cost of sales	(315,509)	(99.1)	(378,417)	(103.5)
Gross profit	2,722	0.9	(12,654)	(3.5)
Selling and marketing expenses	(1,546)	(0.5)	(1,518)	(0.4)
Administrative expenses	(11,625)	(3.7)	(10,623)	(2.9)
Research and development costs	(176)	(0.1)	(499)	(0.1)
Other incomes and expenses	1,454	0.5	(4,492)	(1.2)
Operating loss	(9,171)	(2.9)	(29,786)	(8.1)

(1) Revenue

The revenue of the Group's Equipment Manufacturing segment declined by 13.0% from RMB366 million for the six months ended 30 June 2013 to RMB318 million for the six months ended 30 June 2014, mainly due to a decrease in orders and business volume.

(2) Cost of sales

The cost of sales of the Group's Equipment Manufacturing segment declined by 16.6% from RMB378 million for the six months ended 30 June 2013 to RMB316 million for the six months ended 30 June 2014. The main cause is that on one hand there was a decline in business volume; on the other hand, cost control was strengthened continuously in this sector.

(3) Gross profit

The gross profit of the Group's Equipment Manufacturing segment changed from a loss of RMB13 million for the six months ended 30 June 2013 to a gain of RMB3 million for the six months ended 30 June 2014, which turned loss into profit.

(4) Selling and marketing expenses

The selling and marketing expenses of the Group's Equipment Manufacturing segment increased by 1.8% from RMB2 million for the six months ended 30 June 2013 to RMB2 million for the six months ended 30 June 2014, which remained relatively stable.

(5) Administrative expenses

The administrative expenses of the Group's Equipment Manufacturing segment increased by 9.4% from RMB11 million for the six months ended 30 June 2013 to RMB12 million for the six months ended 30 June 2014, which remained relatively stable.

(6) Research and development costs

The research and development costs of the Group's Equipment Manufacturing segment declined from RMB0.499 million for the six months ended 30 June 2013 to RMB0.176 million for the six months ended 30 June 2014.

(7) Operating loss

Due to the reasons discussed above, the operating loss of the Group's Equipment Manufacturing segment declined by 69.2% from RMB300 million for the six months ended 30 June 2013 to RMB9 million for the six months ended 30 June 2014.

3 Discussion on the results by other classification

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

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

The revenue from traditional industries like oil refining and petrochemical industries basically leveled off when compared with that of the same period of last year, but there is a slight decline in its proportion in the total revenue; there is a rapid increase in revenue from new coal chemical and clean energy industries, etc. and their proportions in total revenue were further improved.

The following table sets forth the revenue generated from different regions where the Group's clients operate:

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

During the Reporting Period, the Group's revenue generated from the PRC increased steadily. The revenue generated from overseas was slightly lower as compared to that of the same period in 2013.

The following table sets forth the revenue generated from services provided by the Group for clients of each of (1) Sinopec Group and its associates and (2) non-Sinopec Group and its associates:

	Six-month periods ended 30 June				
	2014		2013		
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Change
	(RMB'000)	(%)	(RMB'000)	(%)	(%)
Sinopec Group and its associates	8,737,138	38.6	7,259,889	37.0	20.3
Non-Sinopec Group and its associates	13,912,653	61.4	12,385,527	63.0	12.3
Subtotal	22,649,791	100.0	19,645,416	100.0	15.3

During the Reporting Period, the revenue from clients of Sinopec Group and its associates and clients of non-Sinopec Group and its associates grew over the same period of 2013. The percentage of the revenue from clients of Sinopec Group and its associates of the total revenue grew slightly.

4 Discussion on the backlog and new contracts

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

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

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

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

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

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

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

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

	As at 30 June 2014	As at 31 December 2013	Change
	(RMB'000)	(RMB'000)	(%)
Sinopec Group and its associates	36,663,390	36,450,335	0.6
Non-Sinopec Group and its associates	58,702,929	56,118,017	4.6
Total	95,366,319	92,568,352	3.0

As at the end of the Reporting Period, total value of the Group's backlog was RMB95.366 billion, which was increased by 3.0% as compared with that as at 31 December 2013, representing 2.2 times of the annual revenue of RMB43.572 billion in 2013.

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

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

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

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

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

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

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

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

During the Reporting Period, the value of the Group's new contracts was RMB25.448 billion, representing a decline of 24.4% as compared with RMB33.680 billion for the same period of 2013, which was mainly due to a greater decline in the Group's newly signed overseas contracts during the Reporting Period.

5 Assets, Liabilities, Equity and Cash Flows

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

(1) Assets, Liabilities and Equity

Units: RMB'000

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

As at the end of the Reporting Period, the total assets of the Group were RMB47.991 billion, the total liabilities were RMB26.093 billion, the minority interests were RMB4 million, and the equity attributable to the shareholders of the Company was RMB21.894 billion. The changes in the assets and liabilities as compared with that at the end of 2013 and the main reasons are as follows:

The total assets were RMB47.991 billion, up by RMB625 million as compared with that at the end of 2013. In particular, the current assets were RMB39.88 billion, up by RMB682 million as compared with that at the end of 2013, mainly due to the increase of cash equivalents and customer contract project funds receivable. Non-current assets were RMB8.110 billion, down by RMB56 million as compared with that at the end of 2013. Such decrease was mainly due to the depreciation of property, plant buildings and equipment.

The total liabilities were RMB26.093 billion, down by RMB292 million as compared with that at the end of 2013. In particular, the current liabilities were RMB23.246 billion, down by RMB375 million as compared with that at the end of 2013, mainly due to the decrease in notes and trade payables. Non-current liabilities were RMB2.848 billion, up by RMB84 million as compared with that at the end of 2013, which was mainly due to the increase in retirement and other supplementary benefit obligations.

Total equity attributable to shareholders of the Company was RMB21.894 billion, up by RMB917 million as compared with that at the end of 2013, primarily due to increase in the profit in the Reporting Period.

(2) Cash Flow

During the Reporting Period, the net increase in cash and cash equivalents was RMB1.829 billion and net cash flow used in operating activities was RMB346 million. The following table sets forth the main items and their changes in the Group's consolidated cash flow statements for the six months ended 30 June 2014 and for the six months ended 30 June 2013.

Units: RMB'000

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

During the Reporting Period, the profit before taxation was RMB2.485 billion, and the profit was RMB2.605 billion after adjusting the items in expenses that did not affect the cash flow in operating activities, which was mainly reflected in: RMB301 million of depreciation and amortisation, RMB301 million of interest income, RMB56 million of interest expenses, RMB85 million of the provision for impairment of trade and other receivables, and RMB12 million of net exchange gains. The cash outflow in operating receivables and payables was RMB2.568 billion. In particular, due to the rise in purchasing costs brought by growing business volume and a drop in trade payables, etc., the cash outflow was RMB544 million; as construction projects proceeded, cash used for contract work-in-progress, which caused a cash outflow of RMB1.814 billion; trade and other receivables resulted in a cash out flow of RMB182 million.

After adjusting non-cash items and receivables and payables for the profit before taxation, and deducting the income tax paid amounting to RMB509 million, the net cash used in operating activities was RMB346 million.

Net cash generated from investing activities was RMB3.017 billion, which was mainly due to the ultimate holding company loans and financial institutions maturing deposits recovered.

Net cash used in financing activities was RMB842 million, which was mainly due to the 2013 final dividend distributions.

Based on the Group's cash flow during the Reporting Period, the Group has adequate working capital. The Group will continue to closely monitor the trade receivables for efficient use of working capital. The Group will also continue to effectively manage the investment risk, expand the scale of investment and increase the return on investment.

(3) Summary of Financial Ratios

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

Main financial ratios	Six-month periods ended 30 June	
	2014	2013
Net profit margin (%)	8.29	11.27
Return on assets (%) (1)	3.94	5.24
Return on equity (%) (2)	8.57	11.12
Return on invested capital (%) (3)	8.70	11.24

Main financial ratios	As at 30 June 2014	As at 31 December 2013
Gearing ratio (%) (4)	0.00	0.00
Net debt to equity ratio (%) (5)	Net cash	Net cash
Current ratio (%) (6)	1.72	1.66
Quick ratio (%) (7)	1.66	1.61

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

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

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

(4) Gearing ratio = $\dfrac{\text{total Interest bearing debt at the end of the period}}{\text{total Interest bearing debt at the end of the period + total equity at the end of the period}}$

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

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

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

Return on assets

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

Return on equity

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

Return on invested capital

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

Gearing ratio

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

Net debt to equity ratio

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

Current ratio

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

Quick ratio

The Group's quick ratio increased from 1.61 as at 31 December 2013 to 1.66 as at 30 June 2014. The change in the quick ratio was due to the same reason as that for the increase in the current ratio.

7 Foreign exchange risk

During the Reporting Period, the Group continued to operate some engineering business overseas that brought foreign currency-denominated receivables, payables, and cash balances. In addition, the Company raised funds calculated in foreign currencies by issuing H shares. During the Reporting Period, foreign currencies held by the Group were primarily in U.S. dollars, Euros, Hong Kong dollars and Saudi riyals. Changes in foreign exchange rates may affect the quotation of the Group's services and expenditure on the purchase of materials in foreign currency. Fluctuations in foreign exchange rates may influence the Group's operation results and financial position.

8 Employees and remuneration policy

As at the end of the Reporting Period, the Group had a total of 18,926 employees.

The following table sets forth the breakdown of the Group's employees categorised by business as at 30 June 2014:

	As at 30 June 2014	
	Number of Employees	Percentage of Total
Engineering and technical personnel	13,354	70.56%
Operational management personnel	1,132	5.98%
Production operators	4,440	23.46%
Total	18,926	100.00%

The following table sets forth the breakdown of the Group's employees categorised by level of education as at 30 June 2014:

	As at 30 June 2014	
	Number of Employees	Percentage of Total
Master's or doctorate degree	1,322	6.99%
Bachelor's degree	7,904	41.76%
College-level degree	3,632	19.19%
Others	6,068	32.06%
Total	18,926	100.00%

During the Reporting Period, the Group maintained good labor relations. The remuneration package of the Group's employees mainly includes salaries, discretionary bonuses, and contributions to mandatory social security funds. As required by PRC regulations, the Group is required to participate in various defined pension schemes for its employees, including those organised by provincial or municipal governments as well as supplemental pension schemes. Bonuses are generally discretionary and based on the overall performance of the Group's business. During the six-month periods ended 30 June 2014 and 30 June 2013, the Group employee costs were approximately RMB 2.329 billion and RMB 2.112 billion, respectively.


石化
大件吊

Significant Events

1 Corporate governance

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

2 The dividend distribution plan for the six-month period ended 30 June 2014

The twelfth meeting of the First Session of the Board of Directors approved the dividend distribution plan for the six-month period ended 30 June 2014. An interim cash dividend of RMB0.125 (inclusive of applicable taxes) per share would be distributed based on 4,428,000,000 Shares, being the total share capital of the Company as at 30 June 2014. At the Company's annual general meeting for the year 2013 held on 8 May 2014, the shareholders of the Company authorised the Board of Directors to determine the interim profit distribution plan of the Company for the year 2014. Therefore, the above dividend distribution plan was not subject to Shareholders' further consideration and approval. The dividends will be denominated and declared in Renminbi, the holders of Domestic Shares will be paid in Renminbi and the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the dividends to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to Renminbi as announced by the People's Bank of China during the five business days prior to the date of declaration of the dividends.

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

3 Connected Transactions

Connected transaction agreements between the Group and Sinopec Group

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

(1) the Engineering and Construction Services Framework Agreement;

(2) the Financial Services Framework Agreement;

(3) the Technology R&D Framework Agreement;

(4) the General Services Framework Agreement;

(5) the Land Use Right and Property Lease Framework Agreement;

(6) the counter-guarantees provided by Sinopec Group;

(7) the Safe Production Insurance; and

(8) the Trademark Licensing Agreement.

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

Connected transactions incurred

During the Reporting Period, the aggregate amount of connected transactions incurred by the Group during the Reporting Period was RMB9.336 billion. In particular, the expenses amounted to RMB381 million, and the revenue amounted to RMB8.955 billion (including RMB8.741 billion from sales of products and services and RMB214 million from interest income), satisfied the exemption conditions specified by the Hong Kong Stock Exchange.

During the Reporting Period, the engineering and construction services (supply of equipment and materials, procurement services and equipment leasing, technology licensing and other engineering-related services) provided by Sinopec Group to the Group amounted to RMB 380 million, which was within the exempted cap. The engineering and construction services (preliminary consulting, technology licensing, engineering design, EPC Contracting, construction and equipment manufacturing, etc.) provided by the Group to Sinopec Group amounted to RMB8.719 billion, which was within the exempted cap.

During the Reporting Period, the expenses relating to the settlement of entrustment loans and other financial services between the Group and Sinopec Finance Co., Ltd. and Sinopec Century Bright Capital Investment Limited were RMB1 million, which was within the exempted cap. The daily maximum balance of deposits and interest income was RMB 4.911 billion, which was within the exempted cap. The daily maximum balance of entrusted loans was RMB 950 billion, which was within the exempted cap.

Under the approval of the tenth meeting of the First Session of the Board of Directors, in 2014, the exempted annual cap for technology R&D services provided for Sinopec Group increased from RMB120 million to RMB180 million. Please refer to the Company's announcement entitled "Adjustments to Annual Caps for Continuing Connected Transactions under the Technology R&D Framework Agreement" dated 17 March 2014. During the Reporting Period, the technology R&D services provided by the Group to Sinopec Group amounted to RMB22 million, which was within the exempted cap.

During the Reporting Period, the counter-guarantees provided by Sinopec Group to the Group amounted to USD209 million, which was within the exempted cap.

During the Reporting Period, the general services provided by Sinopec Group to the Group amounted to RMB5 million, which was within the exempted cap.

During the Reporting Period, the land use right and property lease contracts provided by the Group to Sinopec Group amounted to RMB2 million, which was within the exempted cap.

During the Reporting Period, the land use right and property lease contracts provided by Sinopec Group to the Group amounted to RMB0.1 million, which was within the exempted cap.

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

The major related party transactions actually incurred during the Reporting Period were detailed in Note 39 to the Financial Statements in this interim report, which was prepared in accordance with the IFRS.

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

The independent non-executive directors of the Company have reviewed the transactions relating to the deposits and entrustment loans under the Financial Services Framework Agreement and confirmed on the following:

(a) these transactions were entered into in the ordinary and usual course of business of the Company;

(b) one of the following items was met:

  (i) the transaction was entered into on normal commercial terms;

  (ii) if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, the transactions under the agreement were entered into on terms no less favorable to the Company than terms available to or from independent third parties (as the case may be); or

  (iii) if no appropriate assessment can be made to determine whether the transactions meet the conditions under (i) and (ii) above, they are entered into on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole, it is also in the interest of SINOPEC SEG and its shareholders; and

(c) the amounts under the transactions pursuant to the agreement shall not exceed the respective annual caps.

4 Litigation or arbitration events

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

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

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

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

5 Other material contracts

Save as disclosed in this interim report, the Group had no other significant contracts that should be disclosed during the Reporting Period.

6 Repurchase, sale and redemption of shares

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

7 Reserves

During the Reporting Period, movements in the reserves of the Group were set out in the Consolidated Statement of Changes in Equity in the Financial Statements.

8 Use of IPO Proceeds

As at the end of the Reporting Period, the total amount of proceeds from the global offering used by the Group was RMB2.394 billion, out of which, during the Reporting Period, RMB 2.000 million was used mainly for equipment procurement of SEG Technology R&D Center. The Company officially launched its initial public offering of 1.328 billion H Shares in May 2013 and the gross proceeds amounted to HKD 13.944 billion and HKD 13.667 billion and, after the deduction of listing expenses, the net proceeds amounted to HKD 13.667 billion. As at the end of the Reporting Period, the remaining amount of proceeds was HKD 10.65 billion.

9 Assets transactions

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

10 Insolvency and restructuring

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

11 Significant trusteeship, contracting and lease

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

12 Significant acquisitions and sale

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

13 Pledged assets

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

14 Debt

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

15 Review of interim report

The Audit Committee of the Company has reviewed this interim report and does not have different views on the Financial Statements contained in this interim report.

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

16 Other important matters

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

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

Directors, Supervisors and Members of Senior Management

As at 30 June 2014, members of the Board of Directors and the Board of Supervisors and the other members of the senior management are as follows:

(1) Directors

The members of the First Session of the Board of Directors

Name	Gender	Age	Position in the Company	Tenure
CAI Xiyou	Male	52	Chairman and Non-executive Director	August 2012 - August 2015
LEI Dianwu	Male	52	Non-executive Director	August 2012 - August 2015
LING Yiqun	Male	51	Non-executive Director	August 2012 - August 2015
CHANG Zhenyong	Male	56	Non-executive Director	August 2012 - August 2015
YAN Shaochun	Male	49	Executive Director and President	April 2013 - August 2015
LI Guoqing	Male	56	Non-executive Director	May 2014 - August 2015
HUI Chiu Chung, Stephen	Male	67	Independent Non-executive Director	April 2013 - August 2015
JIN Yong	Male	78	Independent Non-executive Director	April 2013 - August 2015
YE Zheng	Male	49	Independent Non-executive Director	April 2013 - August 2015

(2) Supervisors

The members of the First Session of the Board of Supervisors

Name	Gender	Age	Position in the Company	Tenure
GUAN Qingjie	Male	55	Chairman of the Board of Supervisors	August 2012 - August 2015
ZHANG Jixing	Male	51	Supervisor	August 2012 - August 2015
ZOU Huiping	Male	53	Supervisor	August 2012 - August 2015
GENG Limin	Male	59	Supervisor	August 2012 - August 2015
ZHU Jinbao	Male	58	Employee Representative Supervisor	August 2012 - August 2015
WANG Renli	Male	54	Employee Representative Supervisor	August 2012 - August 2015
WANG Yuejie	Male	50	Employee Representative Supervisor	August 2012 - August 2015

(3) The members of senior management

The members of senior management

Name	Gender	Age	Position in the Company	Date of appointment
YAN Shaochun	Male	49	President	April 2013
XIAO Gang	Male	55	Vice President	August 2012
FAN Jixian	Male	51	Vice President	August 2012
WU Derong	Male	53	Vice President	August 2012
XIANG Wenwu	Male	48	Vice President	August 2012
WANG Guoliang	Male	54	Vice President	December 2012
SUN Lili	Female	52	Vice President	December 2013
HE Jianbo	Male	50	Vice President	March 2014
TIAN Jianjun	Male	57	Vice President	August 2012
LI Xusheng	Male	51	Vice President	September 2012
JIA Yiqun	Male	46	Chief Financial Officer	August 2012
SANG Jinghua	Male	46	Vice President/ Board Secretary/ Company Secretary	May 2014/ August 2012/ December 2012
SUN Xiaobo	Male	53	Vice President	May 2014

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

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

Financial Statements

Grant Thornton
致同

Independent Auditor's Report

To the Shareholders of SINOPEC Engineering (Group) Co., Ltd.

(Established in the People's Republic of China with limited liability)

We have audited the consolidated interim financial statements of SINOPEC Engineering (Group) Co., Ltd. (the "Company") and its subsidiaries (together the "Group") set out on pages 62 to 119, which comprise the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated interim financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and for such internal control as the directors determine is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated interim financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated interim financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated interim financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated interim financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated interim financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated interim financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated interim financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2014 and of the Group's financial results and cash flows for the six-month period then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

15 August 2014

Shaw Chi Kit

Practising Certificate No.: P04834

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June	
		2014	2013
		RMB'000	RMB'000
Revenue	6	22,649,791	19,645,416
Cost of sales		(19,620,895)	(15,999,600)
Gross profit		3,028,896	3,645,816
Other income	8	115,760	23,271
Selling and marketing expenses		(48,823)	(38,243)
Administrative expenses		(455,115)	(422,935)
Research and development costs		(312,295)	(254,823)
Other operating expenses		(96,392)	(133,639)
Other gains - net	9	295	1,963
Operating profit		2,232,326	2,821,410
Finance income	10	301,042	159,441
Finance expenses	10	(55,589)	(54,703)
Finance income - net		245,453	104,738
Share of profits/(losses) of joint arrangements	19(a)	1,314	(112)
Share of profits of associates	19(b)	5,518	4,251
Profit before taxation	11	2,484,611	2,930,287
Income tax expense	12	(607,068)	(716,132)
Profit for the period		1,877,543	2,214,155

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

	Note	Six months ended 30 June	
		2014	2013
		RMB'000	RMB'000
Other comprehensive income for the period, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Fair value losses on available-for-sale financial assets		(776)	(268)
Exchange differences arising on translation of foreign operations		(6,793)	—
		(7,569)	(268)
Item that will not be reclassified subsequently to profit or loss:			
(Losses)/Gains on revaluation of retirement benefit plans obligations		(111,673)	51,105
Other comprehensive income for the period, net of tax		(119,242)	50,837
Total comprehensive income for the period		1,758,301	2,264,992
Profit attributable to:			
Equity holders of the Company		1,877,478	2,214,134
Non-controlling interests		65	21
Profit for the period		1,877,543	2,214,155
Total comprehensive income attributable to:			
Equity holders of the Company		1,758,236	2,264,971
Non-controlling interests		65	21
Total comprehensive income for the period		1,758,301	2,264,992
		RMB	RMB
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share) – Basic and diluted	13	0.42	0.66

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	4,006,325	4,049,488
Land use rights	17	2,838,005	2,857,234
Intangible assets	18	408,088	443,779
Investment in joint arrangements	19(a)	8,282	8,184
Investment in associates	19(b)	100,577	95,059
Available-for-sale financial assets	20	18,328	19,362
Deferred income tax assets	35	730,616	693,373
Total non-current assets		8,110,221	8,166,479
Current assets			
Inventories	24	1,255,083	1,245,147
Notes and trade receivables	21	6,248,750	6,946,818
Prepayments and other receivables	22	5,413,729	4,608,499
Amounts due from customers for contract work	23	7,690,238	5,952,132
Loans due from the ultimate holding company	25	9,000,000	9,500,000
Restricted cash	26	36,380	19,152
Time deposits	27	2,922,305	5,412,552
Cash and cash equivalents	28	7,313,989	5,514,490
Total current assets		39,880,474	39,198,790
Total assets		47,990,695	47,365,269
EQUITY			
Share capital	29	4,428,000	4,428,000
Reserves	30	17,465,630	16,548,714
Consolidated equity attributable to equity holders of the Company		21,893,630	20,976,714
Non-controlling interests		3,692	3,627
Total equity		21,897,322	20,980,341

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Note	As at 30 June 2014	As at 31 December 2013
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Retirement and other supplemental benefit obligations	31	2,479,822	2,396,554
Provision for litigation claims	32	331,087	329,890
Deferred income tax liabilities	35	36,669	37,564
Total non-current liabilities		2,847,578	2,764,008
Current liabilities			
Notes and trade payables	33	9,258,738	10,194,259
Other payables	34	8,888,838	8,361,040
Amounts due to customers for contract work	23	4,828,382	4,903,978
Current income tax liabilities		269,837	161,643
Total current liabilities		23,245,795	23,620,920
Total liabilities		26,093,373	26,384,928
Total equity and liabilities		47,990,695	47,365,269
Net current assets		16,634,679	15,577,870
Total assets less current liabilities		24,744,900	23,744,349

Approved and authorised for issue by the Board of Directors on 15 August 2014.

Chairman of the Board: **CAI Xiyou** Director, President: **YAN Shaochun** Chief Financial Officer: **JIA Yiqun**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the Company									
		Share capital	Capital reserve	Statutory surplus reserve	Investment revaluation reserve	Specific reserve	Exchange translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000 (Note 29)	RMB'000 (Note 30)	RMB'000 (Note 30)	RMB'000 (Note 30)	RMB'000 (Note 30)	RMB'000 (Note 30)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013		3,100,000	519,472	191,517	8,261	98,753	—	3,159,982	7,077,985	3,265	7,081,250
Profit for the period		—	—	—	—	—	—	2,214,134	2,214,134	21	2,214,155
Other comprehensive income:											
Fair value change of available-for-sale financial assets - gross		—	—	—	(358)	—	—	—	(358)	—	(358)
Fair value change of available-for-sale financial assets - tax		—	—	—	90	—	—	—	90	—	90
Defined benefits obligation revaluation of actuarial gain and loss - gross		—	—	—	—	—	—	65,895	65,895	—	65,895
Defined benefits obligation revaluation of actuarial gain and loss - tax		—	—	—	—	—	—	(14,790)	(14,790)	—	(14,790)
Total comprehensive income		—	—	—	(268)	—	—	2,265,239	2,264,971	21	2,264,992
Transactions with owners:											
Issuance of ordinary shares for Listing, net	29(ii)	1,328,000	9,599,488	—	—	—	—	—	10,927,488	—	10,927,488
Special dividends	14	—	—	—	—	—	—	(363,299)	(363,299)	—	(363,299)
Appropriation of specific reserve		—	—	—	—	55,582	—	(55,582)	—	—	—
Utilisation of specific reserve		—	—	—	—	(39,888)	—	39,888	—	—	—
Total transactions with owners		1,328,000	9,599,488	—	—	15,694	—	(378,993)	10,564,189	—	10,564,189
At 30 June 2013		4,428,000	10,118,960	191,517	7,993	114,447	—	5,046,228	19,907,145	3,286	19,910,431

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

	Note	Attributable to equity holders of the Company									
		Share capital	Capital reserve	Statutory surplus reserve	Investment revaluation reserve	Specific reserve	Exchange translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000 (Note 29)	RMB'000 (Note 30)	RMB'000 (Note 30)	RMB'000 (Note 30)	RMB'000 (Note 30)	RMB'000 (Note 30)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014		4,428,000	10,118,960	191,517	11,484	123,788	1,549	6,101,416	20,976,714	3,627	20,980,341
Profit for the period		—	—	—	—	—	—	1,877,478	1,877,478	65	1,877,543
Other comprehensive income:											
Fair value change of available-for-sale financial assets – gross		—	—	—	(1,034)	—	—	—	(1,034)	—	(1,034)
Fair value change of available-for-sale financial assets – tax		—	—	—	258	—	—	—	258	—	258
Defined benefits obligation revaluation of actuarial gain and loss – gross		—	—	—	—	—	—	(144,616)	(144,616)	—	(144,616)
Defined benefits obligation revaluation of actuarial gain and loss – tax		—	—	—	—	—	—	32,943	32,943	—	32,943
Exchange differences arising on translation of foreign operations		—	—	—	—	—	(6,793)	—	(6,793)	—	(6,793)
Total comprehensive income		—	—	—	(776)	—	(6,793)	1,765,805	1,758,236	65	1,758,301
Transactions with owners:											
Final dividends for 2013		—	—	—	—	—	—	(841,320)	(841,320)	—	(841,320)
Appropriation of specific reserve		—	—	—	—	64,659	—	(64,659)	—	—	—
Utilisation of specific reserve		—	—	—	—	(42,292)	—	42,292	—	—	—
Total transactions with owners		—	—	—	—	22,367	—	(863,687)	(841,320)	—	(841,320)
At 30 June 2014		4,428,000	10,118,960	191,517	10,708	146,155	(5,244)	7,003,534	21,893,630	3,692	21,897,322

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months ended 30 June	
		2014	2013
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	37	37,535	(283,586)
Income tax paid		(508,556)	(630,740)
Interest received		124,780	9,113
Net cash used in operating activities		(346,241)	(905,213)
Cash flows from investing activities			
Purchase of property, plant and equipment		(160,098)	(148,101)
Purchase of intangible assets		(10,304)	(8,499)
Purchase of land use rights		(11,683)	(52,151)
Interest income on the loans to the ultimate holding company		176,262	150,328
Proceeds from disposal of property, plant and equipment		1,531	2,806
Dividends received from joint arrangements		1,216	129
Net decrease/(increase) in time deposits		2,520,265	(7,403,007)
Loans to the ultimate holding company		(5,500,000)	(7,100,000)
Repayments of loans from the ultimate holding company		6,000,000	7,140,000
Net cash generated from/(used in) investing activities		3,017,189	(7,418,495)
Cash flows from financing activities			
Proceeds from global offering		—	11,128,846
Payment of fees relating to Listing		—	(2,960)
Borrowings from fellow subsidiaries		653,725	499,774
Repayments of borrowings from fellow subsidiaries		(653,725)	(656,912)
Interest paid		(952)	(3,038)
Dividends paid		(841,320)	(363,299)
Net cash (used in)/generated from financing activities		(842,272)	10,602,411
Net increase in cash and cash equivalents		1,828,676	2,278,703
Cash and cash equivalents at beginning of period		5,514,490	4,822,490
Exchange (losses)/gains on cash and cash equivalents		(29,177)	36,083
Cash and cash equivalents at end of period	28	7,313,989	7,137,276

Notes To The Interim Financial Statements

For the period ended 30 June 2014

1. Principal Activities, Organisation and Reorganisation

1.1 Principal activities

SINOPEC Engineering (Group) Co., Ltd. (中石化煉化工程(集團)股份有限公司, the "Company") and its subsidiaries (together, the "Group") is principally engaged locally and overseas in (1) engineering, consulting and licensing, (2) EPC Contracting, (3) construction and (4) equipment manufacturing in respect of oil refining, petrochemical engineering, storage and transportation.

1.2 Organisation and reorganisation

The Company was established as a company with limited liability under the name of Sinopec Engineering Co., Ltd (中國石化集團煉化工程有限公司) in the People's Republic of China (the "PRC") on 24 July 2007 under the Company Law of the PRC. The address of the Company's registered office is A6 Huixindong Street, Chaoyang District, Beijing, the PRC.

The directors of the Company (the "Directors") regard China Petrochemical Corporation (中國石油化工集團公司, "Sinopec Group") as being the ultimate holding company of the Group, which is owned and controlled by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

These consolidated interim financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

Pursuant to a reorganisation of engineering, consulting and licensing, EPC Contracting, construction and equipment manufacturing in respect of oil refining, petrochemical engineering, storage and transportation of Sinopec Group in preparation for the primary listing (the "Listing") of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") ("Reorganisation"), Sinopec Group transferred the equity interests of its refining and engineering entities to the Company and the Company became the holding company of the subsidiaries now comprising the Group. The Company then transformed into a joint stock company with limited liability and renamed as SINOPEC Engineering (Group) Co., Ltd. (中石化煉化工程(集團)股份有限公司) on 28 August 2012.

Subsequent to the above reorganisation transactions which were completed in April 2012, the Company was transformed into a joint stock company with limited liability on 28 August 2012.

The Company has completed its listing on the Main Board of the Hong Kong Stock Exchange on 23 May 2013.

2. Basis of Presentation

As the Company and its subsidiaries described in Note 1.2 are under the control of Sinopec Group, both before and after the Reorganisation and control is not transitory, the Reorganisation has been accounted for as a reorganisation of business under common control and the consolidated interim financial statements of the Group have been prepared using the principals of merger accounting.

3. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of the consolidated interim financial statements are set out below.

3.1 Basis of preparation

The interim financial statements set out in this report have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB"). These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value, 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 Reorganisation, property, plant and equipment, land use rights and intangible assets of certain subsidiaries were revalued by the independent qualified valuers and approved by relevant government authorities upon the completion of the Reorganisation. The amendment to IFRS1 allows first-time adopters to use an even-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.

3. Summary of Significant Accounting Policies (Continued)

3.1 Basis of preparation (Continued)

The preparation of financial statements 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 statements are disclosed in Note 5 below.

The IASB has issued a number of new and revised IFRS. The Group has adopted all these new and revised IFRS, which are effective for the accounting periods beginning on or after 1 January 2014:

- The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realisation and settlement’. The application of these amendments to IAS 32 has no material impact on the Group’s consolidated financial statements.

- The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal. The application of these amendments to IAS 36 has no material impact on the Group’s consolidated financial statements.

The revised and new accounting standards issued but not yet effective for the accounting period ended 30 June 2014 which are relevant to the Group but the Group has not early adopted are set out below:

- 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 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 recognised 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.

- The amendments to IAS 19, “Defined Benefit Plans: Employee Contributions” clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee. For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees’ periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees’ periods of service. The standard is effective for accounting periods beginning on or after 1 July 2014. Initial indications are that it is not expected to have a material impact on the Group’s financial statements.

- IFRS 15, “Revenue from Contracts with Customers” contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

  (i) Identify the contract with the customer;

  (ii) Identify the performance obligations in the contract;

  (iii) Determine the transaction price;

  (iv) Allocate the transaction price to the performance obligations; and

  (v) Recognise revenue when (or as) the entity satisfies a performance obligation.

  IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for accounting periods beginning on or after 1 January 2017. The Group is yet to assess IFRS 15’s full impact.

3. Summary of Significant Accounting Policies (Continued)

3.2 Consolidation

Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that the Group ceases control.

The transfer/acquisition of equity interests in subsidiaries which are regarded as common control combinations are accounted for in a manner similar to a uniting of interests. Assets and liabilities are transferred at book value, adjusted only to harmonise accounting policies, and no goodwill arises. Any difference between the consideration given and the aggregate book value of the assets and liabilities acquired (as of the date of the transaction) is included in equity. The financial statements incorporate the acquired entity's results as if both entities (acquirer and acquiree) had always been combined. Consequently, the financial statements reflects both entities' full year's results, even though the business 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 recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying value for the purposes of subsequent accounting for the retained interest as an associate, joint arrangement or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Joint Arrangements

A joint arrangement is an arrangement which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes the Group and other parties have joint control of the arrangement.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Assets, liabilities, revenue and expenses of a joint operation are apportioned between the joint operators in accordance with the agreement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Group recognises its interest in a joint venture using the equity method. The equity method is detailed in accounting policies of interests in associates. The unrealised gains and losses will be eliminated in accordance with the Group thehare of the interests in the joint venture if the Group enters into transactions with the joint venture.

3. Summary of Significant Accounting Policies (Continued)

3.2 Consolidation (Continued)

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss (Note 3.8).

The Group's shares of its associates' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amounts of the investments. When the Group's share of losses in an associate equals or exceeds its interest in the associates, including any other unsecured receivables, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated statement of comprehensive income.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

3.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors and certain senior management (including chief financial officer) (together referred to as the "Senior Management") that makes strategic decisions.

3.4 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the entities within the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other income" and "other operating expenses".

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

3. Summary of Significant Accounting Policies (Continued)

3.5 Property, plant and equipment

Property, plant and equipment, except for construction-in-progress ("CIP"), are stated at historical cost less accumulated depreciation and accumulated impairment loss 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 recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings and other facilities	12-40 years
Plant and machinery, transportation equipment and other equipment	4-20 years

CIP represents buildings and plant under construction and is stated at cost less accumulated impairment loss. Cost includes costs of construction of buildings, cost of plant and other direct costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to the relevant asset categories and depreciated in accordance with the policy as stated above.

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.8).

Gains or losses on disposals are determined by comparing the proceeds on disposal with the carrying amount and are included within "other gains - net" in the consolidated statement of comprehensive income.

3.6 Land use rights

Land use rights represent upfront prepayments made for the land use rights at historical cost, 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 recognised in the consolidated statement of comprehensive income.

3.7 Intangible assets

Computer software

Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 4 to 6 years, and recorded in "depreciation and amortisation" within operating expenses in the consolidated statement of comprehensive income.

Patent and proprietary technologies

Patents and proprietary technologies are initially recorded at cost except for certain patent and proprietary technologies stated at deemed cost. These intangibles assets are amortised 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 amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3. Summary of Significant Accounting Policies (Continued)

3.9 Financial assets

Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Group's loans and receivables primarily include "Notes and trade receivables", "Prepayments and other receivables", "Loans due from the ultimate holding company", "Restricted cash", "Time deposits" and "Cash and cash equivalents" in the statement of financial position.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months after the end of the reporting period.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets is subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition. An impairment loss is recognised in the consolidated statement of comprehensive income when there is objective evidence that the asset is impaired. Such impairment losses will not reverse in subsequent periods.

Changes in the fair value of available-for-sale investments are recognised in other comprehensive income. When available-for-sale investments are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income when the right of the Group to receive payments is established. Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investments previously recognised in the consolidated statement of comprehensive income — is removed from equity and recognised in the consolidated statement of comprehensive income. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income. Impairment loss on the available-for-sale investment is measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset (Note 3.11).

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3. Summary of Significant Accounting Policies (Continued)

3.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Inventories are expensed to relevant operating expenses when used, sold or capitalised to property, plant and equipment when installed, as appropriate, using moving weighted average method. The cost of finished goods and work-in-progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

3.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amounts of the assets are reduced through the use of allowance accounts, and the amount of the provision is recognised in the consolidated statement of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of comprehensive income.

3.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

3.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has contractual or an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

3.15 Payables

Payables primarily include accounts payable and accrued liabilities, and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3. Summary of Significant Accounting Policies (Continued)

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 recognised in the consolidated statement of financial position in respect of these defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent qualified actuaries using the projected unit credit method. Net interests are recognised to the profit or loss and are calculated by the discount rate, which is determined by reference to the market yields of the high-quality government bonds at the end of the reporting period, multiplied the net defined benefit liabilities or assets at each of the beginning of the reporting period. The differences between the actual return on plan assets and with the passage of time in the plan assets are recognised in other comprehensive income.

The Group has various defined contribution plans in accordance with the local conditions and practices in the municipalities and provinces in which they operate. Defined contribution plans are pension and/or other social benefit plans under which the Group pay fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions are recognised as labour costs when they are due.

Other post-employment obligations

Some of the companies comprising the Group provide post-retirement medical benefits to their retired employees. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries.

Termination and early retirement benefits

Termination and early retirement benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination and early retirement benefits when it is demonstrably committed to either: (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy. The specific terms vary among the terminated and early retired employees depending on various factors including position, length of service and district of the employee concerned. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Housing benefits

The Group contributes to the state-prescribed housing fund. Such costs are charged to the consolidated statement of comprehensive income as incurred. Apart from those described above, the Group does not have other legal or constructive obligations over such benefits.

Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

3. Summary of Significant Accounting Policies (Continued)

3.17 Taxation

Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Income tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the income tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint arrangements and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and deferred income tax liabilities are offset when meeting all the conditions below:

- The Group has the legally enforceable right to settle current income tax assets and current income tax liabilities; and
- The deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Value-added taxation ("VAT")

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 recognised because it is not probable that an outflow of economic resources will be required or the amount of the obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements unless the probability of outflow of resources embodying economic benefits is remote. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is not recognised in the financial statements unless virtually certain but disclosed when an inflow of economic benefits is probable.

3. Summary of Significant Accounting Policies (Continued)

3.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

3.21 Contract work

Contract costs are recognised as expense in the period in which they are incurred.

When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Variation in contract work, claims and incentive payments are included in the contract revenue to the extent that it is probable that they are capable of being reliably measured according to customers' agreements.

The Group uses the "percentage of completion method" to determine the appropriate amount of profit to be recognised in a given period. Depending on the nature of the contract, the stage of completion is based on (a) percentage of work performed to date as a percentage of total contract value, or (b) the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the period 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 recognised for expected losses on contract work-in-progress, as soon as they are foreseen, and deducted from the cost. The cost includes direct project costs, materials costs, costs of subcontracted work, other directly attributable costs, rental charges and maintenance costs for the equipment used. The project progress is determined on the basis according to the preceding paragraph. Profits are not recognised unless a reliable estimate can be made of the result on completion of the project. The balance of the value of contract work-in-progress and progress billings is determined on a project to project basis.

Where contract costs incurred plus recognised profits less recognised losses exceed progress billings, "amounts due from customers for contract work" is accounted for as an asset.

For contracts where progress billings exceed contract costs incurred plus recognised profits less recognised losses, "amounts due to customers for contract work" is accounted for as a liability.

3. Summary of Significant Accounting Policies (Continued)

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 recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from construction and service contracts

When the outcome of a contract can be estimated reliably, revenue from construction and service contracts is recognised under the percentage of completion method. Depending on the nature of the contract, the stage of completion is based on (a) percentage of work performed to date as a percentage of total contract value, or (b) the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable and such contract costs is recognised as an expense in the period 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 period in which the circumstances that give rise to the revision become known by management.

Services rendered

Revenue for services rendered mainly includes technological development, engineering, consultation and supervision is recognised when services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the entity.

Sales of products

Sales of products are recognised when significant risks and rewards of ownership of the goods are transferred to the customers, and the customer has accepted the products and collectability of the related receivables is reasonably assured.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

3. Summary of Significant Accounting Policies (Continued)

3.23 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(ii) management intends to complete the intangible asset and use or sell it;

(iii) there is an ability to use or sell the intangible asset;

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

3.24 Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company'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 recognised initially at fair value, and subsequently measured (unless they are designated at fair value through profit or loss) at higher of (i) the amount determined in accordance with IAS 37, "Provision, Contingent Liabilities and Contingent Assets", and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

3.26 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 recognised 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 minimise potential adverse effects on financial performance of the Group.

(a) Market risk

Foreign exchange risk

The functional currency of the entities within the Group is RMB and most of the transactions are settled in RMB.

The Group carries out operations outside the PRC where transactions are usually denominated in the United States Dollars ("USD") and Euro ("EUR") which are translated into RMB at the prevailing exchange rates on the dates of the transactions.

The Group is exposed to currency risk primarily through provision of engineering contracting services which give rise to trade and other receivables, trade and other payables, restricted cash, time deposits and cash and cash equivalents that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency that gives rise to this risk is primarily in USD, EUR, Hong Kong Dollars ("HKD") and Saudi Arabian Riyal ("SAR") as at 30 June 2014 and 31 December 2013.

On the other hand, RMB is not a freely convertible currency and the PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. Changes in the foreign exchange control system may prevent the Group from satisfying sufficient foreign currency demands.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than RMB to which they relate.

At 30 June 2014	USD	EUR	SAR	HKD	Others
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Restricted cash, time deposits and cash and cash equivalents	2,730,916	180,692	97,230	3,505,942	16,139
Trade and other receivables	1,079,859	19,590	332,283	—	216,788
Trade and other payables	(1,648,363)	(1,021)	(499,453)	—	(99,299)
Net exposure in RMB	2,162,412	199,261	(69,940)	3,505,942	133,628

At 31 December 2013	USD	EUR	SAR	HKD	Others
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Restricted cash, time deposits and cash and cash equivalents	6,665,017	191,646	109,564	—	15,943
Trade and other receivables	1,569,480	84,014	295,070	—	267,928
Trade and other payables	(2,017,871)	(20,800)	(534,511)	—	(108,700)
Net exposure in RMB	6,216,626	254,860	(129,877)	—	175,171

4. Financial and Capital Risks Management (Continued)

4.1 Financial risk management (Continued)

(a) Market risk (Continued)

Foreign exchange risk (Continued)

A 5% strengthening of RMB against the USD, HKD and EUR as at 30 June 2014 and 31 December 2014 would have decreased the equity and net profit by the amounts shown below:

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Changes in equity and net profit		
– USD	(81,090)	(233,123)
– EUR	(7,472)	(9,557)
– HKD	(131,473)	—

A 5% weakening of RMB as at 30 June 2014 and 31 December 2013 would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis at the relevant period.

Interest rate risk

The Group's ordinary income and operating cash flows are substantially independent of changes in market interest rates. The interests arise from the loans between the Group and the ultimate holding company and fellow subsidiaries and time deposits 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 which are required to be stated at their fair values.

The following table details the Group's sensitivity to a 5% increase or decrease in equity securities price on the available-for-sale financial assets at the end of each reporting period 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.

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Impact on equity		
Increase/(Decrease) in equity for the period		
– as a result of increase in equity securities price	687	726
– as a result of decrease in equity securities price	(687)	(726)

(b) Credit risk

The Group's credit risk is primarily attributable to restricted cash, time deposits, cash and cash equivalents, trade and other receivables and other current assets.

Substantially all of the Group's time deposits and cash and cash equivalents are mainly deposited in the stated-owned/controlled PRC banks which the Directors have assessed the credit risk to be insignificant.

The Group has policies in place to ensure that services are rendered and products are sold to customers with 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 statement of financial position after deducting any impairment allowance.

4. Financial and Capital Risks Management (Continued)

4.1 Financial risk management (Continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors the cash flow forecasts of the Group in meeting its liabilities.

The table below analyses the Group's non-derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period from the end of the reporting period to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Weighted average effective interest rate	Within 1 year	1-2 years	2-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 30 June 2014							
Trade and other payables	**N/A**	**10,233,519**	**—**	**—**	**—**	**10,233,519**	**10,233,519**

	Weighted average effective interest rate	Within 1 year	1-2 years	2-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2013							
Trade and other payables	N/A	11,240,350	—	—	—	11,240,350	11,240,350

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) and short term borrowings, as shown in the consolidated statement of financial position) less restricted cash, time deposits and cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debts less non-controlling interests.

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Total borrowings and other liabilities	**10,233,519**	11,240,350
Less: Restricted cash, time deposits and cash and cash equivalents	**(10,272,674)**	(10,946,194)
Net debt	**(39,155)**	294,156
Total equity (excluding non-controlling interests)	**21,893,630**	20,976,714
Total capital	**21,854,475**	21,270,870
Gearing ratio	**N/A**	1%

4. Financial and Capital Risks Management (Continued)

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 or indirectly (level 2).
- Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs) (level 3).

Fair value disclosures

The carrying amounts of the Group's financial assets and liabilities including restricted cash, time deposits, cash and cash equivalents, trade and other receivables, 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 30 June 2014 and 31 December 2013.

The following table presents the Group's assets that are measured at fair value as at 30 June 2014 and 31 December 2013.

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Level 1		
Available-for-sale financial assets – Listed equity securities	**15,578**	16,612

5. Critical Accounting Estimates and Judgement

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 recognised under the percentage of completion method which requires estimations by management. Anticipated losses are fully provided on contracts when identified. Because of the nature of the activity undertaken in construction and engineering business, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs (including material costs) in the budget prepared for each contract as the contract progresses. Management regularly reviews the progress of the contracts and the corresponding costs of the contract. If circumstances arise that may change the original estimates of revenues, costs and extent of progress toward completion, estimates are revised. The revisions may result in increases or decreases in estimated revenues or costs and are reflected in the consolidated statement of comprehensive income in the year in which the circumstances that give rise to the revision become known by management.

(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 on trade receivables

The Group determines the provision for impairment on 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.

5. Critical Accounting Estimates and Judgement (Continued)

(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 finalised amounts recognised for such tax events are different from those originally recorded, this could result in material adjustments to income tax expense and deferred income tax.

The estimates of deferred income tax assets require estimates over future taxable profit and corresponding applicable income tax rates of respective years. The change in future income tax rates and timing would affect income tax expense or benefit, as well as deferred income tax balance. The realisation of deferred income tax assets also depends on the realisation of sufficient profitability (taxable profit) of the Group. Deviation of future profitability from the estimate could result in material adjustments to the carrying amount of deferred income tax assets. Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods 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 31.

(f) Provision for litigation claims

The Group are from time to time involved in legal proceedings arising in the ordinary course of our 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 recognised. If the management believes that the legal proceedings may be more likely not to result claims for compensation to third parties against the Group. No provision will be recognised under any potential litigation claims. Except to the extent that the situations and uncertainties involved, that will be disclosed as contingent liabilities. To access the outcome of legal proceedings and any potential amount of litigation claims, significant judgement is required.

(g) Tax matters pursuant to the Reorganisation

In connection with the Reorganisation, Sinopec Group undertakes the related tax obligation arising from the Reorganisation, 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 reorganisation transactions remained uncertain and as such the Group did not provide for the tax obligation. In the event that tax obligation arose from the reorganisation 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 turnover):

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Engineering, consulting and licensing	**1,688,536**	2,231,482
EPC Contracting	**13,366,117**	10,594,811
Construction	**7,459,947**	6,572,236
Equipment manufacturing	**135,191**	246,887
	22,649,791	19,645,416

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 industries including oil refining and chemical industries;

(ii) EPC Contracting – providing integrated engineering, procurement, construction, maintenance and project management services to industries including oil refining and chemical industries;

(iii) Construction – providing infrastructure for industries including 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 facilities including oil refining and chemical facilities.

Inter-segment sales were conducted at prices no less than cost and with terms mutually agreed among those business segments. Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared services which cannot be allocated to a specific segment and corporate expenses are included as unallocated costs.

Segment assets consist primarily of property, plant and equipment, land use rights, construction in progress, intangible assets, investment in joint arrangements and investment in associates, other non-current assets, inventories, trade receivables, bill receivables, prepayments and other receivables, restricted cash and cash and cash equivalents. Unallocated assets comprise items such as some of the time deposits, loans due from the ultimate holding company, deferred income tax assets and other unallocated assets.

Segment liabilities comprise operating liabilities and borrowings. Unallocated liabilities comprise items such as current income tax liabilities, deferred income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment (Note 16), land use rights (Note 17), intangible assets (Note 18) 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:

7. Segment Information (Continued)

(i) As at and for the six months ended 30 June 2014:

The segment results for the six months ended 30 June 2014 are as follows:

	Engineering, consulting and licensing	EPC Contracting	Construction	Equipment manufacturing	Unallocated	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue and results							
Revenue from external customers	1,688,536	13,366,117	7,459,947	135,191	—	—	22,649,791
Inter-segment revenue	—	—	1,631,550	183,040	—	(1,814,590)	—
Segment revenue	1,688,536	13,366,117	9,091,497	318,231	—	(1,814,590)	22,649,791
Segment result	607,043	1,333,250	288,270	(9,171)	12,934	—	2,232,326
Finance income							301,042
Finance expenses							(55,589)
Share of profits of joint arrangements	1,314	—	—	—	—	—	1,314
Share of profits of associates	4,484	—	1,034	—	—	—	5,518
Profit before income tax							2,484,611
Income tax expense							(607,068)
Profit for the period							1,877,543
Other segment items							
Depreciation	51,304	31,338	132,946	8,593	—	—	224,181
Amortisation	40,379	22,562	13,464	502	—	—	76,907
Capital expenditures							
– Property, plant and equipment	29,686	16,496	129,022	7,050	—	—	182,254
– Land use rights	—	—	11,683	—	—	—	11,683
– Intangible assets	7,463	2,252	589	—	—	—	10,304
(Reversal)/Provision for impairment on trade and other receivables	(1,639)	72,146	12,956	1,063	—	—	84,526

The segment assets and liabilities as at 30 June 2014 are as follows:

	Engineering, consulting and licensing	EPC Contracting	Construction	Equipment manufacturing	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets						
Segment assets	6,858,037	18,860,466	13,932,675	903,524	(2,419,524)	38,135,178
Investment in joint arrangements	8,282	—	—	—	—	8,282
Investment in associates	79,790	—	20,787	—	—	100,577
Other unallocated assets						9,746,658
Total assets						47,990,695
Liabilities						
Segment liabilities	3,058,152	13,935,190	10,948,491	264,558	(2,419,524)	25,786,867
Other unallocated liabilities						306,506
Total liabilities						26,093,373

7. Segment Information (Continued)

(ii) As at 31 December 2013 and six months ended 30 June 2013:

The segment results for the six months ended 30 June 2013 are as follows:

	Engineering, consulting and licensing	EPC Contracting	Construction	Equipment manufacturing	Unallocated	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue and results							
Revenue from external customers	2,231,482	10,594,811	6,572,236	246,887	—	—	19,645,416
Inter-segment revenue	32,438	—	1,526,602	118,876	—	(1,677,916)	—
Segment revenue	2,263,920	10,594,811	8,098,838	365,763	—	(1,677,916)	19,645,416
Segment result	966,188	1,602,544	275,421	(29,786)	7,043	—	2,821,410
Finance income							159,441
Finance expenses							(54,703)
Share of losses of joint arrangements	(112)	—	—	—	—	—	(112)
Share of profits of associates	3,741	—	510	—	—	—	4,251
Profit before income tax							2,930,287
Income tax expense							(716,132)
Profit for the period							2,214,155
Other segment items							
Depreciation	66,318	22,588	121,754	8,714	—	—	219,374
Amortisation	51,423	5,048	13,003	168	—	—	69,642
Capital expenditures							
– Property, plant and equipment	27,498	1,300	119,303	—	—	—	148,101
– Land use rights	—	—	52,151	—	—	—	52,151
– Intangible assets	3,061	4,857	581	—	—	—	8,499
Provision for impairment on trade and other receivables	6,230	45,774	10,813	5,235	—	—	68,052

The segment assets and liabilities as at 31 December 2013 are as follows:

	Engineering, consulting and licensing	EPC Contracting	Construction	Equipment manufacturing	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets						
Segment assets	6,742,641	16,554,089	13,329,955	966,007	(1,228,020)	36,364,672
Investment in joint arrangements	8,184	—	—	—	—	8,184
Investment in associates	75,306	—	19,753	—	—	95,059
Other unallocated assets						10,897,354
Total assets						47,365,269
Liabilities						
Segment liabilities	3,262,643	13,130,254	10,623,973	396,871	(1,228,020)	26,185,721
Other unallocated liabilities						199,207
Total liabilities						26,384,928

7. Segment Information (Continued)

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 arrangements and associates.

Revenue

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
The PRC	19,361,471	16,189,958
Other countries	3,288,320	3,455,458
	22,649,791	19,645,416

The customer accounted for more than 10% of the total revenue of the total revenue of the Group and revenue from it for the six months ended 30 June 2014 and 2013, is as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
A fellow subsidiary	5,022,581	6,659,164
A third party	—	2,191,796
	5,022,581	8,850,960

The revenue from those customers are derived form the segments of engineering, consulting and licensing, EPC Contracting, construction and equipment manufacturing.

Specified non-current assets

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
The PRC	7,180,004	7,311,804
Other countries	181,273	141,940
	7,361,277	7,453,744

8. Other Income

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Operating lease rental income on property, plant and equipment	18,375	20,117
Income from write-back long outstanding payables	167	1,544
Foreign exchange gain	33,694	—
Government grants	52,930	—
Others	10,594	1,610
	115,760	23,271

9. Other Gains - Net

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Gains on disposal of property, plant and equipment	295	1,963

10. Finance Income and Finance Expenses

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Finance income		
Interest income from the ultimate holding company	176,262	150,328
Bank interest income	124,780	9,113
	301,042	159,441
Finance expenses		
Interest expenses to fellow subsidiaries on balances wholly repayable within 5 years	(952)	(3,038)
Interest expenses on retirement and other supplementary benefit obligation	(54,637)	(51,665)
	(55,589)	(54,703)
	245,453	104,738

11. Profit Before Taxation

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Staff costs, including directors and supervisors emoluments	2,329,339	2,111,602
Retirement benefit plan contribution (including in the above mentioned staff costs)	341,418	280,665
Cost of goods sold	7,949,366	6,839,981
Subcontracting costs	7,545,076	6,048,677
Depreciation and amortisation		
– Property, plant and equipment	224,181	219,374
– Land use rights	30,912	30,877
– Intangible assets	45,995	38,765
Operating lease rentals		
– Property, plant and equipment	187,917	125,630
Provision for impairment on assets		
– Trade receivables, prepayment and other receivables	84,526	68,052
Rental income from property, plant and equipment after relevant expenses	(7,980)	(10,657)
Research and development costs	312,295	254,823
Gains on disposal/write-off of property, plant and equipment	(295)	(1,963)
Exchange (gains)/losses, net	(33,694)	53,733

12. Income Tax Expense

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

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

According to the normal statutory PRC corporate income tax and relevant rules, apart from a certain subsidiaries of the Company subjected to the relevant development zone policy or participation in technology development and China's western development project can enjoy 15-24% preferential tax rate during different period in the related period. For the six months ended 30 June 2014 and 2013, the majority of the members of the Group is subject to 25% income tax rate.

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

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

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

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

13. Earnings Per Share

(a) Basic

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

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

(b) Diluted

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

14. Dividends

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Special dividends (i)	—	363,299
Proposed Interim dividends of RMB0.125 per ordinary share (2013: RMB0.134) (ii)	553,500	593,352

(i) According to the interim regulation about the management of state-owned capital and the accounting treatment during the enterprise corporate restructuring published by Ministry of Finance of PRC on 27 February 2002 (〈企業公司制改建有關國有資本管理與財務管理的暫行規定〉(財企[2002]313號)) and the notice forwarded by the General Office of the State Council about the suggestion of further regulating the reorganisation of the state-owned enterprise published by State-owned Assets Supervision and Administration Commission of the State Council (〈國務院辦公廳轉發國資委關於進一步規範國有企業改制工作實施意見的通知〉(國辦發[2005]60號)), an increase of net assets coming from profit should be distributed to its state-owned shareholder or transferred to state-owned equity after the approval of its state-owned shareholder. A special distribution is the increase of net assets of the Group between 30 June 2012 to 28 August 2012 which is distributed to the original state-owned shareholder on 10 April 2013, the special distribution was declared and approved to distribute to the original state-owned shareholders.

(ii) Pursuant to the Directors' meeting on 15 August 2014, the Directors recommended to declare the interim dividends for the year ended 31 December 2014 of RMB0.125 (2013: RMB0.134) per share totalling RMB553,500,000 (2013: RMB593,352,000). Dividend proposed to be declared by the Directors' meeting after the end of the reporting period are not recognised as a liability at the end of the reporting period.

15. Employment Benefits

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Salaries, wages and bonuses	1,273,789	1,111,873
Retirement benefits (a)	285,458	239,505
Early retirement and supplemental pension benefit (Note31(b))		
– interest cost	54,637	51,665
– service cost/(gain)	1,323	(10,505)
Housing fund (b)	118,065	98,914
Welfare, medical and other expenses	596,067	620,150
	2,329,339	2,111,602

Note:

(a) Retirement benefits
The Group is required to make specific contributions to the state-managed retirement plan at a rate of 17% to 22% of the specified salaries of the PRC employees for the six months ended 30 June 2014 and 2013. 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 12% of the specified salaries of the PRC employees. At the same time, the employees are required to make a contribution based on certain percentages. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. The Group has no further obligations for housing benefits beyond the contributions made above.

16. Property, Plant and Equipment

	Buildings and other facilities	Plant and machinery, transportation equipment and other equipment	Construction-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013				
Cost	3,010,890	2,954,734	238,361	6,203,985
Accumulated depreciation and impairment	(758,861)	(1,610,974)	—	(2,369,835)
Net book amount	2,252,029	1,343,760	238,361	3,834,150
Six months ended 30 June 2013				
Opening net book amount	2,252,029	1,343,760	238,361	3,834,150
Transfers	—	12,968	(12,968)	—
Additions	—	48,999	99,102	148,101
Depreciation	(70,638)	(148,736)	—	(219,374)
Disposals/write-off	—	(843)	—	(843)
Closing net book amount	2,181,391	1,256,148	324,495	3,762,034
At 30 June 2013				
Cost	2,998,601	3,006,931	324,495	6,330,027
Accumulated depreciation and impairment	(817,210)	(1,750,783)	—	(2,567,993)
Net book amount	2,181,391	1,256,148	324,495	3,762,034
At 1 January 2014				
Cost	3,153,634	3,274,751	346,624	6,775,009
Accumulated depreciation and impairment	(885,585)	(1,839,936)	—	(2,725,521)
Net book amount	2,268,049	1,434,815	346,624	4,049,488
Six months ended 30 June 2014				
Opening net book amount	2,268,049	1,434,815	346,624	4,049,488
Transfers	3,343	6,879	(10,222)	—
Additions	—	70,799	111,455	182,254
Depreciation	(61,085)	(163,096)	—	(224,181)
Disposals/write-off	(290)	(946)	—	(1,236)
Closing net book amount	2,210,017	1,348,451	447,857	4,006,325
At 30 June 2014				
Cost	3,135,164	3,374,444	447,857	6,957,465
Accumulated depreciation and impairment	(925,147)	(2,025,993)	—	(2,951,140)
Net book amount	2,210,017	1,348,451	447,857	4,006,325

16. Property, Plant and Equipment (Continued)

Depreciation expense recognised is analysed as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Cost of sales	205,320	201,752
Selling and marketing expenses	1,068	448
Administrative expenses	17,793	17,174
	224,181	219,374

17. Land Use Rights

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Beginning of the period	2,857,234	2,866,761
Additions	11,683	52,151
Amortisation	(30,912)	(30,877)
End of the period	2,838,005	2,888,035

Land use rights represent prepayments made by the Group for the land use rights located in the PRC which are held on leases between 20 years to 50 years.

Amortisation recognised is analysed as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Cost of sales	15,243	15,395
Selling and marketing expenses	363	386
Administrative expenses	15,306	15,096
	30,912	30,877

18. Intangible Assets

	Patent	Computer software	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2013			
Cost	479,882	192,134	672,016
Accumulated amortisation	(55,191)	(140,062)	(195,253)
Net book amount	424,691	52,072	476,763
Six months ended 30 June 2013			
Opening net book amount	424,691	52,072	476,763
Additions	—	8,499	8,499
Amortisation	(27,596)	(11,169)	(38,765)
Closing net book amount	397,095	49,402	446,497
At 30 June 2013			
Cost	479,882	200,633	680,515
Accumulated amortisation	(82,787)	(151,231)	(234,018)
Net book amount	397,095	49,402	446,497
At 1 January 2014			
Cost	479,882	238,398	718,280
Accumulated amortisation	(110,383)	(164,118)	(274,501)
Net book amount	369,499	74,280	443,779
Six months ended 30 June 2014			
Opening net book amount	369,499	74,280	443,779
Additions	—	10,304	10,304
Amortisation	(27,646)	(18,349)	(45,995)
Closing net book amount	341,853	66,235	408,088
At 30 June 2014			
Cost	479,882	248,702	728,584
Accumulated amortisation	(138,029)	(182,467)	(320,496)
Net book amount	341,853	66,235	408,088

Amortisation recognised is analysed as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Cost of sales	16,379	19,159
Selling and marketing expenses	34	36
Administrative expenses	29,582	19,570
	45,995	38,765

19. Investment in Joint Arrangements and Associates

(a) Investment in joint arrangements

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Joint ventures		
Beginning of the period	8,184	7,666
Share of total comprehensive income/(expenses)	1,314	(112)
Dividend distribution	(1,216)	(2,071)
End of the period	8,282	5,483

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

Name	Establishment/ Place of incorporation	Registered and fully paid capital		Indirect effective interest held	Principal activities and place of operations
		RMB'000	USD'000		
Hualu Construction Co., Ltd. (華魯工程有限公司)	The PRC	—	1,500	50%	Engineering design contracting/The PRC
Hainan Great Wall Machinery Engineering Co., Ltd. (海南長城機械工程有限公司)	The PRC	1,500	—	50%	Technical development, sales of equipments/ The PRC
Lanzhou Great Wall Touping Machinery Technology Development Co., Ltd. (蘭州長城透平機械技術開發成套公司)	The PRC	3,000	—	50%	Technical development, equipment manufacturing/ The PRC

The above joint ventures are accounted for by using the equity method.

The Group's share of the results of its joint ventures (in aggregate for all individually insignificant joint venture), its aggregated assets and liabilities, are as follows:

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Current assets	177,457	150,087
Non-current assets	3,406	3,751
Total assets	180,863	153,838
Current liabilities	(164,299)	(137,471)
Total liabilities	(164,299)	(137,471)
Equity	16,564	16,367
Share of equity by the Group (50%) (2013: 50%)	8,282	8,184

19. Investment in Joint Arrangements and Associates (Continued)

(a) Investment in joint arrangements (Continued)

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Revenue	86,832	94,206
Profit/(losses) and total comprehensive income/(expenses) for the period	2,628	(224)
Share of total comprehensive income/(expenses) (50%) (2013:50%)	1,314	(112)

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Beginning of the period	95,059	84,618
Share of total comprehensive income	5,518	4,251
End of the period	100,577	88,869

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

Name	Establishment/ Place of incorporation	Registered and fully paid capital	Indirect effective interest held	Principal activities and place of operations
		RMB'000		
China Petrochemical Technology Company Ltd. (中國石油化工科技開發有限公司)	The PRC	50,000	35.00%	Technical development, technical service/ The PRC
Huizhou Tianxin Petrochemical Engineering Co., Ltd. (惠州天鑫石化工程有限公司)	The PRC	15,000	40.00%	Construction contracting/ The PRC
Shanghai KSD Bulk Solids Engineering Co., Ltd. (上海金申德粉體工程有限公司)	The PRC	Registered capital: 5,500 Paid capital: 5,000	36.36%	Powder engineering services/ The PRC

The above associates are accounted for by using the equity method.

19. Investment in Joint Arrangements and Associates (Continued)

(b) Investment in associates (Continued)

(i) The Group's share of the results of China Petrochemical Technology Company Ltd., its aggregated assets and liabilities, are as follows:

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Current assets	477,747	513,338
Non-current assets	18,991	15,285
Total assets	496,738	528,623
Current liabilities	(301,863)	(342,456)
Total liabilities	(301,863)	(342,456)
Equity attributable to equity holders	185,467	176,759
Non- controlling interests	9,408	9,408
	194,875	186,167
Share of equity by the Group (35%) (2013: 35%)	64,913	61,866

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Revenue	88,791	75,529
Profit and total comprehensive income for the period attributable to equity holders	8,708	7,425
Share of total comprehensive income (35%) (2013: 35%)	3,048	2,599

(ii) The Group's share of the results of Huizhou Tianxin Petrochemical Engineering Co., Ltd., its aggregated assets and liabilities, are as follows:

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Current assets	56,753	55,414
Non-current assets	35,141	36,536
Total assets	91,894	91,950
Current liabilities	(22,604)	(26,107)
Total liabilities	(22,604)	(26,107)
Equity	69,290	65,843
Share of equity by the Group (40%) (2013: 40%)	27,716	26,337

19. Investment in Joint Arrangements and Associates (Continued)

(b) Investment in associates (Continued)

(ii) The Group's share of the results of Huizhou Tianxin Petrochemical Engineering Co., Ltd., its aggregated assets and liabilities, are as follows: (Continued)

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Revenue	8,215	28,345
Profit and total comprehensive income for the period	3,447	1,819
Share of total comprehensive income (40%) (2013: 40%)	1,379	728

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

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Current assets	79,384	82,328
Non-current assets	1,086	1,102
Total assets	80,470	83,430
Current liabilities	(58,613)	(64,575)
Total liabilities	(58,613)	(64,575)
Equity	21,857	18,855
Share of equity by the Group (36.36%) (2013: 36.36%)	7,948	6,856

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Revenue	62,416	31,508
Profit and total comprehensive income for the period	3,002	2,545
Share of total comprehensive income (36.36%) (2013: 36.36%)	1,091	925

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.

20. Available-for-Sale Financial Assets

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Beginning of the period	19,362	15,065
Net fair value gains transferred to equity	(1,034)	(358)
End of the period	18,328	14,707

Available-for-sale financial assets include the following:

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Listed securities:		
Equity securities – PRC	15,578	16,612
Unlisted securities:		
Equity securities - PRC	2,750	2,750
	18,328	19,362
Market value of listed securities	15,578	16,612

As at 30 June 2014 and 31 December 2013, the listed available-for-sale financial assets represented 1.07% equity interest of Lanzhou Huanghe Enterprise Co., Ltd. (蘭州黃河企業股份有限公司).

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.

21. Notes and Trade Receivables

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Trade receivables		
Fellow subsidiaries	2,127,588	3,001,530
A joint venture of fellow subsidiaries	369,087	178,760
An associate of fellow subsidiaries	8,086	—
A joint venture	1,280	1,280
Third parties	3,209,115	3,399,677
	5,715,156	6,581,247
Less: Provision for impairment	(159,675)	(170,602)
Trade receivables-net	5,555,481	6,410,645
Notes receivables	693,269	536,173
Notes and trade receivables-net	6,248,750	6,946,818

The carrying amounts of the Group's notes and trade receivables as at 30 June 2014 and 31 December 2013 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.

21. Notes and Trade Receivables (Continued)

The Group usually provide customers with a credit term between 15 and 90 days. For the settlement of trade receivables from provision of services, the Group usually reaches an agreement on the term of each payment with the customer by taking into account of factors such as, among other things, the credit history of the customer, its liquidity position and the Group's working capital needs, which varies on a case-by-case basis that requires the 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:

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Within 1 year	5,626,100	6,200,689
Between 1 and 2 years	406,074	484,713
Between 2 and 3 years	164,262	203,040
Between 3 and 4 years	52,314	57,969
Between 4 and 5 years	—	202
Over 5 years	—	205
	6,248,750	6,946,818

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
At the beginning of the period	170,602	149,699
Provisions	29,570	32,190
Receivables written off as uncollectible	—	(3,990)
Reversal	(40,497)	(1,389)
At the end of the period	159,675	176,510

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

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
RMB	5,456,882	5,664,064
USD	630,413	1,092,107
SAR	146,868	176,579
Others	14,587	14,068
	6,248,750	6,946,818

22. Prepayments and Other Receivables

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Prepayments		
Prepayments for construction and materials:		
– Ultimate holding company	8	112
– Fellow subsidiaries	143,634	122,658
Prepayments for construction	965,389	834,928
Prepayments for materials and equipments	2,367,912	1,908,425
Prepayments for labour costs	80,443	64,924
Prepayments for rent	12,275	9,234
Others	71,866	110,990
	3,641,527	3,051,271
Other receivables		
Amounts due from fellow subsidiaries (i)	43,070	25,175
Amounts due from joint ventures of fellow subsidiaries (i)	15	15
Dividends receivable	3,313	3,313
Interest receivable	13,246	9,052
Petty cash funds	81,535	42,860
Retention deposits	1,428,720	1,305,473
Other guarantee deposits and deposits	125,869	106,529
Payment in advance	230,209	138,918
Maintenance funds	76,701	76,659
Others	90,840	75,123
	2,093,518	1,783,117
Less: Provision for impairment	(321,316)	(225,889)
Prepayments and other receivables-net	5,413,729	4,608,499

(i) The amounts due from related parties are unsecured, interest free and repayable on demand.

The carrying amounts of the Group's prepayments and other receivables as at 30 June 2014 and 31 December 2013 approximate their fair value.

22. Prepayments and Other Receivables (Continued)

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
At the beginning of the period	225,889	191,961
Provisions	156,611	66,424
Receivables written off as uncollectible	(26)	—
Reversal	(61,158)	(29,173)
At the end of the period	321,316	229,212

23. Contract Work-in-Progress

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Contract cost incurred plus recognised profit less recognised losses	111,310,379	97,941,837
Less: Progress billings	(108,448,523)	(96,893,683)
Contract work-in-progress	2,861,856	1,048,154
Representing:		
Amounts due from customers for contract work	7,691,890	5,953,784
Less: Provision for impairment	(1,652)	(1,652)
Net amounts due from customers for contract work	7,690,238	5,952,132
Amounts due to customers for contract work	(4,828,382)	(4,903,978)
	2,861,856	1,048,154

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Contract revenue recognised as revenue in the period	20,826,063	17,167,047

24. Inventories

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Raw materials	981,397	951,652
Turnover materials	91,707	51,610
Goods in transit	181,979	241,885
	1,255,083	1,245,147

As at 30 June 2014 and 31 December 2013, no provision for impairment on inventories of the Group has been made.

For the six months ended 30 June 2014 and 2013, the cost of inventories recognised as expense and included in "cost of sales" amounted to RMB7,949,366,000 and RMB6,839,981,000 respectively.

25. Loans Due from the Ultimate Holding Company

Loans due from the ultimate holding company are unsecured, repayable within one year and interest bearings as follows:

	As at 30 June 2014	As at 31 December 2013
Loans due from the ultimate holding company	**4.50%**	4.50%

26. Restricted Cash

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Restricted cash		
– RMB	**35,086**	18,344
– AED	**42**	42
– KZT	**1,252**	766
	36,380	19,152

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

As at 30 June 2014 and 31 December 2013, the weighted average effective interest rates per annum on restricted cash with maturities ranging from one to twelve months was determined in accordance with the interest rate per annum of bank current account.

The maximum exposure to credit risk approximates to carrying amounts of the Group's restricted cash at the end of the respective reporting periods.

27. Time Deposits

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Time deposits with initial term over three months:		
Time deposits	**1,922,305**	3,412,552
Time deposits in a fellow subsidiary	**1,000,000**	2,000,000
	2,922,305	5,412,552

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Denominated in:		
– RMB	**1,000,000**	2,000,000
– USD	**1,922,305**	3,412,552
	2,922,305	5,412,552

The fellow subsidiary is Sinopec Century Bright Capital Investment Limited.

The effective interest rates per annum on time deposits, with maturities ranging from three months to six months (2013: three months to six months), approximately 3.22% to 3.65% as at 30 June 2014 (2013: 1.87% to 3.60%).

The maximum exposure to credit risk approximates to carrying amounts of the Group's time deposits at the end of the respective reporting periods.

28. Cash and Cash Equivalents

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Cash at bank and in hand	4,584,778	3,524,055
Deposits in fellow subsidiaries	2,729,211	1,990,435
	7,313,989	5,514,490

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Denominated in:		
– RMB	2,706,668	1,945,680
– USD	808,611	3,252,465
– SAR	97,230	109,564
– EUR	180,692	191,646
– AED	395	1,018
– KZT	12,329	11,506
– HKD	3,505,942	—
– Others	2,122	2,611
	7,313,989	5,514,490

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

As at 30 June 2014 and 31 December 2013, the weighted average effective interest rates per annum on cash at bank are determined in accordance with the interest rate per annum of bank current account.

The maximum exposure to credit risk approximates to carrying amounts of cash and cash equivalents at the end of the respective reporting periods.

29. Share Capital

	As at 30 June 2014		As at 31 December 2013	
	Number of shares	Share capital RMB'000	Number of shares	Share capital RMB'000
Registered, issued and fully paid				
– Domestic shares of RMB1.00 each (i)	2,967,200,000	2,967,200	2,967,200,000	2,967,200
– H Shares of RMB1.00 each (ii)	1,460,800,000	1,460,800	1,460,800,000	1,460,800
Including: H Shares issued by the Company	1,328,000,000	1,328,000	1,328,000,000	1,328,000
H Shares held by NSSF	132,800,000	132,800	132,800,000	132,800
	4,428,000,000	4,428,000	4,428,000,000	4,428,000

(i) The 2,967,200,000 domestic shares comprise as follows:

(a) 2,907,856,000 shares are held by Sinopec Group; and

(b) 59,344,000 shares are held by SAMC (a fellow subsidiary).

(ii) The Company's H shares were listed on the Main Board of the Hong Kong Stock Exchange on 23 May 2013. 1,328,000,000 H Shares were issued at HKD10.50 (equivalent to approximately RMB8.38) per H Share with a par value of RMB1.00 each. The Company received net proceeds of approximately RMB10,927,488,000 from the issuance of H Shares, of which paid up share capital was RMB1,328,000,000 and share premium was approximately RMB9,599,488,000 (net of share issue cost).

30. 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 reserve must be made before distribution of dividends to shareholders.

The statutory surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing share holding 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 recognised due to the revaluation arising from the Reorganisation as described in Note 1.2, being the excess of fair value over carrying value net of the deferred tax liabilities. Apart from the above mentioned event-driven revaluation, capital reserve included transactions with holding company such as assets transferred from/to Sinopec Group and also the share premium account.

(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 period and is treated according to accounting policies Note 3.9.

(v) Exchange translation reserve

Exchange translation reserve represents exchange differences arising on the translation of financial statements of foreign operations and is treated according to accounting policies Note 3.4.

31. Retirement and Other Supplemental Benefit Obligations

(a) State-managed retirement plan

The Chinese employees of the Group participate in employee social security plans organised and administrated by the PRC government authority. The PRC companies are required to contribute from 17% - 22%, depending on the applicable legal regulations, of salaries, wages and bonuses to the state-managed retirement plans. The obligation of these PRC companies with respect to the state-managed retirement plans is to make the specified contributions (Note 15(a)).

The total costs charged to the consolidated statement of comprehensive income:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Contributions to state-managed retirement plan	285,458	239,505

31. Retirement and Other Supplemental Benefit Obligations (Continued)

(b) Group employee retirement benefit plans

The Group has implemented a retirement benefit plan to employees in the PRC who were retired on or before 31 December 2012. Such supplementary pension subsidies are considered to be defined benefit plans as the Group is obligated to provide post-employment benefits to these employees.

According to the plans, such employees after retirement can enjoy retirement pension, welfare allowance, part of medical expenses claim, living expenses and insurance and housing fund and other benefits. The employees' lifetime is guaranteed by the plans.

The 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 30 June 2014 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):

	As at 30 June 2014	As at 31 December 2013
Retirement with honors benefit plan	3.90%	4.50%
Retirement benefit plan	4.10%	4.70%
Early retirement benefit plan	3.80%	4.30%

(ii) Benefit growth rates (per annum):

	As at 30 June 2014	As at 31 December 2013
Retirement with honors benefit plan	3.10%	3.30%
Retirement benefit plan	2.00%	1.90%
Early retirement benefit plan	3.30%	3.40%

(iii) Duration:

	As at 30 June 2014	As at 31 December 2013
Retirement with honors benefit plan	5.1 years	5.2 years
Retirement benefit plan	9.4 years	9.2 years
Early retirement benefit plan	3.1 years	3.1 years

(iv) Mortality: Average life expectancy of residents in the PRC;

(v) Benefit costs paid to the retirees are assumed to continue until the death of the retirees.

(b) Group employee retirement benefit plans (Continued)

The below sensitivity analysis details how the Group's retirement benefit plan obligation as at the reporting date would have increased/(decreased) as a result of 0.5% reasonably possible increase or decrease assessed by management in each of the significant actuarial assumptions:

	As at 30 June 2014 Increase/(decrease) in retirement benefit plan obligation	
	Increase in assumption	Decrease in assumption
	RMB'000	RMB'000
Discount rates	(103,542)	112,002
Benefit growth rates	114,062	(106,317)

31. Retirement and Other Supplemental Benefit Obligations (Continued)

(b) Group employee retirement benefit plans (Continued)

The above sensitivity analysis is based on a change in an actuarial assumption while holding all other actuarial assumptions constant. Also, it is based on the assumption that changes in actuarial assumptions are not correlated.

The total costs of retirement benefit plans in the consolidated statement of comprehensive income are as follows:

	Retirement with honors benefit plan	Retirement benefit plan	Early retirement benefit plan	Total
	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2013				
Service cost:				
Past service (gain)/cost	—	(11,832)	1,327	(10,505)
Net interest expenses	1,880	47,747	2,038	51,665
Benefit cost recognised in profit or loss	1,880	35,915	3,365	41,160
Revaluation of net benefit obligation liabilities				
Actuarial revaluation of economic assumptions change	1,303	(67,198)	—	(65,895)
Benefit cost recognised in other comprehensive income	1,303	(67,198)	—	(65,895)
Total benefit cost recognised in the consolidated statement of comprehensive income	3,183	(31,283)	3,365	(24,735)
For the six months ended 30 June 2014				
Service cost:				
Past service cost	**—**	**—**	**1,323**	**1,323**
Net interest expenses	**2,357**	**50,134**	**2,146**	**54,637**
Benefit cost recognised in profit or loss				
	2,357	**50,134**	**3,469**	**55,960**
Revaluation of net benefit obligation liabilities				
Actuarial revaluation of economic assumptions change	**2,261**	**142,355**	**—**	**144,616**
Benefit cost recognised in other comprehensive income	**2,261**	**142,355**	**—**	**144,616**
Total benefit cost recognised in the consolidated statement of comprehensive income	**4,618**	**192,489**	**3,469**	**200,576**

The Group's benefit plans do not include incumbent employees. No current service cost of each benefit plan incurred during each financial period. 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 period.

Service cost and net interest expenses are recognised in employment benefits, part of the administrative expenses and finance expenses of the consolidated statement of comprehensive income. Revaluation of net liabilities of benefit obligation is recognised as other comprehensive income in the consolidated statement of comprehensive income.

31. Retirement and Other Supplemental Benefit Obligations (Continued)

(b) Group employee retirement benefit plans (Continued)

As at the end of each reporting period, no assets reserve is under the Group's benefit plans. The net liabilities of retirement benefit plan obligations are recognised in the consolidated statement of financial position as follows:

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Net liabilities of retirement benefit plan obligation	2,479,822	2,396,554

The movement of retirement benefit plan obligation as follows:

	Retirement with honors benefit plan	Retirement benefit plan	Early retirement benefit plan	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	115,561	2,626,731	135,340	2,877,632
Past service (gain)/loss	—	(11,832)	1,327	(10,505)
Net interest expenses	1,880	47,747	2,038	51,665
Revaluation gain/(loss):				
Economic assumption change of actuarial revaluation	1,303	(67,198)	—	(65,895)
Direct benefit paid by the Group	(10,133)	(91,541)	(15,982)	(117,656)
At 30 June 2013	108,611	2,503,907	122,723	2,735,241
At 1 January 2014	110,240	2,178,219	108,095	2,396,554
Past service cost	—	—	1,323	1,323
Net interest expenses	2,357	50,134	2,146	54,637
Revaluation gain:				
Economic assumption change of actuarial revaluation	2,261	142,355	—	144,616
Direct benefit paid by the Group	(11,033)	(89,726)	(16,549)	(117,308)
At 30 June 2014	103,825	2,280,982	95,015	2,479,822

The Group has no reserve of plan assets, no capital injection of plan assets is established and no future contribution is arranged.

32. Provision for Litigation Claims

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
At the beginning of the period	329,890	369,244
Exchange difference	1,828	(24,987)
Payment	(631)	(1,166)
At the end of the period	331,087	343,091

The amounts represented the provision provided by a subsidiary of the Group for litigation.

The subsidiary of the Group has been sued during Year 2007 to Year 2009 due to a construction contract disputes and the case is ongoing process. The management of the Group has calculated all provision for the expected compensation incurred in accordance with the progress and solutions of the case.

For the six months ended 30 June 2014 and 2013, no provision for litigation claims is provided.

33. Notes and Trade Payables

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Trade payables		
Fellow subsidiaries	181,350	83,119
Associates	1,240	5,215
Third parties	9,053,427	10,078,906
	9,236,017	10,167,240
Notes payables	22,721	27,019
Notes and trade payables	9,258,738	10,194,259

The carrying amounts of the Group's notes and trade payables as at 30 June 2014 and 31 December 2013 approximate their fair value.

Ageing analysis of notes and trade payables is as follows:

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Within 1 year	6,811,918	7,676,211
Between 1 and 2 years	1,552,172	1,712,698
Between 2 and 3 years	601,650	541,099
Over 3 years	292,998	264,251
	9,258,738	10,194,259

33. Notes and Trade Payables (Continued)

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

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
RMB	8,623,107	9,398,842
USD	200,197	323,205
EUR	1,021	20,800
KZT	49,413	49,084
SAR	385,000	401,543
Others	—	785
	9,258,738	10,194,259

34. Other Payables

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Contract deposits advance:		
Fellow subsidiaries	722,698	880,536
A joint venture of fellow subsidiaries	508,670	344,947
An associate of fellow subsidiaries	834,191	7,010
A joint venture	—	1,821
Third parties	5,848,498	6,080,635
Salaries payables	78,519	102,622
Other taxation payables	229,467	201,108
Deposits and guarantee deposits payables	76,506	93,900
Advanced payables	135,088	276,410
Rent, property management and maintenance payables	68,903	69,403
Contracts payables	72,477	109,318
Amounts due to fellow subsidiaries (i)	1,004	3,065
Amounts due to joint ventures (i)	71	71
Others	312,746	190,194
Total other payables	8,888,838	8,361,040

(i) Amounts due to related parties are unsecured, interest free and repayable on demand.

The carrying amounts of the Group's other payables as at 30 June 2014 and 31 December 2013 approximate their fair value.

35. Current and Deferred Taxation

Deferred income tax assets and liabilities recognised:

The analysis of deferred income tax assets and liabilities is as follows:

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Deferred income tax assets	730,616	693,373
Deferred income tax liabilities	(36,669)	(37,564)
Deferred income tax assets, net	693,947	655,809

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Beginning of the period	655,809	754,272
Charged to equity for fair value change of available-for-sale financial assets	258	90
Charged/(Credited) to equity for retirement and other supplementary benefit actuarial revaluation	32,943	(14,790)
Tax charged/(credited) to the consolidated statement of comprehensive income (Note 12)	4,937	(5,813)
End of the period	693,947	733,759

The movement in deferred income tax assets/(liabilities) during the six months ended 30 June 2014 and 2013, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Tax losses	Provision for retirement and other supplemental benefit obligation	Provision for impairment on assets	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	—	658,346	72,441	62,968	793,755
(Charged)/Credited to:					
Profit for the period	—	(17,951)	15,301	(3,163)	(5,813)
Equity	—	(14,790)	—	—	(14,790)
At 30 June 2013	—	625,605	87,742	59,805	773,152
At 1 January 2014	13,359	539,415	91,816	48,783	693,373
(Charged)/Credited to:					
Profit for the period	—	(14,142)	18,033	409	4,300
Equity	—	32,943	—	—	32,943
At 30 June 2014	13,359	558,216	109,849	49,192	730,616

35. Current and Deferred Taxation (Continued)

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 1 January 2013	36,762	2,721	39,483
(Credited)/Charged to:			
Profit for the period	—	—	—
Equity	—	(90)	(90)
As 30 June 2013	36,762	2,631	39,393
As 1 January 2014	**33,769**	**3,795**	**37,564**
(Credited)/Charged to:			
Profit for the period	**(637)**	**—**	**(637)**
Equity	**—**	**(258)**	**(258)**
As 30 June 2014	**33,132**	**3,537**	**36,669**

Deferred income tax assets not recognised

Deferred income tax assets are recognised for tax losses carried-forward to the extent that the realisation of the related income tax benefits through the future taxable profits is probable. In accordance with the PRC tax law applicable to those companies in their respective jurisdictions, tax losses may be carried forward against future taxable income. Deferred income tax assets not recognised in the Group is as follow:

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Tax losses for which no deferred income tax asset was recognised	**263,014**	251,495

The Group did not recognise deferred income tax assets as the management believes it is more likely than not that such tax losses would not be realised before they expire. The tax loss for which no deferred income tax assets recognised mentioned would be expired in five years.

36. Commitments

(a) Capital commitments

Capital commitments for the purchase of property, plant and equipment outstanding at 30 June 2014 and 31 December 2013 not provided for in the consolidated financial statements are as follows:

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Contracted but not provided for		
– Property, plant and equipment	**116,343**	134,247

36. Commitments (Continued)

(b) Operating leasing commitments

The Group leases various residential properties, office and equipments under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Less than 1 year	45,881	51,428
1 year to 5 years	37,054	47,982
Over 5 years	52,650	49,272
Total	135,585	148,682

37. Cash Generated from/(used in) Operations

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Profit before taxation	2,484,611	2,930,287
Adjustment for:		
Provision for impairment on trade and other receivables	84,526	68,052
Depreciation of property, plant and equipment	224,181	219,374
Amortisation of intangible assets	45,995	38,765
Amortisation of land use rights	30,912	30,877
Net gains on disposal of property, plant and equipment	(295)	(1,963)
Interest income	(301,042)	(159,441)
Interest expense	55,589	54,703
Net foreign exchange (gains)/losses	(12,353)	4,233
Share of (profits)/losses of joint ventures	(1,314)	112
Share of profits of associates	(5,518)	(4,251)
Cash flows from operating activities before changes in working capital	2,605,292	3,180,748
Changes in working capital:		
– Inventories	(9,936)	12,282
– Contract work-in-progress	(1,813,702)	(2,571,765)
– Trade and other receivables	(182,480)	657,595
– Trade and other payables	(544,411)	(1,575,569)
– Restricted cash	(17,228)	13,123
Cash generated from/(used in) operations	37,535	(283,586)

38. 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 32).

39. Significant Related Party Transactions and Balances

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

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

In addition to the related party information shown elsewhere in this report, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the six months ended 30 June 2014 and 2013 and balances as at 30 June 2014 and 31 December 2013.

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 and period end balances arising with the Sinopec Group, fellow subsidiaries, associates, joint ventures of fellow subsidiaries and an associate of fellow subsidiaries:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Construction and services provided to		
– Joint ventures of fellow subsidiaries	1,026,586	210,557
– An associate of fellow subsidiaries	621,412	—
– Fellow subsidiaries	7,056,587	6,934,492
– Associates	14,752	78,713
	8,719,337	7,223,762
Construction and services received from		
– Fellow subsidiaries	379,826	351,195
Technology research and development provided to		
– Fellow subsidiaries	22,208	52,513
Interest income on loans		
– Ultimate holding company	176,262	150,328
Interest expense on borrowings		
– Fellow subsidiaries	952	3,038
Deposit interest income from fellow subsidiaries	37,630	4,416

39. Significant Related Party Transactions and Balances (Continued)

(a) Significant related party transactions and period end balances arising with the Sinopec Group, fellow subsidiaries, associates, joint ventures of fellow subsidiaries and an associate of fellow subsidiaries (Continued):

	As at 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Deposits and time deposits placed in fellow subsidiaries	3,729,211	3,990,435

The majority of these significant related party transactions with Sinopec Group and fellow subsidiaries also constitute continuing connected transactions as defined under Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. Further details of these continuing connected transactions are disclosed under the paragraph "Connected Transactions" in this interim report.

Apart from transactions with Sinopec Group, fellow subsidiaries, associates, joint ventures of fellow subsidiaries and associates of fellow subsidiaries, the Group has transactions with other state-owned enterprises including but not limited to the following:

— Sales and purchases of goods and services;

— Purchases of assets;

— Lease of assets; and

— Bank deposits and borrowings.

In the ordinary course of business, the Group sells goods and services to, and purchase goods and services from other state-owned enterprises based on terms as set out in the underlying agreements, market price or actual cost incurred, or as mutually agreed.

In the ordinary course of business, the Group places deposits 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 25, trade receivables, prepayments and other receivables are unsecured, interest free and repayable on demand.

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, chief financial officer and secretary to the Board of Directors. The compensation paid or payable to key management form employee services is shown below:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Basic salaries, other allowances and benefits-in-kind	1,608	1,418
Discretionary bonus	5,785	4,199
Contributions to pension plans	434	346
	7,827	5,963

40. Particulars of Principal Subsidiaries

As at 30 June 2014, the Company has direct and indirect interests in the following principal subsidiaries:

Name	Establishment/ Place of incorporation and type of legal entity	Registered and fully paid capital	Effective interest held		Principal activities and place of operation
			Direct held	Indirect held	
		RMB'000			
SEI (中國石化工程建設有限公司)	The PRC/Limited liability company	500,000	100%	—	Engineering contracting, engineering and consulting/The PRC
LPEC (中石化洛陽工程有限公司)	The PRC/Limited liability company	500,000	100%	—	Engineering contracting, engineering and consulting/The PRC
SSEC (中石化上海工程有限公司)	The PRC/Limited liability company	200,000	100%	—	Engineering contracting, engineering and consulting/The PRC
SNEC (中石化寧波工程有限公司)	The PRC/Limited liability company	300,000	100%	—	Engineering contracting, design, equipment manufacturing/The PRC
SNEI (中石化南京工程有限公司)	The PRC/Limited liability company	556,005	100%	—	Engineering contracting, design /The PRC
FCC (中石化第四建設有限公司)	The PRC/Limited liability company	350,000	100%	—	Engineering contracting/The PRC
SFCC (中石化第五建設有限公司)	The PRC/Limited liability company	350,000	100%	—	Engineering contracting/The PRC
TCC (中石化第十建設有限公司)	The PRC/Limited liability company	350,000	100%	—	Engineering contracting/The PRC
Sinopec Guangzhou Engineering Co., Ltd. (中石化廣州工程有限公司)	The PRC/Limited liability company	50,000	100%	—	Engineering contracting/The PRC
Ningbo Institute (中石化寧波技術研究院有限公司)	The PRC/Limited liability company	10,000	100%	—	Technical services/The PRC
Sinopec E&C Middle East Co., Ltd. (中石化煉化工程(集團)股份公司中東(沙特)子公司)	Saudi Arabia/ Limited liability company	3,356 (SAR18,000,000)	100%	—	Engineering contracting/Saudi Arabia
Sinopec Engineering & Construction (Singapore) Pte. Ltd. (中石化煉化工程(集團)股份公司新加坡有限公司)	Singapore/Limited liability company	2,560 (SGD 500,000)	100%	—	Engineering contracting/Singapore
Sinopec Engineering Group America, L.L.C (中石化煉化工程(集團)有限公司美國有限公司)	United States/ Limited liability company	3,075 (USD 500,000)	100%	—	Engineering contracting, engineering and consulting/United States
Beijing BPEC Engineering and Construction Supervision Co.,Ltd. (北京華派克工程建設監理有限公司)	The PRC/ Limited liability company	7,000	—	100%	Engineering project management/ The PRC
Beijing Petrochemical Engineering Consulting Co.,Ltd. (北京石油化工工程諮詢有限公司)	The PRC/Limited liability company	5,100	—	100%	Technical consulting/The PRC
Dalian Economy and Technology Zone Jinghai Petrochemical New Technology Development Co., Ltd. (大連經濟技術開發區京海石化新技術開發有限公司)	The PRC/Limited liability company	1,700	—	100%	Technology development service/ The PRC
SEI (London) Co., Ltd. (中國石化工程倫敦有限公司)	United Kingdom/ Limited liability company	165 (USD20,000)	—	100%	Market consulting agent/ United Kingdom London
Tianjin Tianshi Engineering Project Management Co., Ltd. (天津天實工程項目管理有限公司)	The PRC/Limited liability company	3,000	—	100%	Engineering supervision/The PRC
Lanzhou Xinyue Refining and Petrochemical Engineering Designing Co., Ltd. (蘭州新粵煉化工程設計有限公司)	The PRC/Limited liability company	1,010	—	100%	Engineering design/The PRC
Sinopec Tenth Construction Qingdao Co., Ltd. (中石化第十建設青島有限公司)	The PRC/Limited liability company	100,000	—	100%	Construction, equipment manufacturing/The PRC
Beijing Jinhaiwan Engineering and Construction Supervision Co., Ltd. (北京金海灣工程建設監理有限公司)	The PRC/Limited liability company	10,000	—	100%	Construction, project supervision/The PRC

40. Particulars of Principal Subsidiaries (Continued)

As at 30 June 2014, the Company has direct and indirect interests in the following principal subsidiaries: (Continued)

Name	Establishment/ Place of incorporation and type of legal entity	Registered and fully paid capital	Effective interest held		Principal activities and place of operation
			Direct held	Indirect held	
		RMB'000			
Urumqi Chenjiqian Construction Equipment Co., Ltd. (烏魯木齊宸吉齊安工程設備有限公司)	The PRC/Limited liability company	5,000	—	100%	Equipment installation and leasing/The PRC
Luoyang Gaoxinlongpu Petrochemical Development Co., Ltd. (洛陽高新龍浦石油化工開發有限公司)	The PRC/Limited liability company	35,000	—	100%	Oil production/The PRC
Luoyang Xinuo Fuel Oil Quality Testing Center, Ltd. (洛陽西諾燃料油品質檢驗中心有限公司)	The PRC/Limited liability company	5,000	—	100%	Oil inspection/The PRC
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)	The PRC/Limited liability company	5,000	—	100%	Technical services/The PRC
Jiangsu Nanhua Engineering and Technology Complete Development Co., Ltd. (江蘇南華工程技術開發成套有限公司)	The PRC/Limited liability company	5,000	—	100%	Construction/The PRC
Sinopec Shanghai Pharmaceutical Industry Designing Institute Co., Ltd. (中石化上海醫藥工業設計研究院有限公司)	The PRC/Limited liability company	8,046	—	100%	Medicine, pesticide, chemical research/The PRC
Zhuhai Shibidi Pharmaceutical Technology Development Co., Ltd. (珠海事必迪醫藥技術開發有限公司)	The PRC/Limited liability company	470	—	100%	Medicine, chemical, petrochemical design/The PRC
Shanghai Eastern Engineering Consulting Co., Ltd. (上海東方工程諮詢有限公司)	The PRC/Limited liability company	5,000	—	100%	Medicine, chemical, petrochemical consulting/The PRC
Shanghai Sanyuan Engineering Consulting and Supervision Co., Ltd. (上海三圓工程諮詢監理有限公司)	The PRC/Limited liability company	3,000	—	100%	Construction installation, construction supervision/The PRC
Shanghai Sanding Environmental Engineering Investment Co.,Ltd. (上海三鼎環境工程投資有限公司)	The PRC/Limited liability company	50,000	—	100%	Environmental protection and public facilities investments/The RPC
Shanghai Petrochemical Machine Manufacturing Co., Ltd. (上海石化機械製造有限公司)	The PRC/Limited liability company	133,640	—	100%	Petrochemical equipment manufacturing/The RPC
Ningbo Tianyi Equipment Technology Co., Ltd. (寧波天翼裝備技術有限公司)	The PRC/Limited liability company	60,000	—	100%	Petrochemical equipment design, manufacturing and installation/The PRC
Ningbo Tianyi Petrochemical Heavy Equipment Manufacturing Co., Ltd. (寧波天翼石化重型設備製造有限公司)	The PRC/Limited liability company	60,000	—	97%	Petrochemical equipment manufacturing and installation/The PRC
Sinopec Heavy Lifting & Transportation Co., Ltd. (中石化重型起重運輸工程有限公司)	The PRC/Limited liability company	Registered capital: 500,000	—	100%	Engineering contracting, technical services, equipment selling and leasing/The PRC

Documents for Inspection

The following documents will be available for inspection during normal business hours after 18 August 2014 (Monday) at the registered address of the Company upon requests by the relevant regulatory authorities and shareholders in accordance with the laws and regulations and the articles of association of the Company:

a) the original interim report signed by the Chairman of the Board and the President;

b) the original audited financial statements and consolidated financial statements for the six-month period ended 30 June 2014 prepared in accordance with the IFRS and signed by the Chairman of the Board, the President, the Chief Financial Officer and the head of the finance department; and

c) the original auditor's report in respect of the above financial statements signed by Grant Thornton Hong Kong Limited.

By Order of the Board

CAI Xiyou

Chairman of the Board

15 August 2014

Beijing, PRC

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

中石化煉化工程（集團）股份有限公司
SINOPEC ENGINEERING (GROUP) CO., LTD.

Address: Tower B, No.19, Anyuan, Anhui Beili, Chaoyang District, Beijing, PRC
Postcode: 100101
Web: www.segroup.cn
Email: seg.ir@sinopec.com

Printed on environmentally friendly paper