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If you have sold or transferred all your shares in SINOPEC Engineering (Group) Co., Ltd., you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or to the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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

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

CONTINUING CONNECTED TRANSACTIONS UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

PROPOSED AMENDMENTS TO THE ARTICLES

PROPOSED APPOINTMENT OF DOMESTIC AUDITOR AND INTERNATIONAL AUDITOR OF THE COMPANY FOR 2013 AND AUTHORIZATION TO THE BOARD TO FIX THEIR REMUNERATION FOR 2013

PROPOSED 2013 INTERIM DIVIDEND DISTRIBUTION PLAN

PROPOSED 2013 BUSINESS OPERATION PLAN, INVESTMENT PLAN AND FINANCIAL BUDGET PLAN

Independent financial adviser to
the Independent Board Committee and the Independent Shareholders



農銀國際

ABC INTERNATIONAL

A letter from the Board is set out on pages 5 to 26 of this circular. A letter from the Independent Board Committee is set out on page 27 of this circular. A letter from ABCI Capital Limited is set out on pages 28 to 42 of this circular.

An extract of the notice convening the EGM to be held at the Crowne Plaza Park View Wuzhou Beijing, 8 Beisihuan Zhong Lu, Beijing, the PRC on Monday, October 28, 2013 at 9 a.m. is set out on pages 43 to 46 of this circular.

If you intend to attend the EGM, please complete and return the enclosed reply slip in accordance with the instructions printed thereon as soon as possible and in any event by Monday, October 8, 2013.

Whether or not you are able to attend the EGM, please complete and return the enclosed proxy form in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time scheduled for holding such meeting (or any adjourned meeting thereof). Completion and delivery of the proxy form shall not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	5
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	27
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	28
NOTICE OF EXTRAORDINARY GENERAL MEETING	43
APPENDIX — GENERAL INFORMATION	47

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings.

“Articles”	the articles of association of the Company as amended, revised or supplemented from time to time
“associate(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Board of Directors” or “Board”	our board of directors
CBRC	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”	SINOPEC Engineering (Group) Co., Ltd., a joint stock limited liability company incorporated under the laws of the PRC on August 28, 2012, which is listed on the Hong Kong Stock Exchange (2386.HK)
“Company Law” or “PRC Company Law”	Company Law of the PRC (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People’s Congress on October 27, 2005 and effective on January 1, 2006
“connected person(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Connected Transaction Announcement”	an announcement published on the website of the Hong Kong Stock Exchange on August 19, 2013 in respect of the continuing connected transactions under the Financial Services Framework Agreement
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	ordinary share(s) of the capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and are unlisted Shares which are currently not listed or traded on any stock exchange

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened and held on October 28, 2013 to consider and, if thought fit, approve, inter alia, the terms of the Financial Services Framework Agreement and the Proposed Annual Caps
“Financial Services Framework Agreement”	a financial services framework agreement entered into between the Company and Sinopec Group on December 19, 2012, as amended by a supplemental agreement on April 22, 2013
“Group”, “us” or “we”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of the Hong Kong Stock Exchange
“H Shareholders”	the Shareholders of the Company who/which hold H shares of the Company
“HK\$” or “Hong Kong dollars”	the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	The committee of our independent non-executive Directors, consisting of Mr. Hui Chiu Chung, Stephen, Mr. Jin Yong and Mr. Ye Zheng, formed to advise the Independent Shareholders in respect of the terms of the Financial Services Framework Agreement and the Proposed Annual Caps
“Independent Financial Adviser” or “ABCI”	ABCI Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Financial Services Framework Agreement and the Proposed Annual Caps
“Independent Shareholders”	Shareholders other than Sinopec Group and its associates

DEFINITIONS

“Independent Third Party(ies)”	party(ies) not connected with any of the Directors, the Supervisors, the chief executive of the company or the Substantial Shareholders or any of its subsidiaries or their respective associates
“Interim Dividend”	has the meaning ascribed thereto under the section headed “Proposed 2013 Interim Dividend Distribution Plan” in this circular
“Latest Practicable Date”	September 5, 2013, being the latest practicable date before the printing of this circular for ascertaining certain information
“Listing Date”	May 23, 2013, on which our H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“Parent Group”	collectively, Sinopec Group and its subsidiaries (excluding the Group)
“PBOC”	People’s Bank of China (中國人民銀行)
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, Macau Special Administration Region of the PRC and Taiwan
“Proposed Annual Caps”	the proposed annual caps for each of the years ending December 31, 2014 and 2015, respectively, under the Financial Services Framework Agreement
“Proposed Articles Amendments”	has the meaning ascribed thereto under the section headed “Proposed Amendments to the Articles” in this circular
“Prospectus”	the prospectus of the Company dated May 10, 2013
“Receiving Agent”	has the meaning ascribed thereto under the section headed “Proposed 2013 Interim Dividend Distribution Plan” in this circular
“Record Date”	on Monday, November 11, 2013, being the record date in respect of H Shareholders to which the payment of the Interim Dividend will be determined
“RMB”	the lawful currency of the PRC
“SAMC”	Sinopec Assets Management Co., Ltd. (中國石化集團資產經營管理有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Sinopec Group

DEFINITIONS

“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	holder(s) of our Shares
“Share(s)”	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each
“Sinopec Corp.”	China Petroleum & Chemical Corporation (中國石油化工股份有限公司), a joint stock limited liability company incorporated under the laws of the PRC, which is listed on the Hong Kong Stock Exchange (0386.HK), Shanghai Stock Exchange (600028.SH), the London Stock Exchange (LSE: SNP) and the New York Stock Exchange (NYSE: SNP) and is a subsidiary of Sinopec Group
“Sinopec Century Bright”	Sinopec Century Bright Capital Investment Limited (中國石化盛駿國際投資有限公司), a limited liability company incorporated in Hong Kong on November 29, 1994 and a connected person of the Company, with 100% of its equity interest being held by Sinopec Group
“Sinopec Finance”	Sinopec Finance Co., Ltd. (中國石化財務有限責任公司), a limited liability company incorporated in the PRC in 1998 and a connected person of the Company, with 49% of its equity interest being held by Sinopec Corp. and 51% of its equity interest being held by Sinopec Group
“Sinopec Finance Companies”	Sinopec Century Bright and Sinopec Finance
“Sinopec Group”	China Petrochemical Corporation (中國石油化工集團公司), a state-owned enterprise incorporated under the laws of the PRC and established in July 1998 upon reorganization of the former China Petrochemical Corporation (中國石油化工總公司), and our Controlling Shareholder
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“Substantial Shareholder(s)”	has the meaning ascribed thereto in the Hong Kong Listing Rules
“Supervisor(s)”	the supervisor(s) of the Company
“United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$”	the lawful currency of the United States

LETTER FROM THE BOARD



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

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

Executive Director:

YAN Shaochun (閔少春)

Non-executive Directors:

CAI Xiyu (蔡希有) (*Chairman*)

ZHANG Kehua (張克華)

LEI Dianwu (雷典武)

LING Yiqun (凌逸群)

CHANG Zhenyong (常振勇)

Independent non-executive Directors:

HUI Chiu Chung, Stephen (許照中)

JIN Yong (金涌)

YE Zheng (葉政)

September 10, 2013

To the H Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS UNDER
THE FINANCIAL SERVICES FRAMEWORK AGREEMENT
PROPOSED AMENDMENTS TO THE ARTICLES
PROPOSED APPOINTMENT OF DOMESTIC AUDITOR AND INTERNATIONAL
AUDITOR OF THE COMPANY FOR 2013 AND AUTHORIZATION TO THE
BOARD TO FIX THEIR REMUNERATION FOR 2013
PROPOSED 2013 INTERIM DIVIDEND DISTRIBUTION PLAN
PROPOSED 2013 BUSINESS OPERATION PLAN,
INVESTMENT PLAN AND FINANCIAL BUDGET PLAN**

I INTRODUCTION

The purpose of this circular is to provide you with, among other things, further information in relation to certain resolutions to be proposed at the EGM:

- (1) to consider and approve the Financial Services Framework Agreement, the continuing connected transactions thereunder and the Proposed Annual Caps;

** For identification purposes only.*

LETTER FROM THE BOARD

- (2) to consider and approve the Proposed Articles Amendments;
- (3) to consider and approve the proposed appointment of Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as the domestic auditor and the international auditor of the Company, respectively, to hold office until the conclusion of the next annual general meeting of the Company and to authorize the Board to fix their remuneration for the year 2013;
- (4) to consider and approve the proposed 2013 interim dividend distribution plan; and
- (5) to consider and approve the proposed 2013 business operation plan, investment plan and financial budget plan.

II CONTINUING CONNECTED TRANSACTIONS UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT AND THE PROPOSED ANNUAL CAPS

1. Background information

As disclosed in the Connected Transaction Announcement and the Prospectus, the terms of the Financial Services Framework Agreement, the continuing connected transactions thereunder and the Proposed Annual Caps are subject to the Independent Shareholders' approval under Chapter 14A of the Hong Kong Listing Rules. On August 16, 2013, the Board reviewed and approved the proposal on the Proposed Annual Caps. This circular is prepared in accordance with the Hong Kong Listing Rules, with detailed information about the continuing connected transactions under the Financial Services Framework Agreement. The EGM is to be held at Crowne Plaza Park View Wuzhou Beijing, 8 Beisihuan Zhong Lu, Beijing, the PRC on Monday, October 28, 2013 at 9 a.m. for the Independent Shareholders to consider, and if thought fit, approve the continuing connected transactions under the Financial Services Framework Agreement and the Proposed Annual Caps. The notice of the EGM for the H Shareholders was published on the website of the Hong Kong Stock Exchange on September 10, 2013 and despatched to the H Shareholders on September 10, 2013.

An interim waiver from strict compliance with the announcement and Independent Shareholders' approval requirements set out in Chapter 14A of the Hong Kong Listing Rule expiring on December 31, 2013 has been granted by the Hong Kong Stock Exchange, details of which are described in the Prospectus. The Company is required under the interim waiver to submit the continuing connected transactions under the Financial Services Framework Agreement and the Proposed Annual Caps to the Independent Shareholders for approval within six months of the Listing Date. If Independent Shareholders' approval cannot be obtained within six months after the Listing Date, we will not continue with financial services under the Financial Services Framework Agreement to the extent they constitute non-exempt continuing connected transactions under Rule 14A.35 of the Hong Kong Listing Rules.

The Independent Board Committee has been established to advise the Independent Shareholders as to the terms of the Financial Services Framework Agreement and the Proposed Annual Caps.

LETTER FROM THE BOARD

2. Principal Terms of the Financial Services Framework Agreement

Signing Date and Term

We entered into the Financial Services Framework Agreement with Sinopec Group on December 19, 2012, as amended by a supplemental agreement on April 22, 2013. The Financial Services Framework Agreement is valid for a term of three years commencing on the Listing Date (i.e. May 23, 2013).

Scope of Services

Pursuant to the Financial Services Framework Agreement, Sinopec Finance and Sinopec Century Bright will provide financial services to us, such financial services primarily include deposits, loans, entrustment loans, settlement services, financial and financing consulting, credit certification, insurance agency, exchange settlement, bond underwriting, foreign exchange business, and related consultancy and agency financial services. We enter into separate contracts with Sinopec Finance and Sinopec Century Bright, which set out the specific terms and conditions according to the principles provided in the Financial Services Framework Agreement.

Price determination

The pricing of the services provided under the Financial Services Framework Agreement shall be determined in accordance with the following principles in ascending order:

- (1) ***government-prescribed price and government-guided price:*** if at any time, the government-prescribed price is applicable to any particular financial service, such service shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government-guided price;
- (2) ***market price:*** the price of the same or similar services provided by an Independent Third Party during the ordinary course of business on normal commercial terms; and
- (3) ***agreed price:*** to be determined by adding a reasonable profit over a reasonable cost.

The pricing of the services provided under the Financial Services Framework Agreement are mainly determined by reference to (1) the government-prescribed price and government-guided price; and (2) the market price. In the event that the agreed price has to be used, with a view to arriving at a reasonable profit, such price will be determined through arm's length negotiations between the relevant parties after taking into account the prevailing market and business conditions.

LETTER FROM THE BOARD

In addition to the above, the Financial Services Framework Agreement provides that the services shall be provided in accordance with the following pricing principles:

- (a) the interest rate applicable to our deposits with the Sinopec Finance Companies will not be lower than: (i) the minimum interest rate published by the PBOC for deposits of a similar type for the same period (applicable to deposits with Sinopec Finance only); (ii) the interest rate for deposits of a similar type for the same period placed by other members of Sinopec Group; and (iii) the interest rate for deposits of a similar type for the same period offered by independent commercial banks to us;
- (b) the interest rates applicable to our entrustment loans to Sinopec Group through Sinopec Finance shall be (i) on normal commercial terms; (ii) no less favorable than interest rates for comparable entrustment loans provided by other members of Sinopec Group to Sinopec Group through Sinopec Finance; and (iii) generally not lower than the loan interest rates for the same period published by the PBOC (taking into account any permissible downward adjustment). In light of the removal of the lending floor rates offered by financial institutions with effect from July 20, 2013, the Company no longer compared the interest rates for the entrustment loans under the Financial Services Framework Agreement against the loan interest rates published by the PBOC after July 20, 2013, and instead, going forward, the Company will make reference to other comparable rates, such as the interest rates for bonds or loans available in the PRC market issued/provided by companies or financial institutions of credit ratings and risk profile similar to those of Sinopec Group or Sinopec Corp.; and
- (c) the service fees for settlement, entrustment loan and other financial services shall not be higher than (i) fees charged by independent commercial banks or financial institutions; and (ii) fees charged to other members of Sinopec Group for similar services.

Termination

Before the termination of the Financial Services Framework Agreement, the parties may, according to the Hong Kong Listing Rules, negotiate and sign a new framework agreement or extend or renew the Financial Services Framework Agreement to ensure the normal running of the production operations of the relevant parties after expiration of the term of the Financial Services Framework Agreement.

LETTER FROM THE BOARD

3. Historical Amounts, Existing and Proposed Annual Caps and basis of the Proposed Annual Caps

Historical Amounts

Set out below (i) the fees in relation to settlement, entrustment loan and other financial services paid to the Sinopec Finance Companies; (ii) the maximum daily balance of deposits and interest income arising from such deposits with the Sinopec Finance Companies; and (iii) the maximum daily balance of entrustment loans arranged through Sinopec Finance for the three years ended December 31, 2012 and the six months ended June 30, 2013:

	For the year ended December 31,			For the six months ended June 30,
	2010	2011	2012	2013
	<i>(RMB'000)</i>			
Service fees in relation to settlement, entrustment loan and other financial services	25,420	35,510	46,746	9,837
Maximum daily balance of deposits and interest income	4,690,000	4,720,000	4,500,000	2,402,000
Maximum daily balance of entrustment loans	15,000,000	17,460,000	14,700,000	9,100,000

LETTER FROM THE BOARD

Existing and Proposed Annual Caps

The existing annual cap for the year ending December 31, 2013 and the Proposed Annual Caps are set out below:

	Existing annual cap	Proposed Annual Caps	
	For the year ending December 31,		
	2013	2014	2015
	(RMB'000)		
Service fees in relation to settlement, entrustment loan and other financial services	25,600	31,850	37,900
Maximum daily balance of deposits and interest income	5,500,000	6,500,000	7,500,000
Maximum daily balance of entrustment loans	11,000,000	14,000,000	17,000,000

Basis of the Proposed Annual Caps

- (a) ***Caps for service fees.*** In determining the above annual caps for each of the years ending December 31, 2014 and 2015, respectively, for the service fees in relation to settlement, entrustment loan and other financial services, we have mainly considered: (i) the estimated service fees in relation to entrustment loans with reference to the respective maximum daily balance of entrustment loans for each of the years ending December 31, 2014 and 2015, respectively, and the average historical amounts of service fees for entrustment loans; (ii) the estimated cash settlement handling fees with reference to our respective expected business volume for each of the years ending December 31, 2014 and 2015 and the historical ratio of cash settlement amount to handling fees; and (iii) other financial and consulting services to be provided under the Financial Services Framework Agreement.
- (b) ***Caps for deposits and interest income.*** In determining the maximum daily balance of deposits and interest income for each of the years ending December 31, 2014 and 2015, respectively, we have mainly considered: (i) cash and cash equivalent of the Group as of December 31, 2012 and the six months ended June 30, 2013 of RMB4.82 billion and RMB7.14 billion, respectively, together with interest income; and (ii) part of net cash inflow which is expected to be deposited into the Sinopec Finance Companies during each of the years ending December 31, 2014 and 2015, respectively.

LETTER FROM THE BOARD

- (c) ***Caps for entrustment loans.*** In determining the maximum daily balance of entrustment loans for each of the years ending December 31, 2014 and 2015, respectively, we have mainly considered: (i) the balance of entrustment loans as of December 31, 2012 and June 30, 2013 of RMB8.14 billion and RMB8.10 billion, respectively; and (ii) our expected net cash inflow during the year (including prepayments from backlog and new contracts).

For the increase in the Proposed Annual Caps as compared with the existing annual cap for the year ending December 31, 2013, we have mainly considered: (i) the potential increase in level of cash and cash equivalents of the Group and net cash inflow generated from the Group's operations; and (ii) the steady increase in our backlog in the past, which will result in the increase in the revenue to be recognized in 2014 and 2015, which in turn will increase the net cash inflow to be generated from the Group's operations.

When determining whether funds are placed as deposits with the Sinopec Finance Companies or loaned to Sinopec Group through the provision of entrustment loans, we will take into account the following factors based on principles of maximum return, cost control and risk control: (i) the funding plan which specifies our long term and short term funding needs, operational needs and capital expenditure requirements; (ii) our investment needs with reference to the interest rates offered for deposits and entrustment loans; (iii) the amount of cash inflow from business operations; and (iv) the service fees charged and terms of entrustment loan.

4. Commercial Rationale and Benefits of the Deposits and Entrustment Loans

Deposits

- (a) ***Centralized cash management.*** It is our policy to centralize our cash management function. As the terms offered by the Sinopec Finance Companies are no less favorable than the deposit interest rates published by the PBOC (in the case of Sinopec Finance) or independent commercial banks in Hong Kong (in the case of Sinopec Century Bright) for deposits of a similar type for the same period, the terms of placing deposits with the Sinopec Finance Companies are no less favorable to us than placing deposits with independent commercial banks. In addition, the centralized deposit of funds with the Sinopec Finance Companies will enable us to use the Sinopec Finance Companies as a primary clearing and settlement platform, provide us with access to a centralized cash pool (both onshore and offshore), giving us the flexibility to make timely withdrawals from time to time to meet our funding needs and reduce the need for us to obtain third party financing, which will in turn help us to achieve a lower cost of funding and maximize cost and operational efficiencies.
- (b) ***Clearing and settlement platform.*** In our ordinary course of business, as Sinopec Group is our single largest client, we transact with numerous subsidiaries/affiliated companies of Sinopec Group. In line with Sinopec Group's internal group policy, such subsidiaries/affiliated companies generally maintain settlement accounts with the Sinopec Finance Companies. The centralized maintenance of deposits by us with the Sinopec Finance Companies will facilitate clearing with other members of the Sinopec Group (some

LETTER FROM THE BOARD

of whom are our clients), reduce the time required for transit and turnaround of funds and is generally more administratively efficient than settlement through independent banks. It would not be efficient for Sinopec Group (and its affiliates) and us to separately maintain bank accounts with independent banks for clearing and settlement.

- (c) ***Familiarity with our business.*** As the Sinopec Finance Companies only provide financial services to members of the Parent Group, they have over the years acquired extensive knowledge of our industry. In the context of the Group, the Sinopec Finance Companies are familiar with our capital structure, business operations, funding needs and cash flow pattern, which enables them to better anticipate our business needs. As a result, the Sinopec Finance Companies are well-positioned to provide us with bespoke and cost efficient services which would not be easy for independent commercial banks to replicate.
- (d) ***Flexibility to us.*** We have the sole discretion to deposit and withdraw our deposits with the Sinopec Finance Companies from time to time. There is no restriction on our ability to deposit our cash with independent commercial banks in or outside the PRC now or in the future should we so wish. Currently, we maintain deposits with independent commercial banks in and outside the PRC and expect to continue to do so depending on our contractual and other requirements. We choose to deposit our cash with the Sinopec Finance Companies as it helps us centralize our treasury management function.

Taking into account the no less favorable interest rates and other commercial benefits to the Group, we consider that the maintenance of deposits with the Sinopec Finance Companies is beneficial to our Shareholders as a whole.

Entrustment loans

- (a) ***Lack of comparable alternative investment options.*** Due to the nature of our business, we receive significant amounts of prepayments from clients from time to time, which may not be immediately required for our operational needs. Such prepayments are in effect advance payments from our clients, which we will apply towards performance of the underlying contracts as appropriate (such as purchase of raw materials and equipment, and payment of our sub-contractors) and are only temporarily idle. Therefore, we need to invest such surplus cash conservatively as it is an advance/deposit from our clients. Given our need to fund match within a relatively short time whilst maintaining flexibility to pay our trade payables from time to time, there is a lack of comparable alternative investment options. From our perspective, the provision of entrustment loans to Sinopec Group is a safe, cost efficient and flexible option for investing such cash surplus, which may not otherwise be available in the open market. We have explored alternative investment options in the open market but in view of the counterparty risk, the cost and time required for negotiations and the lack of flexibility, such alternatives are not reasonably available to us. Given our investment needs, there is a lack of comparable alternative investment options. We consider that providing entrustment loans to Sinopec Group is a sound, low risk investment option due to the top-tier credit rating of Sinopec Group and clean repayment history, generating a higher return for us than deposits which would have been the only other investment option for us given the investment policy with respect to such funds.

LETTER FROM THE BOARD

- (b) ***Credit rating of Sinopec Group.*** The borrower of the entrustment loans is Sinopec Group. Pursuant to the terms of the entrustment loans, Sinopec Group has the sole obligation to repay principal and interest (and any late payment interest). In May 2012, Sinopec Group obtained an A+ long term corporate credit rating from Standard & Poor with a stable outlook and an Aa3 credit rating from Moody's. As of Latest Practicable Date, Sinopec Group had a registered capital of RMB231,620,585,000. Sinopec Group ranked 5th in Fortune Global 500 in both 2011 and 2012. We therefore consider that lending to Sinopec Group is a low risk investment option. During the three years ended December 31, 2012 and the six months ended June 30, 2013, Sinopec Group has not defaulted under any of the entrustment loans provided by us. Taking into account the creditworthiness of Sinopec Group and clean repayment history during the three years ended December 31, 2012 and the six months ended June 30, 2013, the entrustment loans are generally unsecured.
- (c) ***No negative impact on our working capital sufficiency.*** As we will only provide entrustment loans to Sinopec Group when we have surplus cash, such loans did not in the past, nor are they expected to in the future, pose any cash flow pressure on members of the Group. We have adequate internal resources and a strong credit profile to support our daily operations. As of December 31, 2012 and June 30, 2013, we had cash and cash equivalent of RMB4.82 billion and RMB7.14 billion, respectively.
- (d) ***Efficient and flexible cash management.*** Provision of entrustment loans to Sinopec Group will allow us to invest our surplus cash efficiently within a relatively short timeframe. Our entrustment loans to Sinopec Group generally do not exceed one year (the majority are for a period of one year or six months), enabling us to deploy our financial resources efficiently and flexibly. Upon the expiry of the entrustment loans, we will receive the principal amount and the interest payment in relation to such entrustment loans from Sinopec Finance. Any new loans to Sinopec Group will be subject to normal approval procedures in the usual way. Furthermore, whilst we have historically provided entrustment loans to Sinopec Group and expect to continue to do so in the future, we are not under any legal or other obligation to provide entrustment loans to Sinopec Group. Pursuant to the entrustment loan agreements, we are entitled to early terminate the loans (without penalty) at our option in which case current deposit interest rate will apply.
- (e) ***Normal commercial terms.*** The interest rate on entrustment loans is not regulated in the PRC. We understand that there is no market standard rate for entrustment loans as the interest rate is determined through arm's length negotiations between the parties based on relative bargaining power, risk profile, security value, among other things. We generally use the prevailing base deposit rate published by the PBOC as a reference point with an upward adjustment taking into account the amount and term of the loan. In addition, we will refer to the list of interest rates which specifies the range of interest rates for different entrustment loan amounts and terms. Such list has been agreed by Sinopec Group and the Board after arm's length negotiations and will be reviewed and renegotiated by the parties periodically. Based on such list, our Chief Financial Officer and finance department will decide the interest rates of the entrustment loan agreements to be entered into between Sinopec Group and us. If the interest rate in respect of any specific entrustment loan is proposed to exceed/fall below the agreed range specified in the list, such entrustment loan

LETTER FROM THE BOARD

shall be subject to approval by the Board. Any approvals obtained from the Board will then be reviewed by our independent non-executive Directors before the publication of the next annual report and their views will also be disclosed therein. Prior to July 20, 2013, the interest rates so determined were generally not lower than the loan interest rates for the same period published by the PBOC (taking into account any permissible downward adjustment). In light of the removal of the lending floor rates offered by financial institutions with effect from July 20, 2013, the Company no longer compared the interest rates for the entrustment loans under the Financial Services Framework Agreement against the loan interest rates published by the PBOC after July 20, 2013, and instead, going forward, the Company will make reference to other comparable rates, such as the interest rates for bonds or loans available in the PRC market issued/provided by companies or financial institutions of credit ratings and risk profile similar to those of Sinopec Group or Sinopec Corp., for the purpose of ensuring that the interest rates for the entrustment loans are the same or no less favorable than the rates provided by/to Independent Third Parties, and are in the interests of the Company and the Shareholders as a whole. During the three years ended December 31, 2012 and the six months ended June 30, 2013, the interest rates on our entrustment loans to Sinopec Group ranged from 4.2% to 5.0% per annum (except for three very immaterial loans which were at 3.76% per annum). Based on a comparison of such interest rates against the yield of certain principal-guaranteed wealth management products currently available in the PRC market ranging from 3.2% to 3.7% per annum, the interest rates on our entrustment loans are generally higher than yield on principal-guaranteed wealth management products available in the PRC market. In addition, Sinopec Group and Sinopec Corp. issued several short term bonds during the six months ended June 30, 2013, which were generally for a period of 6 months or 9 months. The interest rates on such short term bonds ranged from 3.11% to 4.15% per annum except that the interest rate in respect of a short term bond issued by Sinopec Corp. in January 2012 was 4.38% per annum. Based on a comparison of the interest rates on entrustment loans and the interest rates on such short term bonds issued by Sinopec Group and Sinopec Corp., the interest rates on entrustment loans are generally higher than the interest rates on short term bonds issued by Sinopec Group and Sinopec Corp.

Taking into account (i) that the interest rates on our entrustment loans are higher than yield on principal-guaranteed investment products available in the open market; (ii) Sinopec Group's strong credit rating and clean repayment history; (iii) the potential significant drain on our time and resources to seek alternative borrowers and a lack of comparable alternative investment options compatible with our needs; and (iv) that we can early terminate our entrustment loans at our option (in which case the current deposit interest rate will apply), we consider that the provision of entrustment loans to Sinopec Group is in the interests of the Company and our Shareholders as a whole.

LETTER FROM THE BOARD

Internal Control and Corporate Governance Measures

Although there is no limit on the percentage of our total liquid and/or surplus funds to be deposited with the Sinopec Finance Companies or loaned to Sinopec Group, we consider that for the reasons explained above, such policy is in the interests of the Shareholders as a whole. In addition, the Board has considered the risks (such as the possible material adverse change in the financial conditions of the Sinopec Finance Companies) in association with the use of the services provided by Sinopec Finance and Sinopec Century Bright under the Financial Services Framework Agreement instead of the same services provided by independent commercial banks. We have further adopted (i) an independent financial system; (ii) risk management measures; (iii) internal control measures; and (iv) corporate governance measures with respect to the transactions (including the pricing mechanism) under the Financial Services Framework Agreement in order to further safeguard the interests the Independent Shareholders. The relevant measures include, but not limited to, the following:

- The Sinopec Finance Companies and Sinopec Group will provide sufficient information including various financial indicators (as well as annual and interim financial statements) at the end of every quarter to enable us to monitor and review the financial condition of the Sinopec Finance Companies and Sinopec Group.
- We will, from time to time at our sole discretion, request for the deposits with the Sinopec Finance Companies and the entrustment loans through Sinopec Finance to Sinopec Group to be withdrawn or early terminated (either in full or in part) to assess and ensure the liquidity and safety of its deposits and entrustment loans.
- Sinopec Group has undertaken, unconditionally and irrevocably, that it shall provide capital injection to Sinopec Finance in case of any payment difficulties arising from its operations. Such undertaking provides indemnification for our deposits with Sinopec Finance under the Financial Services Framework Agreement.
- We have adopted a Cash Management Policy (資金管理辦法) and an Internal Bank Management Policy (內部銀行管理辦法). Such policies provide that our cash should be centrally managed in order to maximize the benefits of a cash pool. Our finance department is responsible for administering the Cash Management Policy. When providing entrustment loans to connected persons (whether through Sinopec Finance or otherwise), we will consider the interest rate, service fees, term and use of loan and creditworthiness of the ultimate borrower based on principles of maximum return, cost control and risk control. The entrustment loan agreements (setting out interest rate, service fees, term and use of loan) are first approved by our finance department, then our Chief Financial Officer and ultimately by the Chairman of the Company.
- The Company's management will prepare risk assessment reports of the funds deposited with the Sinopec Finance Companies and entrustment loans to Sinopec Group every quarter which will be submitted to the Board for consideration.

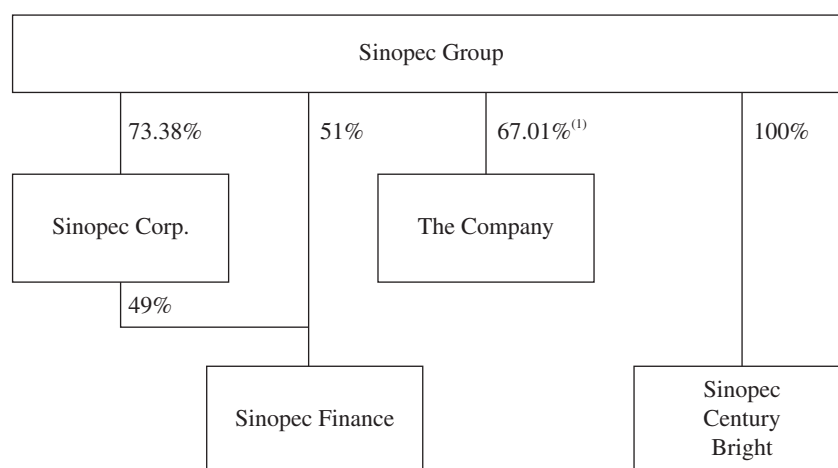
LETTER FROM THE BOARD

- The independent non-executive Directors will independently scrutinize the implementation and enforcement of the transactions (including the pricing mechanism) under the Financial Services Framework Agreement. Only independent non-executive Directors may vote in respect of matters under the Financial Services Framework Agreement.
- Before entering into any transactions under the Financial Services Framework Agreement with the Sinopec Finance Companies, the Company will obtain at least three quotes from independent financial institutions for similar services of the same term. The Company will compare such quotes with those offered by the Sinopec Finance Companies, and decide whether to accept the offer from the Sinopec Finance Companies.
- In the event that there is any change in the fees or interest rates for the services provided by the Sinopec Finance Companies to the Group under the Financial Services Framework Agreement, the Sinopec Finance Companies are required to notify the Company of (i) such change in the fees or interest rates; and (ii) the pricing information for the similar services provided by the Sinopec Finance Companies to other members of Sinopec Group. The relevant internal audit personnel of the Company will then check the aforementioned information to ensure that such revised fees or interests rates are not less favorable than the fees or interests rates offered by the Sinopec Finance Companies to the other subsidiaries or member entities of Sinopec Group for similar services.

For further details of our internal control and corporate governance measures, please refer to the section headed “Connected Transactions” of the Prospectus.

5. Implications under the Hong Kong Listing Rules

The following diagram sets out the shareholding relationship among Sinopec Group, Sinopec Finance, Sinopec Century Bright and the Company as of the date of this circular.



Note:

- (1) Sinopec Group directly and/or indirectly holds 2,967,200,000 Domestic Shares (including 59,344,000 Domestic Shares held by its wholly-owned subsidiary, SAMC), representing 67.01% of the total issued share capital of the Company.

LETTER FROM THE BOARD

As shown above, Sinopec Group holds more than 10% of the Company's issued share capital and is therefore a Substantial Shareholder. Under Rules 14A.11(1) and (4) of the Hong Kong Listing Rules, Sinopec Group and its associates (including Sinopec Century Bright and Sinopec Finance) are connected persons of the Company. Accordingly, the transactions under the Financial Services Framework Agreement between the Group and Sinopec Group and/or its associates constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

The transactions under the Financial Services Framework Agreement are entered into during the ordinary course of business on normal commercial terms where, as the Directors currently expect, each of the applicable "percentage ratios" (except for the profit ratio) calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules will exceed 5% on an annual basis and the annual consideration will exceed HK\$10,000,000. Under Rules 14A.34 and 14A.35 of the Hong Kong Listing Rules, such transactions will constitute our non-exempt continuing connected transactions, and are subject to the requirements of reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

6. Approval by the Board and Independent Shareholders

On August 16, 2013, the Company held the 8th meeting of the first session of the Board. Each of our Directors, Cai Xiyu, Zhang Kehua, Lei Dianwu, Ling Yiqun and Chang Zhenyong, is considered to have a conflict of interest in the transactions under the Financial Services Framework Agreement due to their directorship, senior management positions or being the head of department in Sinopec Corp. They abstained from voting on the proposal on the Proposed Annual Caps. Save as disclosed above, none of our Directors has any material interest in the transactions under the Financial Services Framework Agreement. Our independent non-executive Directors, Hui Chiu Chung, Stephen, Jin Yong and Ye Zheng, reviewed and approved the proposal on the Proposed Annual Caps. They are of the view that (i) the Financial Services Framework Agreement and the continuing connected transactions thereunder are conducted in the ordinary and usual course of business of the Company and on normal commercial terms; and (ii) such continuing connected transactions and the Proposed Annual Caps are fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

According to the requirements of the Hong Kong Listing Rules, the Independent Board Committee has been formed and will advise the Independent Shareholders in respect of the fairness and the reasonableness of the continuing connected transactions under the Financial Services Framework Agreement (including the Proposed Annual Caps), and whether such transactions are in the interests of the Company and the Shareholders as a whole. Furthermore, the Independent Board Committee will advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no member of the Independent Board Committee has any material interest in the continuing connected transactions under the Financial Services Framework Agreement.

ABCI, the Independent Financial Adviser, has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of, among other things, the fairness and

LETTER FROM THE BOARD

reasonableness of the continuing connected transactions under the Financial Services Framework Agreement and the Proposed Annual Caps, whether such transactions are conducted in the ordinary and usual course of business of the Company and on normal commercial terms, and whether such transactions are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote.

The Company will convene the EGM for the Independent Shareholders to consider and approve (if think fit), among other things, the continuing connected transactions under the Financial Services Framework Agreement and the Proposed Annual Caps. Sinopec Group and its associates will abstain from voting at the EGM in respect of the ordinary resolutions to approve the above matters.

7. General Information

The Company

The Company is a leading oil refining, petrochemical and new coal chemical engineering company in the PRC. With a team of high-caliber professionals, comprehensive technologies and extensive experience in oil refining and chemical engineering, we provide a variety of services including licensing, engineering, consulting, EPC contracting, construction and equipment manufacturing to clients in a broad range of industries including oil refining, petrochemicals, new coal chemicals, inorganic chemicals, pharmaceutical chemicals, clean energy, storage and transportation, environmental engineering and utilities.

Sinopec Group

Sinopec Group is an investment institution authorized by the State and a state-owned company and established in July 1998. Sinopec Group is the largest integrated oil and petrochemical enterprise in the PRC and is one of the largest integrated oil and petrochemical enterprises in the world in terms of operating revenue. Sinopec Group (other than the Group) principally engages in businesses including: (i) exploration, development, production and trading of oil and gas; (ii) oil processing, production, trading, transportation, distribution and marketing of oil products; (iii) production, distribution and trading of petrochemical and other chemical products; (iv) oil engineering; (v) utilities services and social services such as water and electricity; and (vi) international trading, R&D as well as manufacturing of chemical fiber, fertilizer and polyester related equipment.

Sinopec Finance

Sinopec Finance is a non-banking financial institution incorporated in the PRC in 1988 and is subject to the *Administrative Measures on Finance Companies within Group Enterprises* (《企業集團財務公司管理辦法》) and other relevant regulations promulgated by the PBOC and CBRC. Sinopec Finance is 51% owned by Sinopec Group and 49% owned by Sinopec Corp. The establishment of such non-banking financial institutions is subject to approval by the CBRC and its operation is subject to the ongoing supervision of the CBRC. Non-banking financial institutions shall comply with applicable regulations relating to interests rates issued by the PBOC and CBRC.

LETTER FROM THE BOARD

In the PRC, finance companies within group enterprises are only permitted under applicable PRC laws and regulations to provide financial services to enterprises within the same parent group. Therefore, Sinopec Finance only provides financial services to members of the Sinopec Group, including us.

As a non-banking financial institution, Sinopec Finance is subject to various regulatory and capital adequacy requirements, including capital adequacy ratios, loan-to-deposit ratios, limit on interbank loans and deposit reserve thresholds. The CBRC issued a regulatory guideline《企業集團財務公司管理辦法》in July 2004 (and as amended in December 2006) (the “CBRC Guideline”) with respect to the establishment and ongoing regulation of such non-banking financial institutions. The CBRC Guideline provided, among other things, that *“when applying for establishment of a finance company, the board of directors of the parent company shall undertake in writing that, if, in an emergency, the finance company faces difficulties in meeting its payment obligations, the parent company will increase the capital of the finance company as required to solve such payment difficulties. Such undertaking shall be contained in the articles of association of the finance company.”* Sinopec Group provided such undertaking to the CBRC on December 18, 2004 (the “Parent Undertaking”). The Parent Undertaking provides that, pursuant to the CBRC Guideline, Sinopec Group undertakes that if, in an emergency, Sinopec Finance faces difficulties in meeting its payment obligations, it will increase the capital of Sinopec Finance as required to solve such payment difficulties.

As of December 31, 2012, Sinopec Finance had total assets of RMB124.5 billion, shareholders’ equity of RMB15.8 billion, registered capital of RMB10 billion and a capital adequacy ratio of 26.84%. Based on the unaudited accounts of Sinopec Finance, as of June 30, 2013, Sinopec Finance had total assets of RMB119.8 billion, shareholders’ equity of RMB15.9 billion, registered capital of RMB10 billion and a capital adequacy ratio of 24.28%. In addition, with respect to bonds issued by Sinopec Finance in 2009, China Lianhe Credit Rating Co., Ltd. confirmed in July 2013 that it will maintain a credit rating of AAA on the bonds, with a stable outlook.

As of the Latest Practicable Date, the business scope of Sinopec Finance as set out in its business license includes: (i) providing financial and financing consultancy, credit certification and related consultancy and agency services to members of the group; (ii) assisting members of the group in settlement; (iii) providing guarantees to members of the group; (iv) providing entrustment loan and entrusted investment services; (v) providing bill acceptance and discount services to members of the group; (vi) processing the settlement of internal transfers between accounts and providing solution plans for relevant settlement and clearing; (vii) taking deposits from members of the group; (viii) providing loan and finance leases to members of the group; (ix) conducting inter-borrowings among finance companies; (x) issuing corporate bonds of finance companies upon approval; (xi) underwriting the corporate bonds issued by members of the group; (xii) making equity investments in financial institutions; (xiii) making investments in negotiable securities; (xiv) providing consumer credits, buyers’ credits and finance lease services to products of members of the group; and (xv) approved insurance agency services.

LETTER FROM THE BOARD

Sinopec Century Bright

Sinopec Century Bright is a company incorporated in Hong Kong with limited liability. It is licensed under the Money Lenders Ordinance (Cap. 163 of the Laws of Hong Kong). It is approved by the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局) as an offshore settlement center for centralized cash management for members of the Sinopec Group in year 2007. As of December 31, 2012, Sinopec Century Bright had total assets of US\$23.95 billion and net assets of US\$1.93 billion. Based on the unaudited accounts of Sinopec Century Bright, as of June 30, 2013, Sinopec Century Bright had total assets of US\$33.88 billion and net assets of US\$2.00 billion. In addition, in March 2013, Sinopec Century Bright obtained an A1 rating from Moody's with a stable outlook and an A long-term corporate credit rating with a stable outlook and an A-1 short-term credit rating from Standard & Poor.

Sinopec Century Bright only provides financial services to members of the Sinopec Group (including us). Sinopec Century Bright is used as an interim/short term deposit platform by us particularly to settle trade payables and receivables in respect of overseas projects.

III PROPOSED AMENDMENTS TO THE ARTICLES

1. Reasons for the Proposed Amendments to the Articles ("Proposed Articles Amendments")

According to the resolution proposed in the sixth meeting of the first session of the Board, the Company's distributable profits in the form of cash each year shall be no less than 30% of the profits available for distribution of the year since 2013, and the Articles shall be amended on a timely basis, which incorporates the relevant contents of such profits distribution policy. In order to provide a better return to the Shareholders, maintaining the continuity and stability of the profits distribution policy and improving the transparency of profits distribution policy of the Company, the Company proposes to amend the contents in respect of the profits distribution policy set out in the Articles. In addition, after the issuing and listing of the H shares, the registered capital and share capital structure of the Company were changed accordingly. The Company is proposing to amend the registered capital and the terms of share capital structure set out in the Articles concurrently. The amended Articles shall become effective after consideration and approval in the EGM.

2. Details of the Proposed Articles Amendments

(1) *The Company proposes to amend Article 17.*

The current Article 17:

The Company, with the approval of China Securities Regulatory Commission dated [●], issued to Foreign Investors [●] Overseas-Listed Foreign-Invested Shares (out of these, [●] shares were newly issued shares of the Company. The promoters transferred [●] shares of the Company they held to the National Council for Social Security Fund, which were converted into Overseas-Listed Foreign-Invested Shares), which were listed on the Hong Kong Stock Exchange on [●].

LETTER FROM THE BOARD

The existing structure of the Company's share capital is as follows: all shares are ordinary shares with [●] shares in total, out of these, [●] shares representing [●]% of the total number of issued ordinary shares of the Company are held by the promoter, China Petrochemical Corporation; [●] shares representing [●]% of the total number of issued ordinary shares of the Company are held by Sinopec Assets Management Co., Ltd.; [●] shares representing [●]% of the total number of issued ordinary shares of the Company are held by holders of Overseas-Listed Foreign-Invested Shares.

is hereby proposed to be amended as follows:

The Company, with the approval of China Securities Regulatory Commission dated 21 March 2013, issued to Foreign Investors 1,460,800,000 Overseas-Listed Foreign-Invested Shares (out of these, 1,328,000,000 shares were newly issued shares of the Company. The promoters transferred 132,800,000 shares of the Company they held to the National Council for Social Security Fund, which were converted into Overseas-Listed Foreign-Invested Shares), which were listed on the Hong Kong Stock Exchange on 23 May 2013.

The existing structure of the Company's share capital is as follows: all shares are ordinary shares with 4,428,000,000 shares in total, out of these, 2,907,856,000 shares representing 65.67% of the total number of issued ordinary shares of the Company are held by the promoter, China Petrochemical Corporation; 59,344,000 shares representing 1.34% of the total number of issued ordinary shares of the Company are held by Sinopec Assets Management Co., Ltd.; 1,460,800,000 shares representing 32.99% of the total number of issued ordinary shares of the Company are held by holders of Overseas-Listed Foreign-Invested Shares.

(2) *The Company proposes to amend Article 20.*

The current Article 20:

The registered capital of the Company is RMB3,100,000,000.

is hereby proposed to be amended as follows:

The registered capital of the Company is RMB4,428,000,000.

(3) *The Company proposes to amend Article 168.*

The current Article 168:

The Company may distribute dividends in the form of:

- (i) cash;
- (ii) shares;

LETTER FROM THE BOARD

- (iii) other means provided by laws, administrative rules, regulations of competent authorities and regulatory provisions in the place where the Company's shares are listed.

is hereby proposed to be amended as follows:

Profits distribution

- (i) The Company shall comply with the requirements of relevant laws and regulations of the Company Law, which highly values the reasonable investment return to investors, and guarantees the continuity and stability of the profits distribution policy of the Company.
- (ii) The Company may distribute dividends in the following manner: cash, shares, or other means permitted by laws, administrative rules, regulations of competent authorities and regulatory provisions in the place where the Company's shares are listed.
- (iii) The Company's distributable profits in the form of cash each year shall be no less than 30% of the net profits attributable to the Company's shareholders in the year, under the circumstances that there are net profits attributable to the Company's shareholders and accumulated undistributable profits, and that the Company's investment plan and cash expenses can be satisfied. In case of force majeure such as war and natural disasters, or changes to the Company's external operating environment which results in a material impact on its production and business, or relatively significant changes to the Company's asset, business or financial position, the Company may adjust the aforementioned profits distribution ratio.
- (iv) The profits of the Company can be distributed twice a year. The final profits shall be determined by ordinary resolution at the general meeting, while the interim profits can be determined by the Board as authorized by the ordinary resolution obtained at the general meeting. Except otherwise specified in laws and administrative rules, the half-year distributable dividends shall not exceed 50% of the current net profits of the Company for the relevant half-year.

IV PROPOSED APPOINTMENT OF DOMESTIC AUDITOR AND INTERNATIONAL AUDITOR OF THE COMPANY FOR 2013 AND AUTHORIZATION TO THE BOARD TO FIX THEIR REMUNERATION FOR 2013

Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited are proposed to be appointed as the domestic auditor and the international auditor of the Company, respectively, to hold office until the conclusion of the next annual general meeting of the Company and it is proposed that the Board be authorized to fix their remuneration for the year 2013.

LETTER FROM THE BOARD

V PROPOSED 2013 INTERIM DIVIDEND DISTRIBUTION PLAN

1. Proposed distribution of interim dividends

On 16 August, 2013, the Board proposed to distribute 2013 interim dividends to all Shareholders. In accordance with the Articles, the profits attributable to shareholders shall be the lower of the amounts calculated pursuant to the PRC Accounting Standards for Business Enterprises and the International Financial Reporting Standards. Based on the current net profits of the Company in the amount of RMB2.202 billion, being the lower amount calculated pursuant to the PRC Accounting Standards for Business Enterprises and net of the statutory surplus reserve in the amount of RMB22.02 billion, the total amount of the net profit of the Company attributable to shareholders for the period from January 2013 to June 2013 shall be RMB1.982 billion. After due consideration of return to shareholders as well as the long-term interests of the Company, the aggregate amount of the 2013 interim dividends distributed by the Company in cash shall be approximately RMB0.593 billion. The distribution of the interim dividends shall be based on 4,428,000,000 Shares, being the total share capital of the Company as of June 30, 2013. The 2013 interim dividends (the “Interim Dividend”) shall be distributed to all Shareholders on the basis of RMB0.134 per share (inclusive of applicable taxes). The payment of Interim Dividend is subject to the Shareholders’ approval at the EGM.

The interim dividend will be paid on Wednesday, December 18, 2013 to those shareholders whose names appear on the register of members of the Company at the close of business on Monday, November 11, 2013 (the “Record Date”). In order to qualify for the Interim Dividend, the H Shareholders must lodge all share certificates accompanied by the transfer documents with Computershare Hong Kong Investor Services Ltd. (address: Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong) before 4:30 p.m. on Tuesday, November 5, 2013. The H Share register of members will be closed from Wednesday, November 6, 2013 to Monday, November 11, 2013 (both days inclusive).

The dividends will be denominated and declared in RMB, the holders of Domestic Shares will be paid in RMB and the holders of foreign shares will be paid in Hong Kong dollars. The exchange rate for the dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to RMB as announced by the PBOC during the week prior to the date of declaration of dividend.

2. Taxation

In accordance with the Enterprise Income Tax Law of the People’s Republic of China (中華人民共和國企業所得稅法) and its implementation regulations which came into effect on January 1, 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of members for H Shares when distributing the cash dividends. Any H Shares registered not under the name of an individual shareholder, including HKSCC Nominees Limited, other nominees, agents or trustees, or other organizations or groups, shall be deemed as shares held by non-resident enterprise shareholders. Therefore, on this basis, enterprise income tax shall be withheld from dividends payable to such shareholders. If holders of H Shares intend to change its shareholder status, please enquire about the

LETTER FROM THE BOARD

relevant procedures with your agents or trustees. The Company will strictly comply with the law or the requirements of the relevant government authority and withhold and pay enterprise income tax on behalf of the relevant shareholders based on the register of members for H Shares as at the Record Date.

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

The Company will appoint a receiving agent in Hong Kong (the “Receiving Agent”) and will pay to such Receiving Agent the Interim Dividend (after relevant deductions, if applicable) declared for payment to holders of H shares. The Interim Dividend will be paid by the Receiving Agent on or before Wednesday, December 18, 2013. The cheques will be dispatched to holders of H Shares by ordinary post at their own risk.

VI PROPOSED 2013 BUSINESS OPERATION PLAN, INVESTMENT PLAN AND FINANCIAL BUDGET PLAN

1. Details of 2013 business operation plan, investment plan and financial budget plan

In order to achieve resources coordination allocation and highlight the overall predominance of the Group, the Company scientifically plans its 2013 production, business and investment plans; formulates the annual targets, protective measures and management responsibility according to the guidelines of “Integrated Management, Management and Control at the Group Level”. 2013 business operation plan, investment plan and financial budget plan of the Company are set out below:

(1) *Business operation plan*

According to the development target of the Company and taking into account the completion of annual operation results and indicators in 2012, it is proposed that the 2013 business operation of the Company should be based on maintaining its market advantages in

LETTER FROM THE BOARD

traditional industries, including oil refining and chemical industries. In the meantime, the Company should strive to develop domestic coal chemical markets and increase efforts to develop overseas markets. The target of the 2013 annual business operation plan is to realize new signed contracts values of RMB54.3 billion.

(2) *Investment plan*

According to 2013 proposed investment plans prepared by various subsidiaries of the Company, after optimization and balance, the 2013 investment amounts of the Company is proposed to be RMB1 billion, primarily for the purposes of the construction of production base, the purchase of large construction equipment, information construction, etc..

(3) *Financial Budget Plan*

Targets of cost control: Management expenses at RMB1.48 billion; Selling expenses at RMB0.96 million.

VII RECOMMENDATION

Continuing Connected Transactions under the Financial Services Framework Agreement and the Proposed Annual Caps

The Directors (including all independent non-executive Directors) consider that (i) the Financial Services Framework Agreement and the continuing connected transactions thereunder are conducted in the ordinary and usual course of business of the Company and on normal commercial terms; and (ii) such continuing connected transactions and the Proposed Annual Caps are fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Your attention is drawn to the letter from the Independent Board Committee and the letter from ABCI to the Independent Board Committee which are set out on page 27 and pages 28 to 42 of this circular, respectively. The Independent Board Committee, having taken into account the advice of ABCI, considers that (i) the Financial Services Framework Agreement and the continuing connected transactions thereunder are conducted in the ordinary and usual course of business of the Company and on normal commercial terms; and (ii) such continuing connected transactions and the Proposed Annual Caps are fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Other Proposed Matters

The Directors (including all independent non-executive Directors) consider that the resolutions in relation to (i) the proposal on the Proposed Articles Amendments; (ii) the proposed appointment of Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as the domestic auditor and the international auditor of the Company, respectively, to hold office until the conclusion of the next annual general meeting of the Company and the authorization to the Board to fix their remuneration for the year 2013; (iii) the proposed 2013 interim dividend distribution plan; and (iv)

LETTER FROM THE BOARD

the proposed 2013 business operation plan, investment plan and financial budget plan are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of such resolutions to be proposed at the EGM as set out in the notice of the EGM.

VIII ADDITIONAL INFORMATION

Your attention is drawn to the general information set out in the Appendix of this circular.

Yours faithfully,
By order of the Board
SINOPEC ENGINEERING (GROUP) CO., LTD.
Sang Jinghua
Secretary to the Board and Company Secretary

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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

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

September 10, 2013

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS UNDER
THE FINANCIAL SERVICES FRAMEWORK AGREEMENT**

We refer to the circular of the Company dated September 10, 2013 (the “**Circular**”) despatched to the Shareholders of which this letter forms part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed to advise the Independent Shareholders whether the terms of the Financial Services Framework Agreement and the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. ABCI has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether (i) the continuing connected transactions under the Financial Services Framework Agreement are entered into on normal commercial terms or terms no less favorable to the Company than those with independent third parties, in the ordinary and usual course of business, and the terms of such transactions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole; and (ii) the Proposed Annual Caps are reasonably determined, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

We wish to draw your attention to the letter from the Board as set out on pages 5 to 26 of the Circular and the letter from ABCI as set out on pages 28 to 42 of the Circular.

Having considered the advice given by ABCI, we are of the opinion that (i) the Financial Services Framework Agreement and the continuing connected transactions thereunder are conducted in the ordinary and usual course of business of the Company and on normal commercial terms; and (ii) such continuing connected transactions and the Proposed Annual Caps are fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM.

Yours faithfully,
For and on behalf of the Independent Board Committee
Hui Chiu Chung, Stephen Jin Yong Ye Zheng
Independent Non-Executive Directors

** For identification purposes only.*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice dated September 10, 2013 from ABCI prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Financial Services Framework Agreement and the Proposed Annual Caps.



September 10, 2013

*To the Independent Board Committee and the Independent Shareholders of
SINOPEC Engineering (Group) Co., Ltd.*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders in respect of the provision of financial services by Sinopec Finance Co., Ltd. ("Sinopec Finance") and Sinopec Century Bright Capital Investment Limited ("Sinopec Century Bright") (together the "Sinopec Finance Companies") to SINOPEC Engineering (Group) Co., Ltd. ("SEG" or the "Company") contemplated under the Financial Services Framework Agreement (as defined below) (the "Continuing Connected Transactions") and the relevant proposed annual caps for the two years ending December 31, 2014 and 2015 (the "Proposed Annual Caps"), details of which are set out in the Letter from the Board contained in the circular of the Company dated September 10, 2013 (the "Circular") of which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter shall have the same meanings as those defined in the Circular.

On August 16, 2013, the Board reviewed and approved the proposal on the Proposed Annual Caps. Sinopec Group, being the Controlling Shareholder of the Company, is a connected person of SEG under the Hong Kong Listing Rules. The Sinopec Finance Companies are subsidiaries of Sinopec Group and hence the transactions contemplated under the Financial Services Framework Agreement constitute continuing connected transactions of SEG under Chapter 14A of the Hong Kong Listing Rules. As the applicable percentage ratios in respect of the Proposed Annual Caps exceed 5%, the Continuing Connected Transactions are subject to reporting, announcement and Independent Shareholders' approval requirements of the Hong Kong Listing Rules. Sinopec Group and its associates will abstain from voting at the EGM on the resolutions approving the Continuing Connected Transactions and the Proposed Annual Caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has been established to advise the Independent Shareholders as to the terms of the Financial Services Framework Agreement and the Proposed Annual Caps. We, ABCI Capital Limited (“ABCI” or “we”), have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether (i) the Continuing Connected Transactions are entered into on normal commercial terms or terms no less favorable to the Company than those with independent third parties, in the ordinary and usual course of business, and the terms of such transactions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole; and (ii) the Proposed Annual Caps are reasonably determined, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

ABCI is a licensed corporation to carry out regulated activities of dealing in securities and advising on corporate finance under the SFO.

BASIS OF OUR OPINION

In formulating our advice and recommendations, we have relied on the accuracy of the information and facts supplied, and the opinions expressed by the Company, its Directors and its management to us. We have assumed that all statements of belief and intention made by the Directors and the management of the Company were made after due enquiry. We have also assumed that all information, representations and opinion made were true, accurate and complete at the time they were made and continued to be true at the date of the Circular and will remain so up to the time of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, its Directors and its management, and we have been advised by the Directors and the management of the Company that no material facts have been omitted from the information provided.

We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information provided to us by the Company, its Directors and its management and to provide a reasonable basis for our recommendation. We have not, however, conducted in-depth investigation into the business affairs, financial position or future prospects of the Group, Sinopec Group and the Sinopec Finance Companies, nor carried out independent verification of the information supplied, representations made or opinions expressed by the Company, its Directors and its management. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. We have no obligation to update, revise or reaffirm this opinion to take into account subsequent developments (including any material change in market and economic conditions) after the date that this opinion is delivered to the Independent Board Committee and the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendations regarding the Continuing Connected Transactions and the Proposed Annual Caps, we have considered the principal factors and reasons set out below. In reaching our conclusion, we have considered the results of the analysis in light of each other and ultimately reached our opinion based on the results of all analysis taken as a whole.

1. Background to the Financial Services Framework Agreement

1.1 Background of the Continuing Connected Transactions

As disclosed in the Prospectus, the Company entered into a financial services framework agreement with Sinopec Group on December 19, 2012 as amended by a supplemental agreement on April 22, 2013 (the “Financial Services Framework Agreement”), pursuant to which, the Sinopec Finance Companies agree to provide financial services to the Company. At the time of its listing, the Hong Kong Stock Exchange has granted an interim waiver to the Company in respect of the Continuing Connected Transactions from strict compliance with the announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules expiring on December 31, 2013. The Company is required under the interim waiver to submit the Continuing Connected Transactions and the Proposed Annual Caps to the Independent Shareholders for approval within six months of the Listing Date. The Company intends to continue the Continuing Connected Transactions after the waiver expired and comply with the continuing connected transaction requirements under Chapter 14A of the Hong Kong Listing Rules. Therefore, the Company submits the Continuing Connected Transactions and the Proposed Annual Caps to the Independent Shareholders for approval.

1.2 Background information of the Company

The Company is the leading oil refining, petrochemical and new coal chemical engineering company in the PRC. It is principally engaged in (i) provision of engineering, consulting and licensing services; (ii) provision of engineering, procurement and construction services; (iii) construction contracting and specialized construction services; and (iv) manufacturing and supplying of large static equipment used in oil refineries and chemical plants.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is a summary of certain selected financial information and ratios of the Company for each of the three years ended December 31, 2012, as extracted from the Prospectus and the Company's 2013 interim report:

	For the year ended December 31/ As at December 31			For the six months ended June 30/As at June 30
	2010	2011	2012	2013
	RMB'000 audited	RMB'000 audited	RMB'000 audited	RMB'000 audited
Operating profit	3,338,083	3,724,592	3,832,023	2,821,410
Finance income	465,390	671,856	525,965	159,441
Finance expenses	(145,918)	(143,293)	(121,300)	(54,703)
Finance income, net	319,472	528,563	404,665	104,738
Restricted cash	53,532	37,487	24,254	11,131
Time deposits	—	—	—	7,403,007
Cash and cash equivalents	5,922,638	5,575,335	4,822,490	7,137,276
Total cash balance	5,976,170	5,612,822	4,846,744	14,551,414
Gearing ratio (Note 1)	0.5%	1.8%	2.2%	Nil
Net debt to equity ratio (Note 2)	net cash	net cash	net cash	net cash
Net cash generated from/(used in) operating activities	4,253,262	1,688,845	1,556,489	(905,213)

Note:

- (1) Gearing ratio is calculated based on total debt divided by total equity at the end of the respective period.
- (2) Net debt to equity ratio is calculated based on net debt divided by total equity at the end of the respective period.

For the three years ended December 31, 2012 and the six months ended June 30, 2013, the Company's finance income mainly represents interest income from the Sinopec Finance Companies and bank interest income. Interest income from the Sinopec Finance Companies mainly comprises the interest income through the entrustment loan arrangement with Sinopec Finance. The Company's finance expenses mainly represent interest expenses on retirement and other supplementary benefit obligations. The Company's net finance income represents approximately 9.6%, 14.2%, 10.6% and 3.7% of the Company's operating profit for the year ended December 31, 2010, 2011 and 2012, and the six months ended June 30, 2013, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out above, the Company had maintained solid financial position with significant level of surplus funds at each of the three years ended December 31, 2012 and the six months ended June 30, 2013. Also, the Company had financed its business operation in the past primarily through stable cash inflow from its operating activities which reduced its financing cost and maintained a relatively low gearing ratio. Hence, the Directors consider the Company could utilizing its surplus funds more effectively through centralized treasury management.

1.3 *Background information of Sinopec Group*

Sinopec Group is an investment institution authorized by the State and a state-owned company and established in July 1998. Sinopec Group is the largest integrated oil and petrochemical enterprise in the PRC and is one of the largest integrated oil and petrochemical enterprises in the world in terms of operating revenue. Sinopec Group (other than the Group) principally engages in businesses including: (i) exploration, development, production and trading of oil and gas; (ii) oil processing, production, trading, transportation, distribution and marketing of oil products; (iii) production, distribution and trading of petrochemical and other chemical products; (iv) oil engineering; (v) utilities services and social services such as water and electricity; and (vi) international trading, R&D as well as manufacturing of chemical fiber, fertilizer and polyester related equipment.

1.4 *Background information of Sinopec Finance*

Sinopec Finance, being 51% and 49% owned by Sinopec Group and Sinopec Corp., respectively, is a non-banking financial institution incorporated in the PRC in 1988 and is permitted under applicable PRC laws and regulations to only provide financial services to Sinopec Group and its members.

In the PRC, the establishment of non-banking financial institution is subject to approval by the China Banking Regulatory Commission (“CBRC”) and it shall comply with applicable regulations relating to interest rates issued by the People’s Bank of China (“PBOC”) and CBRC. Sinopec Finance, as a non-banking financial institution, is subject to ongoing supervision of the CBRC; and various regulatory and capital adequacy requirements, including capital adequacy ratios, loan-to-deposit ratios, limit on interbank loans and deposit reserve thresholds. The CBRC issued the Administrative Measures on Finance Companies within Group Enterprises (《企業集團財務公司管理辦法》) in July 2004 (and as amended in December 2006) (the “CBRC Guideline”) with respect to the establishment and ongoing regulation of such non-banking financial institutions. Pursuant to the CBRC Guideline, Sinopec Group provided an undertaking to the CBRC that Sinopec Group will, when Sinopec Finance facing difficulties in meeting its payment obligations, increase its capital as required to solve such payment difficulties.

As at December 31, 2012 and June 30, 2013, Sinopec Finance had total assets of approximately RMB124.5 billion and RMB119.8 billion, respectively, shareholders’ equity of approximately RMB15.8 billion and RMB15.9 billion, respectively, registered capital of RMB10 billion and RMB10 billion, respectively and a capital adequacy ratio of approximately 26.8% and 24.3%, respectively. With respect to bonds issued by Sinopec Finance in 2009 in the PRC, China Lianhe Credit Rating Co., Ltd. confirmed in July 2013 that it will maintain a credit rating of AAA on the bonds, with a stable outlook.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.5 *Background information of Sinopec Century Bright*

Sinopec Century Bright is a company incorporated in Hong Kong and licensed with limited liability under the Money Lenders Ordinance (Cap. 163 of the Laws of Hong Kong). In 2007, Sinopec Century Bright was approved by the State Administration of Foreign Exchange of the PRC (“SAFE”) as an offshore settlement center for centralized cash management for members of Sinopec Group. Sinopec Century Bright only provides financial services to Sinopec Group and its members. It is used by the Company as an interim/short term deposit platform particularly to settle trade payables and receivables in respect of overseas projects.

As at December 31, 2012 and June 30, 2013, Sinopec Century Bright had total assets of approximately US\$24.0 billion and US\$33.9 billion, respectively, and net assets of approximately US\$1.9 billion and US\$2.0 billion, respectively. In March 2013, Moody’s assigned Sinopec Century Bright an A1 issuer rating with a stable outlook; while Standard and Poor assigned an A long-term corporate credit rating with a stable outlook and an A-1 short-term credit rating.

2. **Principal terms of the Financial Services Framework Agreement**

Set out below are the major terms of the Financial Services Framework Agreement:

2.1 *Term*

The Financial Services Framework Agreement is valid for a term of three years commencing on May 23, 2013, being the Listing Date.

2.2 *Nature of services*

Pursuant to the Financial Services Framework Agreement, the Sinopec Finance Companies will provide financial services to the Company, including deposits, loans, entrustment loans, settlement services, financial and financing consulting, credit certification, insurance agency, exchange settlement, bond underwriting, foreign exchange business, and related consultancy and agency financial services. The Company enters into separate contracts with the Sinopec Finance Companies, which set out the specific terms and conditions according to the principles provided in the Financial Services Framework Agreement.

2.3 *Pricing policy*

The pricing of the services provided under the Financial Services Framework Agreement shall be determined in accordance with the following principles in ascending order:

- (1) government-prescribed price and government-guided price — if at any time, the government-prescribed price is applicable to any financial service, such service shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government-guided price;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (2) market price — the price of the same or similar services provided by an Independent Third Party during the ordinary course of business on normal commercial terms; and
- (3) agreed price — to be determined by adding a reasonable profit over a reasonable cost.

In addition to the above, the Financial Services Framework Agreement provides that the services shall be provided in accordance with the following pricing principles:

- (a) deposit services — the interest rate applicable to the Company's deposits with the Sinopec Finance Companies will not be lower than (i) the minimum interest rate published by the PBOC for deposits of a similar type for the same period (applicable to deposits with Sinopec Finance only); (ii) the interest rate for deposits of a similar type for the same period placed by other members of Sinopec Group; and (iii) the interest rate for deposits of a similar type for the same period offered by independent commercial banks to the Company;
- (b) entrustment loan services — the interest rates applicable to the Company's entrustment loans to Sinopec Group through Sinopec Finance shall be (i) on normal commercial terms; (ii) no less favorable than interest rates for comparable entrustment loans provided by other members of Sinopec Group to Sinopec Group through Sinopec Finance; and (iii) generally not lower than the loan interest rates for the same period published by the PBOC (taking into account any permissible downward adjustment); and
- (c) settlement, entrustment loans and other financial services — the service fees charged by the Sinopec Finance Companies shall not be higher than (i) fees charged by independent commercial banks or financial institutions; and (ii) fees charged to other members of Sinopec Group for similar services.

Regarding the entrustment loan services, we understand that the interest rate on entrustment loans is not regulated in the PRC. Hence, we have discussed with the management of the Company to understand the basis in determining the interest rates of the entrustment loans with Sinopec Group. The management of the Company advised that the Company generally uses the prevailing base deposit rate published by the PBOC as a reference point with an upward adjustment taking into account the amount and term of the entrustment loans. In addition, the Company will refer to the list of interest rates which specifies the range of interest rates for different entrustment loan amounts and terms. Such list has been agreed by Sinopec Group and the Board after arm's length negotiations and will be reviewed and renegotiated by the parties periodically. Based on such list, the Chief Financial Officer and finance department of the Company will decide the interest rates of the entrustment loan agreements to be entered into between Sinopec Group and the Company. The Company will also compare the interest rates of the entrustment loan determined based on the above against the loan interest rates for the same period published by the PBOC to ensure that interest rate of the entrustment loan is not lower than that published by the PBOC (taking into account any permissible downward adjustment).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that the pricing policy in respect of the deposit services and entrustment loan services stated above is beneficial to the Company and its Shareholders as a whole as it enables the Company to earn interest income from the Sinopec Finance Companies at interest rates that are no less favorable than the interest rates offered by independent commercial banks or interest rates offered by the Sinopec Finance Companies to other member of Sinopec Group. In addition, the settlement, entrustment loans and other financial service fee rates to be charged by the Sinopec Finance Companies are no less favorable than the fee rates charged by independent commercial banks or financial institutions for provision of similar services.

For the deposit services, we have obtained and reviewed certain internal records provided by the management of the Company, including the notices on the interest payment received from the Sinopec Finance Companies in 2013. For the entrustment loan services, we have obtained and reviewed certain entrustment loan agreements entered into between the Company and the Sinopec Finance Companies during the six months ended June 30, 2013. We have compared the interest rates of the entrustment loan agreements obtained by us against the loan interest rates published by the PBOC and note that such interest rates are higher than the loan interest rates for the same period published by the PBOC (taking into account of the permissible downward adjustment). Based on our review, we note that the Sinopec Finance Companies have followed the aforesaid policy to set the interest rates for the deposit and entrustment loan services.

We note that the PBOC recently announced, with effect from July 20, 2013, the removal of the lending floor rates (which was previously set at 70% of the loan interest rates published by the PBOC) offered by financial institutions. The financial institutions will independently determine the loan interest rates on a market basis when they lend to clients. In view of the above policy change, we have discussed with the management of the Company and understand that the Company will continue to refer to the list of the interest rates of the entrustment loans agreed between the Company and Sinopec Group in determining the interest rate of the entrustment loans. In addition, the Company will make reference to other comparable rates, such as the interest rates for bonds or loans available in the PRC market issued/provided by companies or financial institutions of credit ratings and risk profile similar to those of Sinopec Group or Sinopec Corp. when determining the interest rate of the entrustment loans.

We understand that there is no market standard rate for entrustment loans as the interest rate is determined through arm's length negotiations between the parties based on, among others, relative bargaining power, risk profile, security value. In order to assess the fairness and reasonableness of the interest rates of the entrustment loans to Sinopec Group, we have compared such interest rates against the yield of certain principal-guarantee wealth management products available in the PRC market. We consider that the yield of the principal-guaranteed wealth management products are fair and representative samples for comparison of the interest rates of the entrustment loan taking into account the creditworthiness and clean repayment history of Sinopec Group. We have obtained the entrustment loans agreements entered by the Company in July and August 2013 and compared such interest rates against certain principal-guaranteed wealth management products currently available in the PRC market issued by independent commercial banks and note that the interest rates on the entrustment loans to Sinopec Group are generally higher than the yield of such products for the same period.

Based on the above, we consider that the terms of the Financial Services Framework Agreement are on normal commercial terms and are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Reasons for and benefits of the transactions contemplated under the Financial Services Framework Agreement

3.1 *Reasons for utilizing deposit services from the Sinopec Finance Companies*

Clearing and settlement platform and centralized treasury management

Sinopec Group and its associates are the Company's single largest client which accounted for approximately 66.1%, 55.1% and 50.2% of the Company's total revenue for the three years ended December 31, 2012. Hence, the Company transacts with numerous subsidiaries/affiliated companies of Sinopec Group. In line with Sinopec Group's internal group policy, such subsidiaries/affiliated companies generally maintain settlement accounts with the Sinopec Finance Companies. The management of the Company advised that the centralized maintenance of deposits by the Company with the Sinopec Finance Companies will facilitate clearing with other members of Sinopec Group (some of whom are the Group's clients), reduce the time required for transit and turnaround of funds and is generally more administratively efficient than settlement through independent commercial banks. The Directors consider that it would not be efficient for Sinopec Group (and its affiliates) and the Company to separately maintain bank accounts with independent banks for clearing and settlement. In addition, the centralized deposit of funds with the Sinopec Finance Companies will provide the Company with access to a centralized cash pool (both onshore and offshore), giving the Company the flexibility to make timely withdrawals from time to time without any restriction to meet its funding needs and reduce the cost for the Company to obtain third party financing. The Company is also entitled to early terminate the term deposits (without penalty) placed with the Sinopec Finance Companies, in which case the current deposit interest rate will apply. In light of the above, the Directors consider that the utilization of deposit services from the Sinopec Finance Companies helps the Company to achieve a lower cost of funding and maximize cost and operational efficiencies.

Familiarity with the Company's business

As the Sinopec Finance Companies only provide financial services to Sinopec Group and its members, they have over the years acquired extensive knowledge, including the oil refining and chemical engineering industry. The Sinopec Finance Companies are familiar with the Company's capital structure, business operations, funding needs and cash flow pattern, which enables them to better anticipate the Company's business needs. As a result, the Directors consider that the Sinopec Finance Companies are well-positioned to provide the Company with bespoke and cost efficient services which would not be easy for independent commercial banks to replicate.

More flexible financial arrangement

The Company has the sole discretion to deposit and withdraw its deposits with the Sinopec Finance Companies from time to time without any restriction. There is no restriction on the Company to deposit its cash with independent commercial banks in or outside the PRC now or in the future should the Company so wish. As advised by the management of the Company, in order to meet its need such as the expansion of its overseas business and distribution of dividend, the Company currently maintains deposits with independent commercial banks in and outside the PRC and expects to continue to do so depending on its contractual and other requirements. Nonetheless, the Company chooses to deposit its cash with the Sinopec Finance Companies as it helps the Company with its relatively centralized treasury management.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3.2 *Reasons for utilizing entrustment loan services from the Sinopec Finance Companies*

Lack of comparable alternative investment options

As advised by the management of the Company, due to the Company's business nature, it receives significant amounts of prepayments from clients from time to time, which may not be immediately required for its operational needs. Such prepayments are in effect advance payments from its clients, which the Company will apply towards performance of the underlying contracts as appropriate and are only temporarily idle. Therefore, the Company needs to invest such surplus cash conservatively from time to time as it is an advance/deposit from its clients. Given its need to fund match within a relatively short time whilst maintaining flexibility to pay its trade payables from time to time, the management of the Company advised that it has explored alternative investment options in the open market but in view of the counterparty risk, the cost and time required for negotiations and the lack of flexibility, such alternatives are not reasonably available to the Company. Given its investment needs, there is a lack of comparable alternative investment options. The Directors consider that the provision of entrustment loans to Sinopec Group is a safe, cost efficient and flexible option for investing such cash surplus, which may not otherwise be available in the open market.

Credit rating of Sinopec Group

The borrower of the entrustment loans is Sinopec Group. Pursuant to the terms of the entrustment loans, Sinopec Group has the sole obligation to repay principal and interest. In 2012, Sinopec Group obtained an A+ long term corporate credit rating from Standard & Poor with a stable outlook and an Aa3 credit rating from Moody's. The Directors therefore consider that lending to Sinopec Group is a low risk investment option. As advised by the management of the Company, Sinopec Group has not defaulted under any of the entrustment loans provided by the Company for the three years ended December 31, 2012 and the six months ended June 30, 2013. Taking into account the creditworthiness of Sinopec Group and clean repayment history, the entrustment loans to Sinopec Group are generally unsecured. Therefore, the Directors consider that providing entrustment loans to Sinopec Group is a sound, low risk investment option due to the top-tier credit rating of Sinopec Group and clean repayment history, generating a higher return for the Company than deposits which would have been the only other investment option for the Company given the investment policy with respect to such funds.

Efficient and flexible cash management

Provision of entrustment loans to Sinopec Group will allow the Company to invest its surplus cash efficiently within a relatively short timeframe. As advised by the management of the Company, the entrustment loans to Sinopec Group generally do not exceed one year (the majority are for a period of one year or six months), enabling the Company to deploy its financial resources efficiently and flexibly. Upon the expiry of the entrustment loans, the Company will receive the principal amount and the interest payment in relation to such entrustment loans from Sinopec Finance. Any new loans to Sinopec Group will be subject to normal approval procedures in the usual way. Furthermore, whilst the Company has historically provided entrustment loans to Sinopec Group and expects to continue to do so in the future, the Company is not under any legal or other obligation to provide entrustment loans to Sinopec Group. Pursuant to the entrustment loan agreements, the Company is entitled to early terminate the loans (without penalty) at its option in which case current deposit interest rate will apply.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on our discussion with the management of the Company, the Board has considered the risks in association with the use of the services provided by the Sinopec Finance Companies under the Financial Services Framework Agreement instead of the same services provided by independent commercial banks such as the possible material adverse change in the financial conditions of the Sinopec Finance Companies. As the Company will place its surplus funds into the Sinopec Finance Companies, any material adverse change in financial conditions of the Sinopec Finance Companies would affect the its ability to repay the funds to the Company. We consider this risk is manageable taking into the account the internal control and risk management measures in place to safeguard the funds of the Company.

Taking into account the aforesaid reasons, in particular (i) the Company is able to have greater flexibility in managing its cash resources and facilitating the settlement process with other members of Sinopec Group by utilizing the financial services provided by the Sinopec Finance Companies; (ii) the Company could benefit from the deposit and entrustment loan services provided by the Sinopec Finance Companies at interest rates which are no less favorable than the interest rates for deposits or entrustment loans of similar nature and under similar terms offered by other independent commercial banks or financial institutions; (iii) the Company can mitigate the counterparty risk and default risk by providing the entrustment loans to Sinopec Group with sound credit rating and clean repayment history; (iv) the deposit services with the Sinopec Finance Companies provide the Company with an alternative but do not preclude the Company from using the services of other PRC or Hong Kong commercial banks; and (v) the Sinopec Finance Companies are regulated by the relevant authorities and, as depository services providers to the Company, their risk profile is not greater than that of independent commercial banks in the PRC or offshore, and the associated risks as a whole, we concur with the Directors' view that the transactions contemplated under the Financial Services Framework Agreement are in line with the interests of the Company and the Shareholders as a whole.

4. The Proposed Annual Caps

The table below sets out the historical amounts for the three years ended December 31, 2012 and the six months ended June 30, 2013, the existing annual cap for the year ending December 31, 2013 and the Proposed Annual Caps:

	<i>Historical Amounts</i>				<i>Existing Annual Cap</i>	<i>Proposed Annual Caps</i>	
	For the year ended December 31			For the six months ended June 30	For the year ending December 31		
<i>(RMB'000)</i>	2010	2011	2012	2013	2013	2014	2015
Maximum daily balance of deposits and interest income	4,690,000	4,720,000	4,500,000	2,402,000	5,500,000	6,500,000	7,500,000
Maximum daily balance of entrustment loans	15,000,000	17,460,000	14,700,000	9,100,000	11,000,000	14,000,000	17,000,000
Service fees in relation to settlement, entrustment loan and other financial services	25,420	35,510	46,746	9,837	25,600	31,850	37,900

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Letter from the Board, the Proposed Annual Caps are arrived at after considering, among others, (i) the historical amounts of the transactions contemplated under the Financial Services Framework Agreement; (ii) the expected business volume of the Group; (iii) the expected net cash inflow from the Group's operations; and (iv) the interest rates and fee rates offered for the deposits, entrustment loans and other financial services.

As per the historical amounts for the six months ended June 30, 2013 shown above, the utilization rate of the 2013 annual caps in respect of the deposit services, entrustment loans services and other financial services are 43.7%, 82.7% and 38.4%, respectively. Taking into account the above utilization rates and the Company's strategy to maintain its industry leading position in the PRC and actively expand its business overseas, the Directors consider the Proposed Annual Caps need to be increased moderately as compared with the 2013 annual caps in order to cope with the expected increase in the Group's business volume.

In addition, the management of the Company advised the Company's backlog has increased steadily in the past. Hence, it is expected that that the revenue to be recognized in 2014 and 2015 will increase accordingly, which in turn will increase the net cash inflow to be generated from its operations. As a result, the Proposed Annual Caps are determined to account for the potential increase in level of cash and cash equivalents and net cash inflow generated from its operation.

In assessing the reasonableness of Proposed Annual Caps, apart from discussion with the management of the Company, we have reviewed the breakdown of the historical transaction amounts of each type of financial services provided to the Company and financial information disclosed in the Prospectus and the Company's 2013 interim report. We also discussed with the management of the Company on the basis and assumptions and are given the understanding that the Proposed Annual Caps are closely related to the scale of its operations and operating cash flow in the next two years. In view of the fact that (i) the Company's business volume is expected to grow steadily with net cash inflow from its operations; (ii) the Proposed Annual Caps for maximum daily balance of entrustment loans and financial service fees fell within the range of historical amounts; and (iii) the increase in the Proposed Annual Caps will allow greater flexibility in asset allocations of the Company, we are of the view that the Proposed Annual Caps are fair and reasonable.

5. Internal control and risk management measures

The business activities and financial position of the Sinopec Finance Companies are subject to the ongoing supervision of the relevant authorities. In addition, as advised by the Directors, the Company, the Sinopec Finance Companies will adopt various internal control and risk management measures in relation to the Continuing Connected Transactions to be provided by the Sinopec Finance Companies in order to ensure protection of the interest of the Shareholders. The Sinopec Finance Companies have stringent internal control policies and risk management system formulated by Sinopec Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The relevant regulation, internal control and risk management measures include but not limited to the following:

- The establishment of Sinopec Finance as a non-bank financial institution was authorized by the CBRC, which carries out on-going stringent supervision over its business. Sinopec Finance is required to provide regulatory report to the CBRC on a monthly basis and under the supervision of the CBRC;
- Sinopec Century Bright is licensed under the Money Lenders Ordinance and governed by relevant regulatory bodies in Hong Kong. Besides, Sinopec Century Bright is approved by the SAFE as an offshore settlement center for centralized cash management for members of Sinopec Group;
- The Sinopec Finance Companies will provide sufficient information including various financial indicators (as well as annual and interim financial statements) quarterly to ensure the continuous monitoring of the financial condition of the Sinopec Finance Companies;
- The Sinopec Finance Companies are required to monitor the maximum daily balance of the deposits and entrustment loans (in the case of Sinopec Finance only) on a daily basis to ensure that the aggregate outstanding amounts do not exceed the applicable annual caps. For entrustment loan transactions, the Company will, before entering into any relevant loan transactions, ensure that the maximum daily balance of entrustment loans will not be exceeded;
- Pursuant to the undertaking given by Sinopec Group, in which Sinopec Group has undertaken, unconditionally and irrevocably, that it shall provide capital injection to Sinopec Finance in case of any payment difficulties arising from its operations;
- The Company adopts a Cash Management Policy (資金管理辦法) and an Internal Bank Management Policy (內部銀行管理辦法), which specify that the cash of the Company should be centrally managed. When providing entrustment loans to connected persons (whether through Sinopec Finance or otherwise), the Company will consider the interest rate, service fees, term and use of loan and creditworthiness of the ultimate borrower based on principles of maximum return, cost control and risk control. The entrustment loan agreements (setting out interest rate, service fees, term and use of loan) are first approved by the Finance Department, then the Chief Financial Officer and ultimately by the Chairman of the Company;
- The management of the Company will prepare risk assessment reports of the funds deposited with the Sinopec Finance Companies and entrustment loans to Sinopec Group every quarter which will be submitted to the Board for consideration; and
- The independent non-executive Directors will independently scrutinize the implementation and enforcement of the transactions under the Financial Services Framework Agreement. Only independent non-executive Directors may vote in respect of matters under the Financial Services Framework Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The aforesaid internal control and the risk management measures will be able to mitigate the financial risks involved in the Continuing Connected Transactions and safeguard the interests of the Company and Shareholders. The Directors consider that the above internal control and risk management measures are adequate and effective in monitoring the deposit and entrustment loan transactions contemplated under the Financial Services Framework Agreement in all material respects. We consider that the above internal control and risk management measures will allow the Group to monitor up-to-date information regarding the deposit and entrustment loan transactions contemplated under the Financial Services Framework Agreement and mitigate the Company's financial risk associated with the relevant transactions, which help ensure the interests of the Company and the Shareholders as a whole is safeguarded.

6. Annual review of the Continuing Connected Transactions

As discussed with the Company, the Company will comply with the annual review requirements of the Hong Kong Listing Rules, in particular:

- (a) each year the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report that the transactions have been entered into:
 - (1) in ordinary and usual course of business of the Company;
 - (2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Company than terms available to or from (as appropriate) independent third parties; and
 - (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- (b) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Hong Kong Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report), confirming that the Continuing Connected Transactions:
 - (1) have received the approval of the Board;
 - (2) are in accordance with the pricing policies of the Group;
 - (3) have been entered into in accordance with the relevant agreement governing the Continuing Connected Transactions; and
 - (4) have not exceeded the Proposed Annual Caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (c) the Company shall allow, and shall procure that the relevant counterparties to the Continuing Connected Transactions shall allow, the Company's auditors to have sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b); and
- (d) the Company shall promptly notify the Hong Kong Stock Exchange and publish an announcement in accordance with the Hong Kong Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or the auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and/or (b) respectively.

In light of the above, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and assist in safeguarding the interests of the Independent Shareholders.

RECOMMENDATIONS

Having taken into account the above factors and reasons, we are of the opinion that (i) the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Company and on normal commercial terms; and (ii) the Continuing Connected Transactions and the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Therefore, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the relevant resolution to approve the Continuing Connected Transaction and the Proposed Annual Caps at the EGM.

Yours faithfully,
For and on behalf of
ABCI Capital Limited

Kevin Ma
Managing Director and
Co-head of Investment Banking

Steve Wong
Managing Director

NOTICE OF EXTRAORDINARY GENERAL MEETING



中石化炼化工程(集团)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)

NOTICE OF THE SECOND EXTRAORDINARY GENERAL MEETING FOR THE YEAR 2013

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of SINOPEC Engineering (Group) Co., Ltd. (the “**Company**”) will be held at Crowne Plaza Park View Wuzhou Beijing, 8 Beisihuan Zhong Lu, Beijing, the PRC on Monday, October 28, 2013 at 9 a.m. for the purposes of considering and, if deemed appropriate, approving the following resolutions. In this notice, unless the context otherwise requires, capitalized terms used herein shall have the same meanings as defined in the Company’s circular dated September 10, 2013.

RESOLUTIONS TO BE CONSIDERED AND APPROVED AT THE EGM

By way of ordinary resolutions:

1. To consider and approve the Financial Services Framework Agreement, the continuing connected transactions thereunder and the Proposed Annual Caps, and to authorize Jia Yiqun, the Company’s Chief Financial Officer, to sign relevant documents on behalf of the Company, and do such things and take such actions as he deems necessary or desirable in accordance with the resolutions of the Board dated August 16, 2013, so as to effect this resolution and make any changes as he deems necessary, desirable or expedient.
2. To consider and approve the proposed 2013 interim dividend distribution plan.
3. To consider and approve the proposed appointment of Grant Thornton (Special General Partnership) and Grant Thornton Hong Kong Limited as the domestic auditor and the international auditor of the Company, respectively, to hold office until the conclusion of the next annual general meeting of the Company and to authorize the Board to fix their remuneration for the year 2013.
4. To consider and approve the proposed 2013 business operation plan, investment plan and financial budget plan.

* For identification purposes only.

NOTICE OF EXTRAORDINARY GENERAL MEETING

By way of special resolution:

5. To consider and approve the Proposed Articles Amendments, and to authorize the secretary to the Board and the Company Secretary, on behalf of the Company, to deal with all procedural requirements such as applications, approvals, registrations and filings in relation to the Proposed Articles Amendments (including cosmetic amendments as requested by the regulatory authorities).

Details of the above resolutions proposed at the EGM are contained in the Circular, which is available on the website of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and the website of the Company (www.segroup.cn).

By Order of the Board
SINOPEC Engineering (Group) Co., Ltd.
Sang Jinghua
Secretary to the Board and Company Secretary

Beijing, PRC

September 10, 2013

As of the date of this notice, the executive director is Yan Shaochun; the non-executive directors are Cai Xiyu, Zhang Kehua, Lei Dianwu, Ling Yiqun and Chang Zhenyong; and the independent non-executive directors are Hui Chiu Chung, Stephen, Jin Yong and Ye Zheng.

Notes:

ATTENDEE OF THE EGM

1. ELIGIBILITY FOR ATTENDING THE EGM

For the purpose of ascertaining Shareholders who are entitled to attend and vote at the EGM, the H Share register of members of the Company will be closed from Saturday, September 28, 2013 to Monday, October 28, 2013 (both days inclusive). Holders of H Shares who wish to attend the EGM shall lodge their share certificates accompanied by the transfer documents with Computershare Hong Kong Investor Services Ltd. (address: Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong) before 4:30 p.m. on Friday, September 27, 2013 for registration.

2. Proxy

- (a) A member eligible to attend and vote at the EGM is entitled to appoint, in written form, one or more proxies to attend and vote on its behalf. A proxy need not be a shareholder of the Company.

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) A proxy should be appointed by a written instrument signed by the appointer or its attorney duly authorized in writing. If the form of proxy is signed by the attorney of the appointer, the power of attorney authorizing that attorney to sign or the authorization document(s) must be notarized.
- (c) To be valid, the power of attorney or other authorization document(s) which have been notarized together with the completed form of proxy must be delivered to the place of business of the Company. In the case of holders of Domestic Shares, the address is the Company, Tower B, No. 19 Anyuan, Anhuibeili, Chaoyang District, Beijing (or via fax no.: (+86)10 6499 8599), and in the case of holders of H Shares, the address is Computershare Hong Kong Investor Services Ltd., Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not less than 24 hours before the time designated for holding of the EGM.
- (d) A Shareholder or his proxy may exercise the right to vote by poll.

3. Registration procedures for attending the EGM

- (a) A Shareholder or his proxy shall produce proof of identity when attending the meeting. If a Shareholder is a legal person, its legal representative or other persons authorized by the board of directors or other governing body of such Shareholder may attend the EGM by producing a copy of the resolution of the board of directors or other governing body of such Shareholder appointing such persons to attend the meeting.
- (b) Holders of H Shares and Domestic Shares intending to attend the EGM should return the reply slip for attending the EGM to the Company on or before Tuesday, October 8, 2013.
- (c) Shareholder may send the above reply slip to the Company in person, by post or by fax.
- (d) Closure of Register of Members. The H Share register of members of the Company will be closed from Saturday, September 28, 2013 to Monday, October 28, 2013 (both days inclusive).

4. Resolution for independent shareholders' approval

Pursuant to the Hong Kong Listing Rules, the ordinary resolution numbered 1 proposed at the EGM is subject to the approval of the Independent Shareholders. China Petrochemical Corporation and its associates will abstain from voting on such ordinary resolution at the EGM.

5. Miscellaneous

- (a) The EGM will not last for more than one working day. Shareholders who attend shall bear their own travelling and accommodation expenses.
- (b) For the purpose of ascertaining Shareholders who qualify for the 2013 interim dividends, the H Share register of members of the Company will be closed from Wednesday, November 6, 2013 to Monday, November 11, 2013 (both days inclusive). In order to qualify for the 2013 interim dividends, holders of H shares shall lodge their share certificates accompanied by the transfer documents with Computershare Hong Kong Investor Services Ltd. (address: Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong) before 4:30 p.m. on Tuesday, November 5, 2013 for registration.

NOTICE OF EXTRAORDINARY GENERAL MEETING

(c) The address of the Share Registrar of H Shares of the Company: Computershare Hong Kong Investor Services Ltd. is at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

(d) The place of business of the Company is at:

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

Post Code: 100101

Telephone No.: (+86) 10 6499 8114

Facsimile No.: (+86) 10 6499 8599

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As of the Latest Practicable Date, so far as was known to the Directors, none of the Directors, Supervisors and chief executive of the Company or their respective associates had any interest or short positions in any shares, underlying shares or debentures 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 (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were 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, to be notified to the Company and the Hong Kong Stock Exchange.

As of the Latest Practicable Date, so far as is known to the Board, none of the Directors or Supervisors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DISCLOSURE OF SUBSTANTIAL SHAREHOLDERS' INTERESTS

As of the Latest Practicable Date, save as disclosed below, so far as is known to the Board, no persons (not being a Director, Supervisor or chief executive of the Company) had an interest or short position in the shares or underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meeting of any other member of the Company:

Name of shareholders	Class of Shares	Capacity	Number of Shares	Approximate percentage (%) of the total number of that class in issue ⁽⁶⁾	Approximate percentage (%) of the total share capital ⁽⁷⁾
Sinopec Group ⁽¹⁾	Domestic Shares	Beneficial owner/Interests of controlled corporation	2,967,200,000 (L)	100 (L)	67.01 (L)
Hang Seng Bank Trustee International Limited ⁽²⁾	H Shares	Trustee/Interests of controlled corporation	87,737,500 (L)	6.00 (L)	1.98 (L)
JPMorgan Chase & Co. ⁽³⁾	H Shares	Interests of controlled corporation	48,410,500 (L)	3.31 (L)	1.09 (L)
		Custodian Corporation/ Approved Lending Agent	15,259,500 (P)	1.04 (P)	0.34 (P)
National Council for Social Security Fund of the PRC (全國社會保障基金理事會) ⁽⁴⁾	H Shares	Beneficial owner	145,632,000 (L)	9.97 (L)	3.29 (L)
State Administration of Foreign Exchange of the PRC (國家外匯管理局) ⁽⁵⁾	H Shares	Interests of controlled corporation	131,756,000 (L)	9.02 (L)	2.98 (L)

(L) — long position; (S) — short position; (P) — Lending Pool

Notes:

- (1) Sinopec Group directly or indirectly holds 2,967,200,000 Domestic Shares, representing 100% of the domestic share capital and 67.01% of the total share capital of the Company, respectively. SAMC is a wholly-owned subsidiary of Sinopec Group and holds 59,344,000 Domestic Shares, representing 2% of the domestic share capital and 1.34% of the total share capital of the Company, respectively. For the purposes of the SFO, Sinopec Group is also deemed to be interested in the Domestic Shares held by SAMC.

- (2) According to the Corporate Substantial Shareholder Notices dated August 15, 2013 and filed by each of (i) Hang Seng Bank Trustee International Limited, (ii) Cheah Company Limited, (iii) Cheah Capital Management Limited, (iv) Value Partners Group Limited, (v) Cheah Cheng Hye and (vi) To Hau Yin with the Hong Kong Stock Exchange, Value Partners Limited (a wholly owned subsidiary of Value Partners Group Limited) directly holds 87,737,500 H Shares. Hang Seng Bank Trustee International Limited is the trustee of The C H Cheah Family Trust, of which Cheah Cheng Hye is the founder. To Hau Yin is a spouse of Cheah Cheng Hye. Each of Cheah Company Limited, Cheah Capital Management Limited and Value Partners Group Limited is directly or indirectly controlled by Hang Seng Bank Trustee International Limited. Accordingly, each of Hang Seng Bank Trustee International Limited, Cheah Company Limited, Cheah Capital Management Limited, Value Partners Group Limited, Cheah Cheng Hye and To Hau Yin is deemed interested in the long positions held by Value Partners Limited for the purposes of the SFO.
- (3) According to the Corporate Substantial Shareholder Notice dated September 4, 2013 and filed by JPMorgan Chase & Co. with the Hong Kong Stock Exchange.
- (4) The information is based on the Corporate Substantial Shareholder Notice dated August 30, 2013 and filed by National Council for Social Security Fund of the PRC with the Hong Kong Stock Exchange.
- (5) According to the Corporate Substantial Shareholder Notices dated June 4, 2013 and filed by each of (i) the State Administration of Foreign Exchange of the PRC, (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. As each of Pagoda Tree Investment Company Limited, Compass Investment Company Limited, GUOXIN International Investment Corporation Limited and Metroson Holdings Corporation Limited is a subsidiary directly or indirectly controlled by State Administration of Foreign Exchange of the PRC, each of the State Administration of Foreign Exchange of the PRC, 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 SFO.
- (6) It is calculated on the basis that the Company has issued 2,967,200,000 Domestic Shares and 1,460,800,000 H Shares.
- (7) It is calculated on the basis that the Company has issued 4,428,000,000 Shares in total.

4. PARTICULARS OF DIRECTORS' AND SUPERVISORS' CONTRACTS

Each of the executive Director and non-executive Directors, entered into a service contract with the Company on April 22, 2013. The principal particulars of these service agreements are (a) for a term of three years commencing from the date on which the relevant Shareholders' approvals for the appointment were obtained and (b) are subject to termination in accordance with their respective terms. The service agreements may be renewed in accordance with the Articles and the applicable rules and regulations.

Each of the Supervisors entered into a contract in respect of, among others, compliance with relevant laws and regulations, observation of the Articles and provision on arbitration with the Company on April 22, 2013.

Save as disclosed above, as of the Latest Practicable Date, none of the Directors or Supervisors has or is proposed to have a service contract with any member of the Group (other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation)).

5. COMPETING INTERESTS

As of the Latest Practicable Date, other than certain directorships and/or other senior management positions held by some of the Directors in Sinopec Corp. as disclosed below, so far as the Directors are aware, none of the Directors or their respective associates had any interest in a business which competes or is likely to compete directly or indirectly with the business of the Group:

- (a) Mr. Cai Xiyou is a director and the Senior Vice President of Sinopec Corp.;
- (b) Mr. Zhang Kehua is the Vice President of Sinopec Corp.;
- (c) Mr. Lei Dianwu is the Vice President of Sinopec Corp.;
- (d) Mr. Ling Yiqun is the Vice President of Sinopec Corp.; and
- (e) Mr. Chang Zhenyong is a deputy chief engineer and a director general of the Chemicals Department of Sinopec Corp.

6. DIRECTORS' AND SUPERVISORS' INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As of the Latest Practicable Date, none of the Directors and the Supervisors had any interests, either directly or indirectly, in any assets which had been, since June 30, 2013 (being the date to which the latest published audited financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group.

As of the Latest Practicable Date, none of the Directors and the Supervisors was materially interested in any contract or arrangement which was significant in relation to the business of the Group taken as a whole.

7. MATERIAL ADVERSE CHANGE

As of the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since June 30, 2013, being the date to which the latest published audited financial statements of the Group were made up.

8. LITIGATION

Save for the litigation claims, which arose in connection with the collapse of a partially completed oil storage tank of the oil and gas storage tank project in Alberta, Canada on 24 April 2007, which resulted in the deaths of two workers and injuries of four others, as of the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and, so far as the Directors were aware, no litigation or claim of material importance was pending or threatened by or against any member of the Group.

9. EXPERT

The following is the qualification of ABCI which has given its opinion or advice contained in this circular:

Name	Qualifications
ABCI	a corporation licensed by Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) under the SFO

As of the Latest Practicable Date, ABCI had no shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As of the Latest Practicable Date, ABCI had no direct or indirect interest in any assets which had been, since June 30, 2013 (the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by, or leased to any member of the Group, or were proposed to be acquired or disposed of by, or leased to any member of the Group.

ABCI has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the reference to its name included herein in the form and context in which it appears.

10. GENERAL

- (a) Secretary of the Company is Mr. Sang Jinghua.
- (b) The place of business of the Company is at Tower B, No.19 Anyuan, Anhuibeili, Chaoyang District, Beijing, the PRC.
- (c) H share Registrar of the Company is Computershare Hong Kong Investor Services Ltd. at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong,
- (d) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

11. ROUNDING

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

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at 20/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including Tuesday, September 24, 2013:

- (a) the Financial Services Framework Agreement;
- (b) the letter from the Independent Board Committee to the Independent Shareholders dated September 10, 2013, text of which is set out on page 27 of this circular;
- (c) the letter from ABCI to the Independent Board Committee and the Independent Shareholders dated September 10, 2013, full text of which is set out on pages 28 to 42 of this circular;
- (d) the written consent of ABCI referred to in the paragraph headed “Expert” in this Appendix; and
- (e) the service contracts referred to in the paragraph headed “Particulars of Directors” in this Appendix.