

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



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

*(a joint stock limited liability company incorporated in the People's Republic of China)*  
**(Stock Code: 2386)**

**THE PROPOSED INITIAL TERMS OF  
H SHARE APPRECIATION RIGHTS SCHEME**

This announcement is made by SINOPEC Engineering (Group) Co., Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

At the date of this announcement, the board of directors (the “**Board**”) of the Company has considered and approved the proposed initial terms of the H share appreciation rights scheme of the Company (the “**Scheme**”). The Scheme will be submitted to the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China (the “**SASAC**”) for approval and the Company's general meeting for its shareholders' consideration and approval.

The Scheme does not involve grant of options over new shares or other new securities of the Company or any of its subsidiaries. Therefore, the Scheme is not required to be subject to the provisions of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

**The Board wishes to emphasise that the Scheme is subject to the approval of the SASAC and the Company's shareholders (the “Shareholders”) at the Company's general meeting and the satisfaction of the Initial Conditions of Grant (as defined below). Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.**

\* *For identification purpose only*

## **1. THE PROPOSED INITIAL TERMS OF H SHARE APPRECIATION RIGHTS SCHEME**

The Board is pleased to announce that, after having been considered and approved at the ninth meeting of the Second Session of the Board, the Board proposes to submit the Scheme to the SASAC for approval and the Company's general meeting for the Shareholders' consideration and approval. The summary of the major terms of the Scheme is set out as follows:

### **(1) Incentive Instrument: H Share Appreciation Rights**

- (i) H share appreciation rights refer to the entitlements of the qualified incentive recipients (the "**Incentive Recipients**") to gain from the increase in the price of the Company's H shares (the "**H Shares**") within a specified time period and subject to certain conditions.
- (ii) The Incentive Recipients do not actually hold the shares, and do not have any Shareholders' rights, such as voting rights or placement rights. The Incentive Recipients shall not deal in the H share appreciation rights they are entitled to pursuant to the Scheme on their own, including but not limited to transfer, sell, exchange or charge such rights, or use such rights as guarantee or to settle debts. The Incentive Recipients must avoid behaviours that are prejudicial to the interests of the Group, including major derelictions of duties, major decision-making mistakes resulting in substantial damages to the Group's interests, or dealings in the H share appreciation rights in violation of the above restrictions. In the event of any aforementioned behaviour, the Incentive Recipients may lose all or part of the H share appreciation rights and the gains thereon, and the Company has the right to reclaim the gains realised from exercising the H share appreciation rights during the relevant period.
- (iii) Each H share appreciation right is linked to one H Share.
- (iv) Under the Scheme, the H share appreciation rights are to be settled by way of cash. Therefore, the Scheme does not affect the total number of H Shares in issue and will not result in any dilution effect on the shares of the Company.
- (v) The Scheme does not involve grant of options over new shares or other new securities of the Company or any of its subsidiaries. Therefore, the Scheme is not required to be subject to the provisions of Chapter 17 of the Listing Rules.

### **(2) Incentive Recipients Eligible for the Scheme**

Incentive Recipients are, in principle, limited to the Company's directors, senior management members and core technical employees, key management officers and highly skilled talents who have direct influence over the Group's overall performance and sustainable development.

Pursuant to the relevant regulations of the SASAC, the Incentive Recipient shall not be (i) a person who does not hold any position at, nor is an employee of, the Group; (ii) a supervisor or an independent non-executive director of the Company; (iii) a person who is, or is a close relative of, a major shareholder or actual controller who holds more than 5% of the shares of the Company on the date of grant of H share appreciation rights (the “**Date of Grant**”), except for those who have been approved at the Company’s general meeting (at which any shareholder who is proposed to be an Incentive Recipient or is associated with an Incentive Recipient shall abstain from voting); and (iv) other persons who are not allowed to be Incentive Recipients pursuant to the requirements of securities regulatory authorities.

(3) **Term, Date of Grant and Exercise Period of the Scheme**

Term: Subject to the SASAC’s review and approval and the Shareholders’ approval at the Company’s general meeting, the Scheme shall be valid for 10 years (the “**Term**”). If there is any change in relevant policies during the Term, the Scheme will be executed in accordance with the latest policies.

Date of Grant: Unless the Board arranges otherwise and subject to the satisfaction of the conditions of the grant, H share appreciation rights shall be granted to the qualified recipients once every two years. The Date of Grant must be a trading day as determined by the Board. The Incentive Recipients will be informed of such date.

Exercise Period: The H share appreciation rights granted pursuant to the Scheme are exercisable during the three-year period commencing from the effective date in accordance with the provisions set forth in the paragraph headed “(5) Exercise Arrangements” of this announcement.

(4) **Initial Conditions of Grant**

The Group and each Incentive Recipient shall respectively satisfy certain conditions before the H share appreciation rights are granted. The initial conditions of grant include but not limited to the following (the “**Initial Conditions of Grant**”):

- (i) the return of equity (the “**ROE**”) of the Group for the financial year immediately before the grant shall not be lower than 7.4%, and shall not be lower than 50 percentile of such growth rate of revenue of benchmark companies;
- (ii) the revenue of the Group for the financial year immediately before the grant shall not be less than RMB39.5 billion;
- (iii) the economic value added (the “**EVA**”) of the Group for the financial year immediately before the grant shall not be less than RMB1.220 billion; and

(iv) the performance evaluation rating of the Incentive Recipient for the financial year immediately before the year of the Date of Grant shall be “A” or “B”.

Based on the actual circumstances of the Group, the ROE, the growth rate of revenue and the EVA of the Group are chosen as the financial performance conditions to be satisfied by the Group. Pursuant to relevant regulations, the Company will use the financials prepared in accordance with the China Accounting Standards for Business Enterprises and the net profit after deduction of non-recurring profit or loss for the purposes of computing the ROE, the growth rate of revenue and the EVA under the Scheme.

According to the audited financial statements prepared in accordance with the China Accounting Standards for Business Enterprises by Grant Thornton China (Special General Partnership), parts of the financial data of the Company for the financial year ended 31 December 2016 are set out as follows:

	Unit: RMB'000
	As at 31 December 2016 (audited)
Total equity attributable to equity holders	25,201,916
	Twelve-month periods ended 31 December 2016 (audited)
Revenue	39,516,321
Net profit	1,682,272
Net profit after deduction of non-recurring profit or loss	1,847,707
Return of equity (ROE)	7.41%
Economic value added (EVA)	1,246,015
(1) Return of equity (ROE) = $\frac{\text{Net profit after deduction of non-recurring profit or loss}}{(\text{Total equity at the beginning of the period} + \text{Total equity at the end of the period}) / 2}$	
(2) Economic value added (EVA) = $\text{Net profit after deduction of non-recurring profit or loss} + (\text{Interest expense} + \text{R\&D expense}) \times (1 - \text{Applicable tax rate}) - \text{Capital expenditure}$	

## (5) Exercise Arrangements

The H share appreciation rights granted pursuant to the Scheme are valid for 10 years from the Date of Grant. Upon expiry of the Term, all unexercised H share appreciation rights shall lapse. The Incentive Recipients shall be subject to a lock-up period of two years following the Date of Grant, during which the Incentive Recipients shall not exercise the rights. After two years from the Date of Grant, if the Company and the Incentive Recipients satisfy the conditions set forth in the paragraph headed “(6) Conditions” of this announcement, the H share appreciation rights shall become effective in proportions as follows:

<b>Period</b>	<b>Date</b>	<b>Effective Proportion</b>
Lock-up Period	Within two years following the Date of Grant of H share appreciation rights	0
The First Effective Phase	From the second anniversary of the Date of Grant of H share appreciation rights	33%
The Second Effective Phase	From the third anniversary of the Date of Grant of H share appreciation rights	33%
The Third Effective Phase	From the fourth anniversary of the Date of Grant of H share appreciation rights	34%

## (6) Conditions

The Group and each Incentive Recipient shall satisfy certain conditions during the specified financial year in order to make the H share appreciation rights in the relevant phase become effective, including:

- (i) First Effective Phase: the ROE of the financial year immediately before the effective date shall not be lower than 10.0% and shall not be lower than 75 percentile of such growth rate of revenue of benchmark companies; the growth rate of revenue of the financial year immediately before the effective date as compared with that of the financial year immediately before the grant shall not be lower than 14.2% and shall not be lower than 75 percentile of such growth rate of revenue of benchmark companies; the EVA of the financial year immediately before the year of the effective date shall not be less than RMB2.099 billion;
- (ii) Second Effective Phase: the ROE of the financial year immediately before the effective date shall not be lower than 10.0% and shall not be lower than 75 percentile of such growth rate of revenue of benchmark companies; the growth rate of revenue of the financial year immediately before the effective date as compared with that of the financial year immediately before the grant shall not

be lower than 21.6% and shall not be lower than 75 percentile of such growth rate of revenue of benchmark companies; the EVA of the financial year immediately before the effective date shall not be less than RMB2.233 billion;

(iii) Third Effective Phase: the ROE of the financial year immediately before the effective date shall not be lower than 10.0% and shall not be lower than 75 percentile of such growth rate of revenue of benchmark companies; the growth rate of revenue of the financial year immediately before the effective date as compared with that of the financial year immediately before the grant shall not be lower than 29.3% and shall not be lower than 75 percentile of such growth rate of revenue of benchmark companies; the EVA of the financial year immediately before the effective date shall not be less than RMB2.373 billion; and

(iv) If the aforementioned conditions based on the Group's performance are satisfied, the H share appreciation rights granted to the Incentive Recipients shall become effective as determined based on the following:

- If the performance evaluation rating for the previous financial year is "A", then 100% of the H share appreciation rights in the relevant phase shall become effective;
- If the performance evaluation rating for the previous financial year is "B", then 90% of the H share appreciation rights in the relevant phase shall become effective;
- If the performance evaluation rating for the previous financial year is "C", then 30% of the H share appreciation rights in the relevant phase shall become effective; or
- If the performance evaluation rating for the previous financial year is "D", irrespective of whether the Company has satisfied the performance conditions or not, all the H share appreciation rights in the relevant phase shall lapse.
- If the Incentive Recipient's performance evaluation rating fails to meet the standards required under the conditions for the exercise of rights, the granted H share appreciation rights during the corresponding effective phase shall lapse.

## (7) **Exercise Price**

The exercise price of the H share appreciation rights (the “**Exercise Price**”) shall be determined based on fair market price. The Exercise Price of each batch of the H share appreciation rights granted shall be the highest of the following:

- (i) the closing price of the Company’s H Shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) on the Date of Grant;
- (ii) the average closing price of the Company’s H Shares as stated in the daily quotation sheets of the Hong Kong Stock Exchange for the five consecutive trading days prior to the Date of Grant; or
- (iii) the nominal value of the Company’s H Shares.

## 2. **REASONS FOR ADOPTING THE SCHEME**

The Board is of the view that the Scheme will enable the Company (i) to establish and cultivate a performance-oriented culture, under which value is created for the Shareholders, and to establish an interests sharing and restraining mechanism between the Shareholders and the Company’s management; (ii) to further improve the Company’s corporate governance structure and unify the interests balance mechanism among the Shareholders, decision makers and executives to secure a stable and long-term development of the Group; (iii) to optimise the basic remuneration, short-term incentives and long-term incentives of the management, technical and skilled talents of the Company so as to retain different talents more flexibly and effectively and to better promote the development of the Company; and (iv) to effectively motivate the management and core teams to make efforts to enhance their performance and the core competitiveness of the Group.

## 3. **PROPOSED INITIAL GRANT UNDER THE SCHEME**

The Board proposes to grant 12,523,000 units of H share appreciation rights (the number of corresponding H Shares is 12,523,000) to a total of 84 Incentive Recipients (accounting for approximately 0.4% of the total number of contracted employees) upon the satisfaction of the Initial Conditions of Grant (the “**Proposed Initial Grant**”), subject to the SASAC’s approval and the Shareholders’ approval of the Scheme and the Proposed Initial Grant at the Company’s general meeting. As at the date of this announcement, the number of corresponding H Shares under the Proposed Initial Grant represents approximately 0.28% of the total issued shares of the Company.

Subsequently, the directors of the Company will arrange for one to two grants of H share appreciation rights under the Scheme pursuant to relevant laws and regulations and the development strategy of the Company, and obtain prior approval from the authorities or departments acting as investors of state-owned assets.

#### **4. GENERAL INFORMATION**

According to the Scheme, each unit of H share appreciation right is linked with one H Share, and the H share appreciation right is to be settled by way of cash. Therefore, the Scheme does not affect the total number of H Shares in issue and will not result in any dilution effect on the shares of the Company. The Scheme does not involve grant of options over new shares or other new securities of the Company or any of its subsidiaries. Therefore, the Scheme is not required to be subject to the provisions of Chapter 17 of the Listing Rules.

**The Board wishes to emphasise that the Scheme is subject to the approval of the SASAC and the Shareholders at the Company's general meeting and the satisfaction of the Initial Conditions of Grant. Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.**

By Order of the Board  
**SINOPEC ENGINEERING (GROUP) CO., LTD.**  
**SANG Jinghua**  
*Vice President, Secretary to the Board*

Beijing, PRC  
21 August 2017

*As at the date of this announcement, the Company's executive directors are LU Dong, XIANG Wenwu, SUN Lili (employee representative director) and WU Derong (employee representative director); the non-executive directors are LING Yiqun and LI Guoqing; and the independent non-executive directors are HUI Chiu Chung, Stephen, JIN Yong and YE Zheng.*

*This announcement is available on the website of Hong Kong Exchanges and Clearing Limited ([www.hkex.com.hk](http://www.hkex.com.hk)) and on the website of the Company ([www.segroup.cn](http://www.segroup.cn)).*