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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)

**ADJUSTMENTS TO ANNUAL CAPS FOR
CONTINUING CONNECTED TRANSACTIONS UNDER
THE TECHNOLOGY R&D FRAMEWORK AGREEMENT**

1. BACKGROUND

Reference is made to the Prospectus in connection with the technology R&D framework agreement entered into between the Company and Sinopec Group on 19 December 2012 (the “**Technology R&D Framework Agreement**”), pursuant to which the Group will provide technology development; technology consulting; technology services; technology licensing; application for, maintenance, licensing and transfer of patents, and other technology research and development services to Sinopec Group and/or its associates, and Sinopec Group and/or its associates will provide technology research and development services to the Group. For further details of the principal terms, pricing policy and reasons for the transactions under the Technology R&D Framework Agreement, please refer to the section headed “Connected Transactions” of the Prospectus.

The revenues generated from provision of Technology R&D Services by the Group to Sinopec Group and/or its associates for the years ended 31 December 2010, 31 December 2011 and 31 December 2012 were approximately RMB 183,810,000, RMB 128,560,000 and RMB 143,469,000, respectively.

Pursuant to the Annual Caps under the Technology R&D Framework Agreement as disclosed in the Prospectus, the maximum aggregate annual amount of fees generated from the Group’s provision of Technology R&D Services to Sinopec Group and/or its associates for the years ended 31 December 2013 and ending, 31 December 2014 and 31 December 2015 should not exceed RMB 100,000,000, RMB 120,000,000 and RMB 150,000,000, respectively.

2. THE ADJUSTMENT TO THE 2013 ANNUAL CAP AND THE MAIN REASONS FOR THE ADJUSTMENT

In or around February 2014, in the course of preparing the audited financial statements of the Group for the year ended 31 December 2013 and reviewing all past continuing connected transactions of the Group, the Board noted that the revenue generated from the Technology R&D Services provided to Sinopec Group and/or its associates under the Technology R&D Framework Agreement for the year ended 31 December 2013 amounted to RMB 151,895,000, exceeding the 2013 Annual Cap of RMB 100,000,000 by RMB 51,895,000.

The main reasons for the above transactions exceeding the 2013 Annual Cap were:

- (1) Sinopec Group increased its investment in engineering technology research and development in respect of clean energy, energy conservation and emission reduction, and such services were mainly provided by the engineering subsidiaries of the Company. Accordingly, the fees paid by Sinopec Group to the Group pursuant to the Technology R&D Framework Agreement increased as compared to the original plan; and
- (2) In 2013, Sinopec Group paid for a portion of the fees of projects under the contracts signed in the previous years.

In light of the above reasons, the Board adjusted the original 2013 Annual Cap from RMB100,000,000 to RMB151,895,000. Please refer to section (5) below for details.

3. THE ADJUSTMENTS TO 2014 AND 2015 ANNUAL CAPS AND THE MAIN REASONS FOR THE ADJUSTMENTS

As disclosed in the Prospectus, in determining the original Annual Caps for 2014 and 2015, the Company has considered the following: (i) it is expected that the Group will undertake an average of over 100 technology research and development projects every year for Sinopec Group and/or its associates; (ii) the average contract value of each project is expected to be in line with the historical average for similar projects of RMB 1,000,000 to RMB 2,000,000; (iii) such projects are carried out and revenues in relation thereto are recognized over an average of three years; and (iv) the business volume in certain research and development areas is expected to grow in the future, including research and development in ethylene, clean fuel products and coal substitute for petroleum resources, based on the types of projects undertaken and expected to be undertaken by Sinopec Group and/or its associates.

Considering that Sinopec Group may continue to increase its investment in engineering technology research and development in respect of environment protection, energy conservation, etc. in 2014 and 2015 which may result in an increase in the business volume of the Relevant Transactions, the Board adjusted the original Annual Caps for 2014 and 2015 from RMB 120,000,000 and RMB 150,000,000 to RMB 180,000,000 and RMB 200,000,000, respectively. Please refer to section (5) below for details. The other terms of the Technology R&D Framework Agreement will remain the same.

4. IMPLICATIONS UNDER THE HONG KONG LISTING RULES

Sinopec Group holds more than 10% of the Company's issued share capital and is a substantial shareholder of the Company. Under Rules 14A.11(1) and (4) of the Hong Kong Listing Rules, Sinopec Group and its associates are connected persons of the Company. Accordingly, the transactions under the Technology R&D 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 Relevant Transactions are entered into during the ordinary course of business on normal commercial terms. Pursuant to Rule 14A.36(1) of the Hong Kong Listing Rules, the Company is required to re-comply with the reporting and announcement requirements under Rule 14A.35(3) and, where applicable, the independent shareholders' approval requirement under Rule 14A.35(4) of the Hong Kong Listing Rules in the circumstances that the aggregate amount of any continuing connected transaction exceeds its annual cap. As each of the applicable Percentage Ratios calculated for the actual income generated from the Technology R&D Services in 2013 (RMB 151,895,000) and the proposed adjusted annual caps for 2014 and 2015 (RMB 180,000,000 and RMB 200,000,000, respectively) will not exceed 5% on an annual basis, pursuant to Rule 14A.34 of the Hong Kong Listing Rules, the Relevant Transactions will be subject to the reporting, announcement and annual review requirements under Chapter 14A of the Hong Kong Listing Rules, but will be exempted from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

5. APPROVAL BY THE BOARD

On 14 March 2014, the Company held the tenth meeting of the first session of the Board. The Directors, Cai Xiyong, Zhang Kehua, Lei Dianwu, Ling Yiqun, Chang Zhenyong and Yan Shaochun, are considered to have a conflict of interests in the Relevant Transactions, they therefore abstained from voting on the proposal to approve the adjustments to the Annual Caps for 2013, 2014 and 2015 for the Technology R&D Services provided to Sinopec Group and/or its associates by the Group to RMB 151,895,000, RMB 180,000,000 and RMB 200,000,000, respectively. Save as disclosed above, none of the Directors has any material interest in the Relevant Transactions. The independent non-executive Directors, Hui Chiu Chung, Stephen, Jin Yong (Hui Chiu Chung, Stephen was authorized by Mr. Jin Yong to attend and vote on his behalf at the Board meeting on 14 March 2014) and Ye Zheng have reviewed and approved such proposal.

In consideration of: (i) the above main reasons as stated under sections (2) and (3); (ii) the Relevant Transactions in excess of the Annual Caps are favorable for the Group to increase the revenue generated from technology research and development and improve technology research and development levels, and (iii) as the Technology R&D Framework Agreement is implemented following the principles disclosed in the Prospectus, the Board (including independent non-executive Directors) is of the view that the Technology R&D Framework Agreement is conducted in the ordinary course of business of the Group and on normal commercial terms, and its terms as well as the new annual caps for the Relevant Transactions thereunder for the year ended 31 December 2013 and each of the two years ending 31 December 2015 are fair and reasonable and in the interest of the Company and the Shareholders as a whole. In addition, the Board (including independent non-executive Directors) will closely monitor the annual caps in respect of the Technology R&D Framework Agreement, and ensure that all necessary measures and proper actions will be timely taken to comply with applicable requirements under the Hong Kong Listing Rules.

6. 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, the Group provides 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 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. Sinopec 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, research and development as well as manufacturing of chemical fiber, fertilizer and polyester related equipment.

7. DEFINITIONS

In this announcement, the following expressions shall, unless the context requires otherwise, have the following meanings:

“2013 Annual Cap”	the maximum aggregate annual amount of fees in respect of the Relevant Transactions for the year ended 31 December 2013 determined by the Board before the Listing
“Annual Caps”	the maximum aggregate annual amount of fees in respect of the Relevant Transactions for each of the financial years ended 31 December 2013 and ending 31 December 2014 and 31 December 2015 determined by the Board before the Listing

“Board”	the board of directors of the Company
“Company”	SINOPEC Engineering (Group) Co., Ltd.
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Listing”	the listing of the H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited
“Percentage Ratios”	each of the applicable percentage ratios (other than profits ratio) calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus of the Company dated 10 May 2013
“Relevant Transactions”	the transactions in respect of the Group’s provision of Technology R&D Services to Sinopec Group and/or its associates under the Technology R&D Framework Agreement
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Shareholders”	shareholders of the Company
“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 the Controlling Shareholder (as defined under the Hong Kong Listing Rules) of the Company

“Technology R&D
Services”

under the Technology R&D Framework Agreement, the Group will provide technology development; technology consulting; technology services; technology licensing; application for, maintenance, licensing and transfer of patents, and other technology research and development services to Sinopec Group and/or its associates

“%”

per cent

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

Beijing, PRC
17 March 2014

As of the date of this announcement, the executive director of the Company is Yan Shaochun, the non-executive directors are Cai Xiyong, 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.

** For identification purpose only*