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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)

**ANNOUNCEMENT OF CONTINUING CONNECTED
TRANSACTIONS AND MAJOR TRANSACTIONS
RENEWAL OF THE FRAMEWORK AGREEMENTS AND
THE ANNUAL CAPS FOR 2025 TO 2027**

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

References are made to the Company's announcement dated 23 August 2021, the circular dated 15 September 2021 and the announcement of resolutions passed at the extraordinary general meeting dated 26 October 2021. On 20 August 2021, the Board considered and approved, among other things, the resolutions in relation to the renewal of the Framework Agreements, the continuing connected transactions thereunder and the proposed annual caps for the three years ending 31 December 2024. The Shareholders of the Company considered and approved the resolutions in relation to the renewal of the Financial Services Framework Agreement and the Engineering and Construction Services Framework Agreement, the respective continuing connected transactions thereunder and the proposed annual caps for the three years ending 31 December 2024 at the second extraordinary general meeting for the year of 2021, pursuant to which, the Framework Agreements were renewed for a period of three years commencing from 1 January 2022 to 31 December 2024.

Since the Framework Agreements will expire on 31 December 2024, the Company and CPC entered into a series of supplemental agreements on 16 August 2024, renewing each of the Framework Agreements for another three years, the valid term of which will be from 1 January 2025 to 31 December 2027. However, the renewal of the Non-exempt Transactions is still subject to the approval of the Independent Shareholders.

HONG KONG LISTING RULES IMPLICATIONS

CPC is a controlling shareholder of the Company. Under Rules 14A.07(1) and (4) of the Hong Kong Listing Rules, CPC is a connected person of the Company. Accordingly, the transactions under the Framework Agreements between the Group and Sinopec Group constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As each of the highest applicable percentage ratios of the proposed annual caps in respect of the continuing connected transactions in relation to the deposits and entrustment loans under the Financial Services Framework Agreement and the continuing connected transactions under the Engineering and Construction Services Framework Agreement exceeds 5%, in accordance with the Chapter 14A of the Hong Kong Listing Rules, such transactions shall be subject to the reporting, annual review, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. Meanwhile, since each of the highest applicable percentage ratios of the proposed annual caps in respect of the continuing connected transactions in relation to the deposits and entrustment loans under the Financial Services Framework Agreement and the continuing connected transactions under the Engineering and Construction Services Framework Agreement exceeds 25%, such transactions will also constitute major transactions of the Company on an aggregated basis, and are subject to the announcement, circular and Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

As each of the highest applicable percentage ratios of the proposed annual caps in respect of the continuing connected transactions under the General Services Framework Agreement, the provision of Technology R&D Services by the Group to Sinopec Group under the Technology R&D Framework Agreement and the continuing connected transactions under the Land Use Rights and Properties Leasing Framework Agreement exceeds 0.1% but is less than 5%, in accordance with the Hong Kong Listing Rules, such transactions shall be subject to the reporting, annual review and announcement requirements under Chapter 14A of the Hong Kong Listing Rules but exempted from the circular (including independent financial advice) and the Independent Shareholders' approval requirements.

As the highest applicable percentage ratio of the annual caps in respect of the provision of Technology R&D Services by Sinopec Group to the Group under the Technology R&D Framework Agreement (i.e. RMB10 million) and the service fees in relation to settlement, entrustment loans and other financial services under the Financial Services Framework Agreement (i.e. RMB5 million) does not exceed 0.1%, in accordance with the Hong Kong Listing Rules, such transactions are fully exempted from the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

GENERAL MATTERS

The Company will convene an EGM to seek the approval of the Independent Shareholders for the Non-exempt Transactions and the proposed annual caps thereunder. Sinopec Group will abstain from voting at the EGM in respect of the resolutions in relation to the Non-exempt Framework Agreements.

An Independent Board Committee comprising all the independent non-executive Directors has been formed, to advise the Independent Shareholders on approving the resolutions in relation to the Non-exempt Framework Agreements. Maxa Capital has been engaged as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further details of the Non-exempt Transactions and the proposed annual caps thereunder; (ii) a letter from the Independent Board Committee; (iii) a letter from Maxa Capital; and (iv) the notice of the EGM, may be dispatched later than 15 business days after publication of the announcement as required under the Hong Kong Listing Rules, as additional time is required for the Company to prepare the circular.

(I). BACKGROUND

References are made to the Company's announcement dated 23 August 2021, the circular dated 15 September 2021 and the announcement of resolutions passed at the extraordinary general meeting dated 26 October 2021. On 20 August 2021, the Board considered and approved, among other things, the resolutions in relation to the renewal of the Framework Agreements, the continuing connected transactions thereunder and the proposed annual caps for the three years ending 31 December 2024. The Shareholders of the Company considered and approved the resolutions in relation to the renewal of the Financial Services Framework Agreement and the Engineering and Construction Services Framework Agreement, the respective continuing connected transactions thereunder and the proposed annual caps for the three years ending 31 December 2024 at the second extraordinary general meeting for the year of 2021, pursuant to which, the Framework Agreements were renewed for a period of three years commencing from 1 January 2022 to 31 December 2024.

Since the Framework Agreements will expire on 31 December 2024, the Company and CPC entered into a series of supplemental agreements on 16 August 2024, renewing each of the Framework Agreements for another three years, the valid term of which will be from 1 January 2025 to 31 December 2027. However, the renewal of the Non-exempt Transactions is still subject to the approval of the Independent Shareholders.

(II). RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

I. The General Services Framework Agreement

1. *Principal Terms*

(a) *Signing Date and Term*

The Company entered into a general services framework agreement with CPC on 19 December 2012, as amended by several supplemental agreements. According to the supplement agreement dated 16 August 2024, the term of the General Services Framework Agreement has been renewed by both parties after arm's length negotiations for another three years from 1 January 2025 to 31 December 2027. Relevant subsidiaries or associated companies of both parties will enter into separate contracts which will set out the specific terms and conditions according to the principles provided in the General Services Framework Agreement.

(b) *Service Scope*

Pursuant to the General Services Framework Agreement, the Group will provide education training and other services to Sinopec Group; and Sinopec Group will provide the Group with education, training, office and logistics services as well as shared services in finance, human resources and information technology areas, etc.

(c) *Pricing Policy*

The pricing of the relevant products and services provided under the General 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 product or service, such product or service shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government-guided price;
- (2) market price: the price of the same or similar products, technologies or services provided by an Independent Third Party in the ordinary and usual course of business on normal commercial terms; and
- (3) agreed price: to be determined by adding a reasonable profit over a reasonable cost.

The general services provided by the Group to Sinopec Group mainly include: the all-system daily safety operation training and safety technology R&D services within Sinopec Group provided by the Group as entrusted by Sinopec Group. The general services provided by Sinopec Group to the Group mainly include: (1) the education training services provided by Sinopec Group to the Group; (2) the office and logistics services provided by Sinopec Group to the Group; and (3) the big-data analysis, expert consulting and other professional support services provided by Sinopec Group to the Group (including shared services in finance, human resources and information technology areas, etc.).

For the Safety Operation Training Services provided by the Group to Sinopec Group, the price is determined mainly by reference to the market price. For the general services provided by Sinopec Group to the Group, the price is determined mainly by reference to the market price. For details of the determination criteria of the price of general services, please refer to the sub-section headed “4 - (c) Basis of Caps” of this announcement.

(d) Termination

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

2. *Reasons for and Benefits of the Transactions*

(a) Provision of General Services by the Group to Sinopec Group

The Safety Operation Training Services provided by the Group to Sinopec Group are compulsory trainings for relevant subsidiaries of Sinopec Group for the performance of their functions. By providing such training services, the Group’s training centers will be able to expand service scale and thus increase the service revenue of the Group.

(b) Provision of General Services by Sinopec Group to the Group

The Group has been receiving education training services from Sinopec Group since its foundation, and such services include foreign language and culture training courses, overseas projects management courses and professional and management skills training seminars. The trainings are expected to improve the professional skills of the Group’s employees and be beneficial to the Group’s business expansions in the future. In addition, the Group also receives big-data analysis, expert consulting and other professional support services (including shared services in finance, human resources and information technology areas, etc.) from Sinopec Group, and this is expected to further optimize the delicacy management and improve the operation efficiency of the Group.

3. *Historical Amounts*

Set out below are (i) the revenue generated from the provision of the general services by the Group to Sinopec Group; and (ii) the expenditure incurred for the provision of the general services by Sinopec Group to the Group for the two years ended 31 December 2022 and 2023 and the six months ended 30 June 2024:

	For the years ended 31 December		For the six months ended
	2022	2023	30 June 2024
	<i>(RMB'000)</i>		
Total revenue from the provision of the general services by the Group to Sinopec Group	7,317	5,083	1,326
Total expenditure for the provision of the general services by Sinopec Group to the Group	48,391	62,231	24,929

4. *Existing and Proposed Annual Caps*

(a) *Existing Annual Caps*

The existing annual caps for each of the years ended/ending 31 December 2022, 2023 and 2024 are set out below:

	For the years ended/ending 31 December		
	2022	2023	2024
	<i>(RMB'000)</i>		
Total revenue from the provision of the general services by the Group to Sinopec Group	9,000	9,000	9,000
Total expenditure for the provision of the general services by Sinopec Group to the Group	80,000	80,000	80,000

(b) *Proposed Annual Caps*

The maximum annual amount for each of the years ending 31 December 2025, 2026 and 2027 shall not exceed the caps set out below:

	For the years ending 31 December		
	2025	2026	2027
	<i>(RMB'000)</i>		
Total revenue from the provision of the general services by the Group to Sinopec Group	20,000	20,000	20,000
Total expenditure for the provision of the general services by Sinopec Group to the Group	200,000	200,000	200,000

(c) *Basis of Caps*

In determining the annual caps for the three years ending 31 December 2027, the Company has considered the following factors:

- (1) for the training and education services provided by Sinopec Group to the Group, the amounts for 2022 and 2023 were RMB8.26 million and RMB11.40 million, respectively; the Group anticipates that there will be an increase in the demand for such training in the coming three years, and it is expected that the caps of the fees for the provision of training and education by Sinopec Group to the Group will be RMB20 million per year;
- (2) procurement of catering for canteens within and outside the PRC by the Group from Sinopec Group, as well as logistic services fees for hotels, property management and logistics, etc., and it is expected that the caps of the fees for the provision of logistic services by Sinopec Group in the coming three years will be RMB20 million per year;
- (3) the Group has successively entrusted Sinopec Group to provide shared services and information technology services since 2018. Payment for shared services and information technology fees is expected to be RMB160 million per year from 2025 to 2027, of which RMB130 million will be paid for shared services in finance, RMB20 million will be paid for information system services and RMB10 million will be paid for services of the technical testing center. The increase in shared services fees in the future is mainly due to the fact that according to the Group's shared services development plan, new offshore operations will continue to be included in the scope of shared services in the future. The increase in service fees for information technology provided by Sinopec Group in the future is mainly due to the consideration of further improvement of the Group's informatization level in the future. It is expected that the caps of the fees for the provision of shared services and information technology services by Sinopec Group in the coming three years will be RMB160 million per year; and

- (4) for the provision of general services by the Group to Sinopec Group, the historical amounts for 2022 and 2023 were RMB7.32 million and RMB5.08 million, respectively. It is expected that RMB7.22 million will be incurred in 2024. The size of such connected transaction is expected to increase annually in the future, and a cap of RMB20 million per year is proposed for the provision of general services by the Group to Sinopec Group.

II. The Technology R&D Framework Agreement

1. *Principal Terms*

(a) *Signing Date and Term*

The Company entered into a technology R&D framework agreement with CPC on 19 December 2012, as amended by several supplemental agreements. Pursuant to the supplemental agreement dated 16 August 2024, the term of the Technology R&D Framework Agreement has been renewed by both parties after arm's length negotiations for another three years from 1 January 2025 to 31 December 2027. Relevant subsidiaries or associated companies of both parties will enter into separate contracts which will set out the specific terms and conditions according to the principles provided in the Technology R&D Framework Agreement.

(b) *Service Scope*

Pursuant to 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. Sinopec Group will provide Technology R&D Services to the Group.

(c) *Pricing Policy*

The pricing of the relevant products and services provided under the Technology R&D 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 product or service, such product or service shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government-guided price;
- (2) market price: the price of the same or similar products, technologies or services provided by an Independent Third Party in the ordinary and usual course of business on normal commercial terms; and
- (3) agreed price: to be determined by adding a reasonable profit over a reasonable cost.

Historically, there was no government-prescribed price or government-guided fee standard that was applicable to the Technology R&D Services provided by the Group to Sinopec Group and the Technology R&D Services provided by Sinopec Group to the Group. If, during the term of the Technology R&D Framework Agreement, there is any mandatory government-prescribed price or government-guided fee standard specifically applicable to the Technology R&D Services to be provided by the Group to Sinopec Group or the Technology R&D Services to be provided by Sinopec Group to the Group, relevant parties to the agreement shall be obliged to use the applicable government-prescribed price or agree on the price of such services within the range of the government-guided fee standard (as appropriate).

For the Technology R&D Services provided by the Group to Sinopec Group, the price is determined mainly by reference to the agreed price. Such services were specially tailored upon the requirements of relevant members of Sinopec Group previously. Therefore, there is no comparable service with a determined market price available. If, during the term of the Technology R&D Framework Agreement, Sinopec Group continues to require the Group to provide tailored services, such services shall not have an applicable market price.

For the Technology R&D Services provided by Sinopec Group to the Group, the price is determined mainly by reference to the market price.

(d) Termination

Before the termination of the Technology R&D Framework Agreement, the parties may, according to the Hong Kong Listing Rules, negotiate and enter into a new framework agreement or extend or renew such framework agreement to ensure the normal running of the production and operations of both parties after expiration of the term of the Technology R&D Framework Agreement.

2. *Reasons for and Benefits of the Transactions*

(a) Provision of Technology R&D Services by the Group to Sinopec Group

As a leading energy engineering company in the PRC, the Group has made remarkable engineering achievements and has rich engineering experience, with strong capability in engineering application and engineering amplification of oil refining, petrochemicals, coal chemicals and LNG technologies. In addition, the Group poses a good understanding of the diversified demands from clients in the industries. Thus, the Group is capable of providing high-quality technology R&D services to its clients. Sinopec Group (as client) will receive Technology R&D Services provided by the Group from time to time.

(b) *Provision of Technology R&D Services by Sinopec Group to the Group*

The Group primarily focuses on engineering application and engineering amplification of oil refining, petrochemicals, coal chemicals, LNG and other technologies, whilst Sinopec Group primarily focuses on research in oil refining, petrochemical, coal chemicals and other technologies and analysis in laboratory parameters of such technologies. As part of its strengths and strategies, the Group has established close cooperative relationships with some of its clients (including Sinopec Group) to jointly develop new technologies and methods to facilitate the application of such technologies. These technologies will sometimes be licensed by the Group (with the permission of such clients) to its clients in the oil refining and chemical industries. In connection with those technologies and methods which the Group has developed with Sinopec Group, certain portions of the total license fees which the Group receive from its clients will be paid by the Group to the relevant R&D institutions under Sinopec Group as fees for Technology R&D Services received by the Group from Sinopec Group.

3. *Historical Amounts*

Set out below is the revenue generated from the provision of Technology R&D Services by the Group to Sinopec Group for the two years ended 31 December 2022 and 2023 and the six months ended 30 June 2024:

	For the years ended 31 December		For the six months ended
	2022	2023	30 June 2024
	<i>(RMB'000)</i>		
Total revenue generated from the provision of Technology R&D Services by the Group to Sinopec Group	214,162	247,698	74,596

4. *Existing and Proposed Annual Caps*

(a) *Existing Annual Caps*

The existing annual caps for each of the years ended/ending 31 December 2022, 2023 and 2024 are set out below:

	For the years ended/ending 31 December		
	2022	2023	2024
	<i>(RMB'000)</i>		
Total revenue generated from the provision of Technology R&D Services by the Group to Sinopec Group	250,000	250,000	250,000

(b) *Proposed Annual Caps*

The maximum annual amount for each of the years ending 31 December 2025, 2026 and 2027 shall not exceed the caps set out below:

	For the years ending 31 December		
	2025	2026	2027
	<i>(RMB'000)</i>		
Total revenue generated from the provision of Technology R&D Services by the Group to Sinopec Group	450,000	490,000	510,000

(c) *Basis of Caps*

In determining the annual caps for the Groups' provision of Technology R&D Services to Sinopec Group for the years ending 31 December 2025, 2026 and 2027, the Company has considered the following factors: (i) the transformation and development needs of Sinopec Group amidst the broader trend of the cleaning, digitalized and diversified development of energy; (ii) the trend of changes in the number of projects in relation to the Technology R&D Services provided by the Group to Sinopec Group and the actual transaction amount; (iii) the expected technology R&D projects that the Group will undertake every year for Sinopec Group and the workload of new research and development projects and technology services to be launched by the Group in the coming three years. According to the technology development plan for the next three years, the Group is expected to undertake over 250 technology R&D projects for Sinopec Group on average every year, with the expected average contract amount of each project and the historical average amount of a similar project being approximately RMB2 million.

III. The Land Use Rights and Properties Leasing Framework Agreement

1. Principal Terms

(a) *Signing Date and Term*

The Company entered into a land use rights and properties leasing framework agreement with CPC on 19 December 2012, as amended by several supplemental agreements. Pursuant to the supplemental agreement dated 16 August 2024, the term of the Land Use Rights and Properties Leasing Framework Agreement has been renewed by both parties after arm's length negotiations for another three years from 1 January 2025 to 31 December 2027. Relevant subsidiaries or associated companies of both parties will enter into separate contracts which will set out the specific terms and conditions according to the principles provided in the Land Use Rights and Properties Leasing Framework Agreement.

(b) *Service Scope*

Pursuant to the Land Use Rights and Properties Leasing Framework Agreement, Sinopec Group will lease land and properties for production, storage and sales purpose, and other land use rights and properties leasing services to the Group; and the Group will lease land and properties for production and office purpose, and other land use rights and properties leasing services to Sinopec Group.

(c) *Pricing Policy*

The pricing of the transactions under the Land Use Rights and Properties Leasing 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 product or service, such product or service shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government-guided price;
- (2) market price: the price of the same or similar products, technologies or services provided by an Independent Third Party in the ordinary and usual course of business on normal commercial terms; and
- (3) agreed price: to be determined by adding a reasonable profit over a reasonable cost.

Historically, there was no government-prescribed price or government-guided fee standard that was applicable to the land use rights and properties leasing services under the Land Use Rights and Properties Leasing Framework Agreement. If, during the term of the Land Use Rights and Properties Leasing Framework Agreement, there is any mandatory government-prescribed price or government-guided fee standard specifically applicable to the land use rights and properties leasing services to be provided by the Group to Sinopec Group or the land use rights and properties leasing services to be provided by Sinopec Group to the Group, relevant parties to the agreement shall be obliged to use the applicable government-prescribed price or agree on the price of such services within the range of the government-guided fee standard (as appropriate). For the properties leasing services, the rents are determined mainly by reference to the market leasing price for the nearby land and properties taking into account their areas, locations and nature.

(d) *Termination*

Before the termination of the Land Use Rights and Properties Leasing Framework Agreement, the parties may, according to the Hong Kong Listing Rules, negotiate and enter into a new framework agreement or extend or renew such framework agreement to ensure the normal running of the production and operations of both parties after expiration of the term of the Land Use Rights and Properties Leasing Framework Agreement.

2. *Reasons for and Benefits of the Transactions*

(a) *Provision of Land Use Rights and Properties Leasing Services by Sinopec Group to the Group*

To promote the Group's business development, the Group often rents its land or houses near the location of its cooperation projects with Sinopec Group for production, storage, office and employee dormitory purposes. The land or houses leased by the Group from Sinopec Group are close to the Company's projects, and the relevant rental costs are lower or not higher than the market rent in the areas adjacent to the land and houses, which helps the Company reduce management costs, optimize business and financial performance and is in the interests of the Group and the Shareholders.

(b) *Provision of Land Use Rights and Properties Leasing Services by the Group to Sinopec Group*

To promote its daily business development, Sinopec Group often rents its land or houses near the location of its cooperation projects with the Group for its production, storage, office and employee dormitory purposes. The land or houses leased by Sinopec Group from the Group are close to the location of the projects, and the relevant rental costs are not lower than the general market rent in the areas adjacent to the land and houses, which at the same time helps expand the business cooperation between the Group and Sinopec Group and is in the interests of the Group and the Shareholders.

3. *Historical Amounts*

Set out below are (i) the rental revenue generated from the provision of the land use rights and properties leasing services by the Group to Sinopec Group; and (ii) the rents paid by the Group for the lease of land and properties from Sinopec Group for the two years ended 31 December 2022 and 2023 and the six months ended 30 June 2024:

	For the years ended		For the
	31 December		six months
	2022	2023	ended
	<i>(RMB'000)</i>		30 June
			2024
Rental revenue generated from the provision of the land use rights and properties leasing services by the Group to Sinopec Group	11,078	13,192	7,479
Rents paid by the Group for the lease of land and properties from Sinopec Group ¹	14,682	21,737	8,641

¹ For the two years ended 31 December 2022 and 2023 and the six months ended 30 June 2024, the Group's right-of-use assets in respect of the land and properties leased from Sinopec Group amounted to approximately RMB56.46 million, RMB53.51 million and RMB58.11 million, respectively.

4. Existing and Proposed Annual Caps

(a) Existing Annual Caps

The existing annual caps for each of the years ended/ending 31 December 2022, 2023 and 2024 are set out below:

	For the years ended/ending 31 December		
	2022	2023	2024
	<i>(RMB'000)</i>		
Total rents generated from the provision of the land use rights and properties leasing services by the Group to Sinopec Group	35,000	35,000	35,000
Rents paid by the Group for the lease of land and properties from Sinopec Group ²	25,000	25,000	25,000

(b) Proposed Annual Caps

The maximum annual amount for each of the years ending 31 December 2025, 2026 and 2027 shall not exceed the caps set out below:

	For the years ending 31 December		
	2025	2026	2027
	<i>(RMB'000)</i>		
Total rents generated from the provision of the land use rights and properties leasing services by the Group to Sinopec Group	150,000	150,000	150,000
Annual value of the right-of-use assets in respect of the land and properties leased by the Group from Sinopec Group	600,000	400,000	200,000

² The right-of-use assets calculated in respect of the rents caps for the three years ending 31 December 2024 were approximately RMB68 million, RMB68 million and RMB68 million, respectively.

(c) *Basis of Caps*

In determining the annual caps on the rents generated from the provision of the land use rights and properties leasing services by the Group to Sinopec Group for the years ending 31 December 2025, 2026 and 2027, the Company has considered the following factors: (i) the expected price of the contract in the next three years; and (ii) the expected rise of the market rent in the areas adjacent to the relevant leasing land and properties. In determining the annual caps on the right-of-use assets in respect of the land and properties leased by the Group from Sinopec Group for the years ending 31 December 2025, 2026 and 2027, the annual value of the right-of-use assets is mainly based on the corresponding lease liabilities recognized and measured for the current value of the minimum lease payment, which are mainly based on (i) the corresponding total value of right-of-use assets in respect of land and properties leased for 2025 to 2027; (ii) the estimated annual rents to be paid by the Company for land and properties; (iii) the discount rate determined based on the Company's incremental borrowing rates.

IV. Financial Services Framework Agreement

1. Principal Terms

(a) *Signing Date and Term*

The Company entered into the Financial Services Framework Agreement with CPC on 19 December 2012, as amended by several supplemental agreements. Pursuant to the supplemental agreement dated 16 August 2024, the term of the Financial Services Framework Agreement has been renewed by both parties after arm's length negotiations for another three years from 1 January 2025 to 31 December 2027, subject to Independent Shareholders' approval at the EGM.

(b) *Scope of Services*

Pursuant to the Financial Services Framework Agreement, Sinopec Finance and Sinopec Century Bright will provide financial services to the Group, and such financial services primarily include deposits, loans, entrustment loans, settlement services, entrustment investments, financial and financing consulting, credit certification, insurance agency, exchange settlement, bond underwriting, foreign exchange business, and related consultancy and agency and other financial services. The Group will 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.

(c) *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:

- (i) 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;
- (ii) market price: the price of the same or similar services provided by an Independent Third Party in the ordinary and usual course of business on normal commercial terms; and
- (iii) agreed price: to be determined by adding a reasonable profit over a reasonable cost.

Generally, the pricing of the services provided under the Financial Services Framework Agreement is determined mainly by reference to (i) the government-prescribed price and government-guided price; and (ii) 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.

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

- (a) Deposits services: the interest rate applicable to the Group's deposits with Sinopec Finance Institutions 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 Group;
- (b) Entrustment loan services: the interest rates applicable to the Group's entrustment loans to Sinopec Group through Sinopec Finance shall be (i) on normal commercial terms; (ii) no less favourable than the interest rates for entrustment loans of a similar type provided by other members of Sinopec Group to Sinopec Group through Sinopec Finance; and (iii) generally not lower than the interest rates for bonds or loans available in the PRC financial market issued/provided by companies or financial institutions of credit ratings and risk profile similar to those of CPC or Sinopec Corp.; and
- (c) Settlement, entrustment loan and other financial services: the service fees charged by Sinopec Finance Institutions 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.

(d) *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 operations of both parties after expiration of the term of the Financial Services Framework Agreement.

2. ***Commercial Rationale and Benefits of the Deposits and Entrustment Loans***

(a) *Deposits*

- (i) Centralized cash management. It is the Group's policy to centralize the management of funds. As the terms offered by Sinopec Finance Institutions are no less favorable than the deposit interest rates published by the PBOC or independent commercial banks in Hong Kong for deposits of a similar type for the same period, the terms of placing deposits with Sinopec Finance Institutions are no less favorable to the Group than placing deposits with independent commercial banks. In addition, the centralized deposit of funds with Sinopec Finance Institutions will enable the Group to use Sinopec Finance Institutions as a primary clearing and settlement platform, provide the Group with access to a centralized cash pool (both onshore and offshore), giving the Group the flexibility to make timely withdrawals from time to time to meet its funding needs and reduce the need for the Group to obtain third party financing, which will in turn help it achieve a lower cost of funding and maximize cost and operational efficiencies.
- (ii) Clearing and settlement platform. In the Group's ordinary and usual course of business, as Sinopec Group is the Group's single largest client, the Group transacts with numerous subsidiaries/affiliated companies within Sinopec Group. In line with Sinopec Group's internal group policy, such subsidiaries/affiliated companies generally maintain settlement accounts with Sinopec Finance Institutions. The centralized management of deposits of the Group by Sinopec Finance Institutions will facilitate clearing with other members of Sinopec Group (some of whom are the Group's clients), reduce the time required for transfer 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 the Group to separately maintain bank accounts with independent banks for clearing and settlement.
- (iii) Familiarity with the Group's business. As Sinopec Finance Institutions only provide financial services to Sinopec Group, they have acquired extensive knowledge of the Group's industry over the years. For the Group, Sinopec Finance Institutions are familiar with the Group's capital structure, business operations, funding needs and cash flow pattern, which enables them to anticipate and serve the Group's capital needs. As a result, Sinopec Finance Institutions are more well-positioned to provide the Group with bespoke and cost-efficient services which would not be easy for independent commercial banks to replicate.

(iv) Flexibility to the Group. The Group has the sole discretion to deposit and withdraw its deposits with Sinopec Finance Institutions from time to time. There is no restriction on the Group's ability to deposit its cash with independent commercial banks in or outside the PRC now or in the future. Currently, the Group maintains deposits with independent commercial banks in and outside the PRC subject to the Group's contractual and other requirements and expects to continue to do so. The Group chooses to deposit its cash with Sinopec Finance Institutions as this facilitates centralized management of funds.

(b) *Entrustment loans*

(i) Best short-term fund investment options. Due to the nature of the Group's business, the Group receives significant amounts of prepayments from clients from time to time. Such prepayments are in effect advance payments from the Group's clients, which the Group will apply towards performance of the relevant contracts as appropriate (such as purchase of raw materials and equipment, and payment to the Group's sub-contractors) and are only temporarily idle. Therefore, the Group needs to invest such surplus cash prudently as it is an advance/deposit from the Group's clients. Given the Group's need to match funds within a relatively short period of time whilst maintaining flexibility to pay the Group's trade payables from time to time, there is a lack of comparable alternative fund investment options. From the Group's 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.

(ii) Credit rating of CPC. Sinopec Group is the borrower of the entrustment loans. 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 2023, CPC obtained an A+ long term corporate credit rating from Standard & Poor's and an A1 long-term corporate credit rating from Moody's. As at the date of the announcement, CPC had a registered capital of RMB326.5 billion. CPC ranked sixth in 2023 in Fortune Global 500. The Group therefore considers that lending to Sinopec Group is a low-risk fund allocation option. During the two years ended 31 December 2022 and 2023 and the six months ended 30 June 2024, Sinopec Group has not defaulted under any of the entrustment loans provided by the Group. The Group considers that providing entrustment loans to Sinopec Group is a comprehensive, low risk fund allocation option due to the top-tier credit rating and clean repayment history of CPC, generating a higher return for the Group than deposits which would have been the only other fund investment option for the Group given the investment policy with respect to such funds.

- (iii) Efficient and flexible cash management. Provision of entrustment loans to Sinopec Group will allow the Group to allocate its surplus cash efficiently within a relatively short timeframe. The Group's 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 Group to deploy its financial resources efficiently and flexibly. Upon the expiry of the entrustment loans, the Group will receive the principal amount and the interest payment in relation to such entrustment loans from Sinopec Finance Institutions. Any new entrustment loans to Sinopec Group will be subject to normal approval procedures in a standardized way. Furthermore, whilst the Group has historically provided entrustment loans to Sinopec Group and expects to continue to do so in the future, the Group is not under any legal or other obligation to provide entrustment loans to Sinopec Group. Pursuant to the entrustment loan agreements, the Group is entitled to early terminate the entrustment loans (without penalty) at its option in which case current deposit interest rate will apply.
- (iv) Normal commercial terms. The Group understands 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 other things, relative bargaining power, risk profile and security level. The Group generally uses the applicable base deposit rate published by the PBOC from time to time as a reference point with an upward adjustment taking into account the amount and term of the loan. In addition, the Group 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 CPC and the Company after arm's length negotiations and will be reviewed and re-negotiated by the parties periodically. Based on such list, the Company's Chief Financial Officer and finance department will decide the interest rates of the entrustment loan agreements to be entered into between CPC and the Group. In determining the interest rates for the entrusted loan, the Group will also make reference to other comparable rates, such as the interest rates for bonds or loans available in the PRC financial market issued/provided by companies or financial institutions of credit ratings and risk profile similar to those of CPC or Sinopec Corp., obtained through various channels such as banks and the relevant bond issuers (if any) for the purpose of ensuring that the interest rates for the entrustment loans are in the interests of the Company and the Shareholders as a whole. The interest rates on entrustment loans are generally not lower than the interest rates on bonds of similar terms issued by CPC and Sinopec Corp. The interest rates on entrustment loans provided by the Group to Sinopec Group are generally higher than the yield on principal-guaranteed wealth management products currently available in the PRC market.

In addition, the Board has considered the risks 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. Such risks include (i) the risks commonly faced by the banking industry, and (ii) the possible material adverse change in the financial conditions of Sinopec Finance and Sinopec Century Bright. However, after taking into account (i) that the interest rates on the Group's entrustment loans are generally higher than yield on principal-guaranteed investment products available in the open market; (ii) CPC's strong credit rating and clean repayment history; (iii) the potential significant drain on the Group's time and resources to seek alternative borrowers and a lack of comparable alternative fund allocation options in the market compatible with the Group's needs; and (iv) that the Group can early terminate its entrustment loans at its option (in which case the current deposit interest rate will apply), the Company and the Board consider that the continuing connected transactions contemplated under the Financial Services Framework Agreement are in the interests of the Company and the Shareholders as a whole.

3. Internal control and corporate governance measures

Although there is no limit on the percentage of the Group's total liquid and/or surplus funds to be deposited with Sinopec Finance Institutions or loaned to Sinopec Group, the Company considers that for the reasons explained above, such policy is in the interests of the Company and 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 Sinopec Finance Institutions 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. The Group has further adopted (i) an independent financial system; (ii) risk management measures; (iii) internal control measures; and (iv) corporate governance measures (including the pricing mechanism) with respect to the transactions under the Financial Services Framework Agreement in order to further safeguard the interests of the Independent Shareholders. The relevant measures include, but are not limited to, the following:

- (i) Sinopec Finance is a major domestic non-banking financial institution under the supervision of NFRA. The Beijing Bureau, being the dispatched agency of NFRA, conducts daily supervision on Sinopec Finance, as well as on-site and off-site inspections. Over the years, all its regulatory indicators have met the regulatory requirements. As at 31 December 2023, Sinopec Finance had total assets of RMB214.12 billion, net assets of RMB33.754 billion, registered capital of RMB18 billion, capital adequacy ratio of 17.62%, liquidity ratio of 78.18%. According to the unaudited financial data of Sinopec Finance, as at 30 June 2024, Sinopec Finance had total assets of RMB219.329 billion, net assets of RMB33.906 billion, registered capital of RMB18 billion, capital adequacy ratio of 16.50%, liquidity ratio of 69.24%. Sinopec Century Bright holds a money lender licence issued by the Hong Kong government and is subject to the management of the Hong Kong government, the Hong Kong Companies Registry and other relevant regulatory bodies. As at 31 December 2023, Sinopec Century Bright had total assets of RMB320.927 billion and net assets of RMB30.346 billion. According to the unaudited financial data of Sinopec Century Bright, as at 30 June 2024, Sinopec Century Bright had total assets of RMB316.694 billion and net assets of RMB32.642 billion. Currently, Sinopec Century Bright has a credit rating of A2 from Moody's and A from Standard & Poor's.
- (ii) Sinopec Finance Institutions and CPC will provide sufficient information including various financial indicators (as well as annual and interim financial statements) at the end of every quarter to enable the Group to monitor and review the financial condition of Sinopec Finance Institutions and Sinopec Group.
- (iii) The Group requests, from time to time at its sole discretion, for the deposits with Sinopec Finance Institutions 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.
- (iv) CPC 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 an indemnity for the Group's deposits with Sinopec Finance under the Financial Services Framework Agreement.
- (v) The Group has 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 the Group's cash should be centrally managed in order to maximise the benefits of a cash pool. The Company's finance department is responsible for administering the cash management policy and the internal bank management policy. When providing entrustment loans to connected persons (whether through Sinopec Finance or otherwise), the Group will consider the interest rate, service fees, term and use of loan and the credit 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) need to be first approved by the Company's finance department, then the Company's Chief Financial Officer and ultimately by the Chairman of the Board or his authorized representatives.

- (vi) The Company’s management prepares risk assessment reports of the funds deposited with Sinopec Finance Institutions and entrustment loans to Sinopec Group every quarter which will be submitted to the Board for consideration.
- (vii) The independent non-executive Directors independently scrutinise the performance and the enforcement of the transactions and the key contractual terms (including the pricing mechanism) under the Financial Services Framework Agreement. Independent non-executive Directors committee will vote in respect of matters under the Financial Services Framework Agreement.
- (viii) Before entering into any transactions under the Financial Services Framework Agreement with Sinopec Finance Institutions, 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 Sinopec Finance Institutions and decide whether to accept the quotes offered by Sinopec Finance Institutions.
- (ix) In the event that there is any change in the fees or interest rates for the services provided by Sinopec Finance Institutions to the Group under the Financial Services Framework Agreement, Sinopec Finance Institutions 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 Sinopec Finance Institutions to other members of Sinopec Group. The relevant internal audit personnel of the Company will then verify the aforementioned information to ensure that such revised fees or interests rates are not less favorable than the fees or interest rates offered by Sinopec Finance Institutions to other members of Sinopec Group for similar services.

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

4. *Historical Amounts*

Set out below (i) the maximum daily balance of deposits with Sinopec Finance Institutions and interest income arising from such deposits; and (ii) the maximum daily balance of entrustment loans arranged through Sinopec Finance for each of the years ended 31 December 2022 and 2023 and the six months ended 30 June 2024:

	For the year ended 31 December		For the six months ended
	2022	2023	30 June 2024
	<i>(RMB’000)</i>		
Maximum daily balance of deposits and interest income	7,676,186	7,959,223	7,257,398
Maximum daily balance of entrustment loans and interest income	20,500,000	20,500,000	20,500,000

5. Existing and Proposed Annual Caps

(a) Existing Annual Caps

The existing annual caps for each of the years ended/ending 31 December 2022, 2023 and 2024 are set out below:

	For the years ended/ending 31 December		
	2022	2023	2024
	<i>(RMB'000)</i>		
Maximum daily balance of deposits and interest income	8,000,000	8,000,000	8,000,000
Maximum daily balance of entrustment loans and interest income	20,500,000	20,500,000	20,500,000

(b) Proposed Annual Caps

The proposed annual caps for each of the years ending 31 December 2025, 2026 and 2027 are set out below:

	For the years ending 31 December		
	2025	2026	2027
	<i>(RMB'000)</i>		
Maximum daily balance of deposits and interest income	8,000,000	8,000,000	8,000,000
Maximum daily balance of entrustment loans and interest income	20,500,000	20,500,000	20,500,000

(c) Basis of Caps

In determining the above annual caps for each of the years ending 31 December 2025, 2026 and 2027, the following factors have mainly been considered:

- (1) the utilization rates of the above-mentioned annual caps for each of the years ended 31 December 2022, 2023 and for the six months ended 30 June 2024;
- (2) the interest rates and fee rates in connection with deposits, entrustment loans and other financial services;
- (3) the Group is expected to expand social investment channels and diversify our investment portfolio, thus the Group will remain the scale of deposits and entrustment loans with Sinopec Finance Institutions unchanged in the next three years;
- (4) the expected business volume of the Group for the years 2025, 2026 and 2027; and
- (5) the Group's expected net cash inflow generated by its operating activities for the years 2025, 2026 and 2027.

When determining whether funds are placed as deposits with Sinopec Finance Institutions or loaned to Sinopec Group through the provision of entrustment loans, the Group will take into account the following factors based on principles of maximum return, cost control and risk control: (i) the funding plan which specifies the Group's long term and short term funding needs, operational needs and capital expenditure requirements; (ii) the Group's fund 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 loans.

In addition, the Group has also taken into account of following key basis and assumptions when determining the above annual caps:

(1) Deposits and interest income

For the continuing connected transactions in connection with the maximum daily balance of deposits and interest income, based on the historical figures for the two years ended 31 December 2022 and 2023, the utilization rates for the annual caps were 95.6% and 99.9% for 2022 and 2023, respectively; also, for the six months ended 30 June 2024, the maximum daily balance of deposits and interest income has already reached 90.7% of the annual cap of 2024.

Based on (i) the utilization level of the annual caps; (ii) the future business development, cash flow position and scale of fund settlement of the Group; and (iii) the need to expand social investment channels and diversify investment portfolio, the Group is expected to remain the scale of deposits with Sinopec Finance and Sinopec Century Bright unchanged in the next three years. Hence, the proposed annual caps for maximum daily balance of deposits and interest income will remain the same as the existing annual caps.

(2) Entrustment loans

For the continuing connected transactions in connection with the maximum daily balance of entrustment loans, based on the historical figures for the two years ended 31 December 2022 and 2023, the utilization rates for the annual caps were 100% for both 2022 and 2023; also, for the six months ended 30 June 2024, the maximum daily balance of entrustment loans has already reached 100.0% of the annual cap of 2024 (has been fully utilized).

On the basis of the above, the Directors are of the view that the annual caps of the deposits and interest income and the entrustment loans for the years of 2025, 2026 and 2027 are consistent with the corresponding expected scale of changes of the income, the net cash inflow to be generated by the operating activities and the total payments transactions of the Company. As such, the Directors are of the view that the proposed annual caps for the year of 2025, 2026 and 2027 are fair, reasonable and in the interests of the Company and Shareholders as a whole.

V. Engineering and Construction Services Framework Agreement

1. Principal Terms

(a) Signing Date and Term

The Company entered into the Engineering and Construction Services Framework Agreement with CPC on 19 December 2012, as amended by several supplemental agreements. According to the supplemental agreement dated 16 August 2024, the term of the Engineering and Construction Services Framework Agreement has been renewed by both parties after arm's length negotiations for another three years from 1 January 2025 to 31 December 2027, subject to Independent Shareholders' approval at the EGM. Relevant subsidiaries or associated companies of both parties will enter into separate contracts which will set out the specific terms and conditions according to the principles provided in the Engineering and Construction Services Framework Agreement.

(b) Service Scope

Pursuant to the Engineering and Construction Services Framework Agreement, the Group will provide the following engineering and construction services to Sinopec Group: engineering consulting; project management; project supervision; contracting; engineering design; construction; testing and inspection and repair services; machinery equipment processing and manufacturing services; procurement services and equipment leasing; technology licensing, technology transfer and engineering technology services; labor service; and other engineering supporting services; Sinopec Group will provide the following services related to engineering and construction business to the Group: supply of equipment and materials; procurement services and equipment leasing; technology licensing, technology transfer and engineering technology services; labor service; and other engineering supporting services.

(c) Pricing Policy

The pricing of the relevant products and services provided under the Engineering and Construction Services Framework Agreement shall be determined in accordance with the following principles in ascending order:

- (i) government-prescribed price and government-guided price: if at any time, the government-prescribed price is applicable to any particular product or service, such product or service shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government-guided price;
- (ii) tender and bidding price: where tender and bidding process is necessary under applicable laws, regulations and rules, the price will be ultimately determined in accordance with the tender and bidding process;

- (iii) market price: the price of the same or similar products, technologies or services provided by an Independent Third Party in the ordinary and usual course of business on normal commercial terms; and
- (iv) agreed price: to be determined by adding a reasonable profit over a reasonable cost.

Historically, there was no government-prescribed price or government-guided fee standard which was applicable to the engineering and construction services provided by the Group to Sinopec Group and those provided by Sinopec Group to the Group under the Engineering and Construction Services Framework Agreement. If, during the term of the Engineering and Construction Services Framework Agreement, there is any mandatory government-prescribed price or government-guided fee standard specifically applicable to the engineering and construction services to be provided by the Group to Sinopec Group or the services to be provided by Sinopec Group to the Group, relevant parties to the agreement shall be obliged to use the applicable government-prescribed price or agree the price of such services within the range of the government-guided fee standard (as appropriate). The Company also undertakes that it will disclose the details of the policy and guidance under the government prescribed price and government-guided fee standards when such price or fee standard becomes available.

For the engineering and construction services to be provided by the Group to Sinopec Group, the pricing is determined mainly by reference to the tender and bidding price. The bidding price mainly takes into account various factors including technical requirements, project execution standards, local meteorological and geographical conditions, public works conditions, estimated labor hours and costs, estimated material and equipment costs and other unforeseeable expenses. The bidding prices are generally specific to each project and the Group is not able to implement standard pricing policies for all projects. In addition, the tender and bidding process and the price are conducted in accordance with the Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》) and other applicable PRC laws, rules and regulations. The Company also implemented the Internal Management Measures in relation to the Procurement and Bidding of Sinopec Engineering (Group) Co., Ltd. (《中石化煉化工程(集團)股份有限公司物資採購招標管理辦法》) to monitor and manage the tender and bidding processes. The tender and bidding prices are also subject to the strict reviews of the Company's audit departments each year. Meanwhile, the tender and bidding process is an open and transparent process based on market participation, the tender and bidding price under such process reflects the applicable price available in the open market. Hence, the tender and bidding price is the market price. The agreed price is mainly applied for services under certain circumstances (e.g. for services with unique technological advantages).

For the engineering and construction services to be provided by Sinopec Group to the Group, the pricing is determined mainly by reference to the agreed price. The reasons why the Group did not use tender and bidding price approach are mainly because, historically, such services were not typically subject to tender and bidding process due to the common type and nature of such services as well as the high frequency of the procurement of such services. The Company does not anticipate the type, the nature, and the frequency of the procurement of the services to be procured from Sinopec Group by the Group during the term of the Engineering and Construction Services Framework Agreement to significantly deviate from those of the services the Group currently procures from Sinopec Group. In the event that the services to be procured from Sinopec Group by the Group are mandatorily subject to tender and bidding process, the price and the process will be conducted in accordance with the Bidding Law of the People's Republic of China. In addition, historically, the Group did not use the market price for the procurement of such services from Sinopec Group because the agreed price and terms have generally been more competitive than the available market price and terms from Independent Third Parties, which will further economize the procurement funds of the Group, increase the efficiency of the allocation of its procurement resources, as well as achieve economies of scale. For more details in relation to the determination of the agreed price and the relevant internal control procedures, please refer to "VII. Procedures and Internal Control Measures for Pricing and Terms of the Continuing Connected Transactions".

(d) Termination

Before the termination of the Engineering and Construction 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 Engineering and Construction Services Framework Agreement to ensure the normal running of the production and operations of both parties after expiration of the term of the Engineering and Construction Services Framework Agreement.

2. *Reasons for and Benefits of the Transactions under the Engineering and Construction Services Framework Agreement*

There are specific technology and quality standard requirements implemented in the oil industry. With a leading position in the oil industry, CPC ranked sixth in 2023 in Fortune Global 500. Benefiting from its scale strength, Sinopec Group can provide the Group with stable supply of equipment and materials, procurement services and technical services and other supporting products and services. Pursuant to the relevant terms under the Engineering and Construction Services Framework Agreement, the Group is able to procure products and services from Sinopec Group at prices no higher than the prices offered by other independent suppliers.

In addition, Sinopec Group mainly adopts external public tendering process for its engineering projects. In consideration of the Group being a leading energy chemical engineering company in the PRC and the long-term cooperative relationship maintained with Sinopec Group, it is expected that Sinopec Group may also increase the demand for the Group's products and services in its future investment plan.

3. *Historical Amounts*

Set out below (i) the revenue generated from the provision of engineering and construction services by the Group to Sinopec Group; and (ii) the expenditure incurred for the provision of engineering and construction services by Sinopec Group to the Group for each of the years ended 31 December 2022 and 2023 and the six months ended 30 June 2024.

	For the years ended 31 December		For the six months ended
	2022	2023	30 June 2024
	<i>(RMB'000)</i>		
Total revenue generated from the provision of engineering and construction services by the Group to Sinopec Group	31,245,665	31,981,522	12,582,520
Total expenditure incurred for the provision of engineering and construction services by Sinopec Group to the Group	5,328,745	2,480,959	1,487,067

4. *Existing and Proposed Annual Caps*

(a) Existing Annual Caps

The existing annual caps for each of the years ended/ending 31 December 2022, 2023 and 2024 are set out below:

	For the years ended/ending 31 December		
	2022	2023	2024
	<i>(RMB'000)</i>		
Total revenue generated from the provision of engineering and construction services by the Group to Sinopec Group	55,000,000	55,000,000	55,000,000
Total expenditure incurred for the provision of engineering and construction services by Sinopec Group to the Group	7,000,000	7,000,000	7,000,000

(b) *Proposed Annual Caps*

The proposed annual caps for each of the years ending 31 December 2025, 2026 and 2027 are set out below:

	For the years ending 31 December		
	2025	2026	2027
	<i>(RMB'000)</i>		
Total revenue generated from the provision of engineering and construction services by the Group to Sinopec Group	55,000,000	55,000,000	55,000,000
Total expenditure incurred for the provision of engineering and construction services by Sinopec Group to the Group	7,000,000	7,000,000	7,000,000

(c) *Basis of Caps*

In determining the above proposed annual caps for the Group's provision of engineering and construction services to Sinopec Group for each of the years ending 31 December 2025, 2026 and 2027, the following factors have mainly been considered:

- (i) Sinopec Group's investment plan in relation to, among other things, oil refining, petrochemical, new coal chemical, and natural gas during the period from 2025 to 2027;
- (ii) historical operating income generated from the provision of engineering and construction services by the Group to Sinopec Group, as well as such operating income as a percentage of the Group's total operating income for the corresponding year;
- (iii) the total amount of backlog and new contracts value in connection with the provision of engineering and construction services by the Group to Sinopec Group, as well as such amounts as a percentage of the total amount of the Group's backlog and new contracts value as of 30 June 2024; and
- (iv) the Group's business development plan for the years of 2025, 2026 and 2027, and the operating income in connection with the engineering and construction services provided by the Group to Sinopec Group as a percentage of the Group's total operating income.

After reviewing the above and based on following assumptions:

- (i) Based on the publicly disclosed information of Sinopec Corp., in 2021, 2022 and 2023, the capital expenditure of Sinopec Corp. on oil refining and chemicals were RMB74.1 billion, RMB81.5 billion and RMB78.0 billion, respectively. Its capital expenditure on oil refining and chemicals in 2024 is expected to be RMB70.6 billion. In 2021, 2022 and 2023, the revenue of the Group's engineering and construction services generated from Sinopec Group were RMB37.819 billion, RMB31.246 billion and RMB31.982 billion, respectively, maintaining basically stable. As such, after considering (a) the high-quality development requirements of the petrochemicals industry in the next three years, (b) the continuously stable capital expenditure plan of Sinopec Corp., and (c) the stable revenue of Group's engineering and construction services generated from Sinopec Group, and based on historical amount, the ratio of conversion of Sinopec Group's investment amount to the Group's contract amount is in the range of 40-50%, on which the proposed annual caps are determined;
- (ii) Projects obtained by the Group from Sinopec Group form a core part of the Group's principal activities. To ensure the continuity of the Group's production operations, and to avoid maximum amount business interruption due to the exceeding of proposed caps of the continuing connected transactions under the Engineering and Construction Services Framework Agreement, the Group adopts the maximum amount of the forecast amount as the cap when determining the proposed annual caps;
- (iii) The proportion of new contracts and backlog of engineering and construction services obtained by the Group from Sinopec Group. From 2022 to 2023, the proportions of new contracts value of engineering and construction services obtained by the Group from Sinopec Group to the Group's new contracts value of engineering and construction services were at approximately 30%-40%, while the proportions of backlog obtained by the Group from Sinopec Group to the Group's total backlog for the same years were at approximately 40%-50%. Therefore, the Group will also determine annual caps with reference to such proportions of the engineering and construction services contracts obtained by the Group from Sinopec Group. Therefore, the proposed annual caps are in line with historical caps.

- (iv) The utilization rate of the annual cap for engineering and construction services provided by the Group to Sinopec Group in 2023 was approximately 58%. The differences among the historical transaction amount in 2023, the annual cap for 2023 and the proposed annual cap are mainly due to the facts that: (i) there are significant changes in the arrangement of engineering and construction service projects related to petroleum and petrochemical products due to the fluctuations in international crude oil prices and macroeconomic environment; and (ii) both the Group and Sinopec Group are large enterprises with a large scale and volume, and considering the factors such as changes in the macro environment, the business development of the Group and Sinopec Group and changes in the scheduling of Sinopec Group's large-scale chemical projects, thus there will be potential contingencies that may be difficult to accurately anticipate during the period. Therefore, the annual caps are determined on a commercial viable plan taking into account the maximum amount for various possibilities.

The Board is of the view that the proposed annual caps for the provision of engineering and construction services by the Group to Sinopec Group in 2025, 2026 and 2027, namely RMB55.0 billion per year, are consistent with the development plan of Sinopec Group in the oil refining, petrochemical and LNG fields and of the Group's business in the corresponding years. As such, the Directors are of the view that such proposed annual caps are fair, reasonable and in the interests of the Company and the Shareholders as a whole.

In determining the above proposed annual caps for the provision of services by Sinopec Group to the Group, the following factors have mainly been considered:

- (i) historical expenditure incurred for the provision of services by Sinopec Group to the Group;
- (ii) the expenditure incurred for the provision of services by Sinopec Group to the Group as a percentage of the revenue generated from the provision of engineering and construction services by the Group to Sinopec Group; and
- (iii) the Group's business development plan for the years of 2025, 2026 and 2027.

After reviewing the above and based on following assumptions:

- (i) the expenditure incurred for the provision of engineering and construction services by Sinopec Group to the Group as a percentage of the revenue generated from the provision of engineering and construction services by the Group to Sinopec Group is generally less than 12%. Such percentage is not expected to exceed the above level for the period from 2025 to 2027 as a result of future development of the Group and Sinopec Group;
- (ii) the actual connected transaction amount in relation to the engineering and construction services provided by Sinopec Group to the Group can be estimated using the above percentage, and combined with the estimated increase in investment in different sectors according to the investment plan of Sinopec Group in the coming three years and thus the corresponding future expected expenditure incurred for the provision of engineering and construction services by Sinopec Group to the Group can be estimated; and
- (iii) in order to meet the Group's needs of future business development, the Group will engage Sinopec Group to conduct centralized procurement of IT equipment, bespoke software and network installation, since such arrangements will not only contribute to an increased operational efficiency, but also lower the purchase cost as a result of stronger buying power by combining the needs of Sinopec Group.
- (iv) The utilization rate of the annual cap for engineering and construction services provided by Sinopec Group to the Group in 2023 was approximately 35%. The differences among the historical transaction amount in 2023, the annual cap for 2023 and the proposed annual cap are mainly due to: (i) the volatility of engineering-related procurement cycles; and (ii) the fact that both the Group and Sinopec Group are large enterprises with a large scale and volume, and considering the factors such as changes in the macro environment, the business development of the Group and Sinopec Group and changes in the procurement cycles, thus there will be potential contingencies that may be difficult to accurately anticipate during the period. Therefore, the annual caps are determined on a commercial viable plan taking into account the maximum amount for various possibilities.

The Board is of the view that the proposed annual caps for the provision of engineering and construction services by Sinopec Group to the Group for the years of 2025, 2026 and 2027, namely RMB7.0 billion per year, are consistent with the Group's business development plan in the corresponding years. As such, the Directors are of the view that such proposed annual caps are fair, reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors are also of the opinion that, notwithstanding the above substantial size of the continuing connected transactions with Sinopec Group under the Engineering and Construction Services Framework Agreement will remain in 2025, 2026 and 2027, there is no undue reliance concern between the Group and Sinopec Group. This is mainly because:

- (1) **The business relationship between the Group and Sinopec Group is mutual and complementary.** Sinopec Group is one of the largest petrochemical products manufacturers in the PRC and one of the world's largest petroleum process operators and refiners. The Group is one of the leading oil refining and chemical engineering companies with advanced technologies and remarkable performance in the PRC. Sinopec Group is the largest client of the Group, and the Group is the largest oil refining and chemical engineering service provider of Sinopec Group in terms of the historical revenues. The business cooperation between the Group and Sinopec Group is a mutual result of the respective industry positions and competitive strengths of both parties;
- (2) **Notwithstanding the fact that the industry landscape is dominated by a limited number of customers, the Group has close business relationships with customers other than Sinopec Group.** Oil refining and petrochemical industry in the PRC is highly concentrated and dominated by a handful of leading energy enterprises. As a result, the revenues of oil refining and chemical engineering companies in the PRC, such as the Group, are mostly derived from a limited number of customers in the market, including those from their controlling shareholders. Notwithstanding such industry landscape, the Group has established a diversified customer network other than Sinopec Group and set up a strategic plan for global development and endeavors to exploit the intensely competitive overseas markets. The Group carries out dozens of projects in the Middle East, Central Asia, Southeast Asia and other regions, most of which are projects from Independent Third Parties. In this regard, the Group has a relatively diversified group of major clients; and
- (3) **The Group can maintain its revenue level to be generated from independent clients.** The Group proposes to further promote its cooperation with leading energy enterprises in the PRC and Independent Third Parties in overseas markets to further procure more EPC contracts. As a result, it is expected that the revenue from Independent Third Parties may grow and thereby the revenue level to be generated from independent clients will be maintained.

VI. Hong Kong Listing Rules Implications

CPC is a controlling shareholder of the Company. Under Rules 14A.07(1) and (4) of the Hong Kong Listing Rules, CPC is a connected person of the Company. Accordingly, the transactions under the Framework Agreements between the Group and Sinopec Group constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As each of the highest applicable percentage ratios of the proposed annual caps in respect of the continuing connected transactions in relation to the deposits and entrustment loans under the Financial Services Framework Agreement and the continuing connected transactions under the Engineering and Construction Services Framework Agreement exceeds 5%, in accordance with the Chapter 14A of the Hong Kong Listing Rules, such transactions shall be subject to the reporting, annual review, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. Meanwhile, since each of the highest applicable percentage ratios of the proposed annual caps in respect of the continuing connected transactions in relation to the deposits and entrustment loans under the Financial Services Framework Agreement and the continuing connected transactions under the Engineering and Construction Services Framework Agreement exceeds 25%, such transactions will also constitute major transactions of the Company on an aggregated basis, and are subject to the announcement, circular and Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

As each of the highest applicable percentage ratios of the proposed annual caps in respect of the continuing connected transactions under the General Services Framework Agreement, the provision of Technology R&D Services by the Group to Sinopec Group under the Technology R&D Framework Agreement and the continuing connected transactions under the Land Use Rights and Properties Leasing Framework Agreement exceeds 0.1% but is less than 5%, in accordance with the Hong Kong Listing Rules, such transactions shall be subject to the reporting, annual review and announcement requirements under Chapter 14A of the Hong Kong Listing Rules but exempted from the circular (including independent financial advice) and the Independent Shareholders' approval requirements.

As the highest applicable percentage ratio of the annual caps in respect of the provision of Technology R&D Services by Sinopec Group to the Group under the Technology R&D Framework Agreement (i.e. RMB10 million) and the service fees in relation to settlement, entrustment loans and other financial services under the Financial Services Framework Agreement (i.e. RMB5 million) does not exceed 0.1%, in accordance with the Hong Kong Listing Rules, such transactions are fully exempted from the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

VII. Procedures and Internal Control Measures for Pricing and Terms of the Continuing Connected Transactions

The Company has implemented internal control measures for the entering into of the above continuing connected transactions (including the relevant pricing mechanism). Such measures include the following:

- (1) The Company supervises the continuing connected transactions in accordance with the procedures set forth in the Company's internal control guidelines on continuing connected transactions (including the relevant pricing mechanism).
- (2) For the general services provided by the Group to Sinopec Group that involve market price, if the government-prescribed prices or government-guided prices are not available, the Company will actively seek to obtain market price information through various channels. The Company, for example, may refer to the comparable transaction prices for the same period between the Company and Independent Third Parties (at least two or more) and those between the Independent Third Parties for the same period, make price surveys through other independent vendors of industry information such as industry websites, and participate in activities held by leading industry organizations. The Group will take into account of such market price information, and determine the final price with Sinopec Group through arm's length negotiations on normal commercial terms. For the general services provided by the Group to Sinopec Group where the agreed price is used, the Group, as provider, will provide our quotes to Sinopec Group, while Sinopec Group, as the purchaser, will compare our quotes with the comparable average cost of similar enterprises in the surrounding areas or the cost of their similar products, and determine the final transaction prices. Meanwhile, such prices are also subject to the review of the finance departments of the Group, and finally determined by the management of the Group.

For the general services provided by Sinopec Group to the Group that involve market price, based on the Company's procurement and sales policies, the Company requests the service suppliers, including Sinopec Group and other independent services suppliers, to offer the quotes for the services required. Upon receipt of a quote, the Company will then compare such quote, negotiate the offering terms with service suppliers, and determine the service suppliers after taking into account of the offer price, services quality, specific needs of both parties, and the qualification and relevant experiences of the services suppliers.

- (3) For the Technology R&D Services provided by the Group to Sinopec Group that involve agreed price, with a view to arriving at a reasonable profit, the agreed price is determined through arm's length negotiations between the relevant parties after making references to the average gross profit margins of similar businesses in the most recent financial year, and taking into account various factors, including the type of business, the complexity of the projects and the technologies involved, as well as the prevailing market and business conditions. As to the Group, such price is subject to the review of the Company's technology department (or the technology department of the relevant subsidiary of the Company), or depending on the actual circumstances, such price will be reported by the Company's technology department to the Company's management for its further review and approval (or will be reported by the technology department of the relevant subsidiary of the Company to the management of such subsidiary for its further review and approval). The technology department and the management of the Company or the technology department of the relevant subsidiary of the Company and the management of such subsidiary (as the case may be) will take into account factors including the type of business, the complexity of the projects and the technologies involved, as well as the prices of one to two relevant comparable services recently provided by the Group to Independent Third Parties in the past three months (if any) to ensure that the price of the Technology R&D Services provided by the Group to Sinopec Group is fair and reasonable, and is determined on normal commercial terms or on terms no less favorable than the terms provided by the Group to Independent Third Parties.

For the Technology R&D Services provided by Sinopec Group to the Group that involve market price, before entering into any transactions under the Technology R&D Framework Agreement with the relevant members of Sinopec Group, the Group will actively seek to obtain market price information for the same or similar products, technologies or services through various channels, for example, obtaining quotes from at least one independent third vendor, and, where available, obtaining market price information through various independent industry information vendors (such as industry organizations and professional organizations). The Company's technology department will review and compare such quotes and, where available, the market price information with the quotes offered by the relevant members of Sinopec Group, or depending on the actual circumstances, the Company's technology department will report the quotes and, where available, the market price information to the Company's management for its further review as to whether to accept the quotes offered by the relevant members of Sinopec Group, so as to ensure that the price of the Technology R&D Services provided by Sinopec Group to the Group is fair and reasonable, and is determined on normal commercial terms or on terms no less favorable to the Group than those available from Independent Third Parties.

- (4) For the land use rights and properties leasing services provided by the Group to Sinopec Group that involve market price, the Company will actively obtain market rent information in the surrounding areas where the land and properties are located through various channels, for instance, referring to comparable rent for the same period between the Company and Independent Third Parties (at least two or more) as well as comparable rent for the same period between Independent Third Parties. The Group will refer to these market rent levels, and determine the final transaction price with Sinopec Group through arm's length negotiations on normal commercial terms. The Group will ensure that the relevant terms are based on normal commercial terms or on terms no less favorable than the terms provided by the Group to Independent Third Parties.

For the land use rights and properties leasing services provided by Sinopec Group to the Group that involve market price, the Company will also refer to the market rent information in the surrounding areas where the land and properties are located after receiving the rental price quotation. After fully considering the comparable market rent and the actual needs of the Group, the Company will finally enter into a land use right and properties leasing agreement with Sinopec Group. The Group will ensure that the relevant terms are based on normal commercial terms or on terms no less favorable to the Group than those available from Independent Third Parties.

- (5) For the engineering and construction services provided by the Group to Sinopec Group that involve agreed price, with a view to arriving at a reasonable profit, such price will be determined through arm's length negotiations between the relevant parties after making references to the gross profit margins of various business segments as disclosed in the Company's annual report for the most recent financial year, and taking into account various factors, including the type of business, the complexity of the projects and the technologies involved, as well as the prevailing market and business conditions. As to the Group, such price is subject to the prior review of the marketing department of the relevant subsidiary of the Company, or depending on the actual circumstances, such price will be reported by the marketing department of the relevant subsidiary of the Company to the management of such subsidiary for its further review. The marketing department and the management (as the case may be) of the relevant subsidiary of the Company will take into account factors including the type of business, the complexity of the projects and the technologies involved, as well as the price scope and service price of at least one relevant comparable service recently (generally in the past three months to around one year given that the agreed price is mainly applied for services under certain circumstances (e.g. for services with unique technological advantages)) provided by the Group to Independent Third Parties to ensure that the price of the engineering and construction services provided by the Group to Sinopec Group is fair and reasonable, and is determined on normal commercial terms or on terms no less favorable than the terms provided by the Group to Independent Third Parties.

For the services provided by Sinopec Group to the Group, relevant vendors will provide a cost list in respect of the relevant services provided by Sinopec Group to the Group, and the Group will then seek to obtain the prices of relevant comparable services provided by at least three (where applicable) independent vendors to determine the reasonable costs and profits for ascertaining the agreed price of the services provided by Sinopec Group to the Group through arm's length negotiations. As to the Group, such price is subject to the prior review of the marketing department and the procurement department of the relevant subsidiary of the Company, or depending on the actual circumstances, such price will be reported by the marketing department and the procurement department of the relevant subsidiary of the Company to the management of such subsidiary for its further review. The marketing department, the procurement department and the management (as the case may be) of the relevant subsidiary of the Company will take into account factors including the scope, the quality and the prices of relevant comparable services provided by independent vendors to ensure that the price of the services provided by Sinopec Group to the Group is fair and reasonable, and is determined on normal commercial terms or on terms no less favorable to the Group than those available from Independent Third Parties.

- (6) The finance department of the Group works closely with other business departments and subsidiaries to collect information such as historical transaction amounts and transaction terms of the connected transactions, analyze and estimate if the actual transaction amounts of the continuing connected transactions may exceed the annual caps. The finance department of the Group will also form an inspection team which inspects the performance of connected transactions twice a year, recommends and enforces measures of enhancement to correct any noncompliant issues identified in a timely manner.
- (7) As part of its audit procedures for the half-year audit, the Group's external auditor will conduct checking on the pricing policies and the annual caps of the continuing connected transactions on a half-yearly basis. The Group's external auditor also issues an assurance report in respect to the continuing connected transactions each year.
- (8) The Board will review the performance of the continuing connected transactions and the financial reports that consist of the performance of the continuing connected transactions on a half-yearly basis. The Board of the Company will then opine on matters such as (i) whether the pricing policies thereunder were fully complied with by the Group when performing the Framework Agreements; and (ii) whether the actual transaction amounts of each of the continuing connected transactions incurred exceed the annual caps as approved at the general meeting. The independent non-executive Directors will report to the Shareholders at the general meeting on an annual basis on their performance of such duties. Such report includes opinions of independent non-executive Directors on (i) whether the actual transaction amounts of each of the continuing connected transactions incurred exceed the annual caps as approved at the general meeting; (ii) whether each of the continuing connected transactions is performed pursuant to the pricing policies or mechanisms and other key terms under each of the Framework Agreements; and (iii) whether each of the continuing connected transactions is fair and reasonable and in the interests of the Group and the Shareholders as a whole.

- (9) The Group's internal control and risk management departments will conduct review on the pricing policies and other internal control measures in respect of the continuing connected transactions on an annual basis, in order to ensure such internal control measures remain complete and effective.
- (10) The Supervisory Committee will also review the matters relating to the continuing connected transactions. It will review the annual financial reports and interim financial reports which contain information regarding the performance of the continuing connected transactions on an annual basis. It will also review the performance of the continuing connected transactions such as whether the pricing policies or mechanisms are enforced, whether the prices are fair and reasonable and whether there is any act which may be detrimental to the interests of the Group and the Shareholders as a whole.
- (11) The Company's Audit Committee will also review the annual financial report and interim financial report of the Group which contain information regarding the performance of the continuing connected transactions. It will opine on matters such as whether the pricing policies or mechanisms are enforced, whether the prices are fair and reasonable and whether the actual transaction amounts of the continuing connected transactions incurred exceed the annual caps as approved at the general meeting.

By implementing the above measures, the Directors consider that the Company has established sufficient internal control measures to ensure that the continuing connected transactions are fair and reasonable, on normal commercial terms or on terms no less favorable than the terms available to or from Independent Third Parties (as the case may be), and in the interests of the Company and the Shareholders as a whole.

VIII. Approval by the Board and Independent Shareholders

On 16 August 2024, the Company held the 20th meeting of the fourth session of the Board. After discussion, all the non-connected Directors unanimously approved, among other things, the respective terms under each of the Framework Agreements, the continuing connected transactions thereunder and the proposed annual caps. In particular, the Non-exempt Transactions will also constitute major transactions of the Company on an aggregated basis. Since the relevant resolutions are related to a connected transaction with the Company's controlling shareholder, XIANG Wenwu, LI Chengfeng and YU Renming, our Directors, have abstained from voting on the aforementioned resolutions at the relevant Board meeting.

Mr. HUI Chiu Chung, Stephen, Mr. DUAN Xue, Mr. YE Zheng and Mr. ZHAO Jinsong, being the independent non-executive Directors, unanimously approved the relevant resolutions. All the non-connected Directors (including the independent non-executive Directors) considered that (i) the Framework Agreements and the continuing connected transactions thereunder are on normal commercial terms in the ordinary and usual course of the Group's business; and (ii) the terms thereunder and the annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Maxa Capital has been appointed as the Independent Financial Adviser and will advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the Non-exempt Transactions and the proposed annual caps thereunder. It will also advise the Independent Shareholders on how to vote and other relevant issues.

According to the Hong Kong Listing Rules, the Independent Board Committee has been formed. After considering the advice from the Independent Financial Adviser, the Independent Board Committee will advise the Independent Shareholders as to whether the terms of the Non-exempt Transactions and the proposed annual caps thereunder are fair and reasonable, and whether they are in the interests of the Company and the Shareholders as a whole. To the best of the Directors' knowledge, information and belief after making all reasonable enquiry, no member of the Independent Board Committee has any material rights or interests in the aforementioned continuing connected transactions.

The Company will convene the EGM for the Independent Shareholders to consider and approve (if thought fit), among other things, the Non-exempt Transactions and the proposed annual caps thereunder. As of the date of this announcement, CPC 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 approximately 67.36% of the issued total share capital of the Company. Sinopec Group therefore constitutes the controlling shareholder and a connected person of the Company.

A circular containing, among other things, (i) further details of the Non-exempt Transactions and the proposed annual caps thereunder; (ii) a letter from the Independent Board Committee; (iii) a letter from Maxa Capital; and (iv) the notice of the EGM, may be dispatched later than 15 business days after publication of the announcement as required under the Hong Kong Listing Rules, as additional time is required for the Company to prepare the circular.

IX. General Information

1. The Company

The Company is a joint stock limited company established in the PRC, principally provides engineering services covering oil refining, petrochemicals, new coal chemicals, inorganic chemicals, pharmaceutical chemicals, clean energy, storage and transportation engineering, environmental engineering and energy saving engineering, among other industry sectors, and provides overall services across business chain including technology R&D and licensing, preliminary consulting, financing assistance, design, procurement, construction and pre-commissioning and start-up services. As at the date of this announcement, CPC is the controlling shareholder of the Company.

2. *CPC*

CPC is a limited liability company established under the laws of the PRC, and it is a state-authorized investment institution and state-owned company. Its principal operations include: exploration, exploitation, storage and transportation (including pipeline transportation), sales and comprehensive utilization of oil and natural gas; oil refining; wholesale and retail of oil products; production, sales, storage, transportation of petrochemical and other chemical products; industrial investment and investment management; exploration and design, construction and installation of petroleum and petrochemical engineering; repairing and maintenance of petroleum and petrochemical equipment; manufacture of mechanical and electrical equipment; technology and information, research and development, application and consultation services of alternative energy products; import and export business. As at the date of this announcement, the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) is the controlling shareholder of CPC.

3. *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 NFRA to provide deposits, loans and other financial services to member companies of Sinopec Group. Sinopec Finance is 51% owned by CPC and 49% owned by Sinopec Corp.

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 and deposit reserve thresholds. NFRA amended the Administrative Measures on Finance Companies within Group Enterprises, a regulatory guideline with respect to the ongoing regulation of non-banking financial institutions, in November 2022, specifying that “the group parent shall assume the primary responsibility for the prevention and mitigation of risks of the finance company, and shall establish an effective risk segregation mechanism to prevent risks extending from the finance company; and the group parent and the controlling shareholder of the finance company shall supplement capital to the finance company if necessary, which shall be set out in the articles of association of the finance company.” CPC provided such undertaking in relation to the obligation to supplement capital on 18 December 2004 (the “Parent Undertaking”). The Parent Undertaking provides that CPC 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 at 31 December 2023, Sinopec Finance had total assets of RMB214.12 billion, net assets of RMB33.754 billion, registered capital of RMB18 billion, a capital adequacy ratio of 17.62% and a liquidity ratio of 78.18%. Based on the unaudited financial data of Sinopec Finance, as at 30 June 2024, Sinopec Finance had total assets of RMB219.329 billion, net assets of RMB33.906 billion, registered capital of RMB18 billion, a capital adequacy ratio of 16.50% and a liquidity ratio of 69.24%. Sinopec Finance’s operation is in good condition with steady development, and its major regulatory indicators are in compliance with the relevant requirements of NFRA.

4. *Sinopec Century Bright*

Sinopec Century Bright was incorporated in Hong Kong in March 1995 and is a licensed money lender established pursuant to the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). It was approved by the State Administration of Foreign Exchange as an offshore settlement center in 2007 to provide deposits, loans and other financial services to member companies of Sinopec Group. It has wholly-owned subsidiaries in Shenzhen of the PRC, Singapore, Houston of the USA, London of the UK, Dubai of the UAE and Malaysia.

As at 31 December 2023, Sinopec Century Bright had total assets of RMB320.927 billion and net assets of RMB30.346 billion. Based on the unaudited financial data of Sinopec Century Bright, as at 30 June 2024, Sinopec Century Bright had total assets of RMB316.694 billion and net assets of RMB32.642 billion. In addition, Sinopec Century Bright has obtained A2 credit rating from Moody's and A rating from Standard & Poor's.

X. **Definition**

In this announcement, unless otherwise indicated in the context, the following terms have the meanings set out below.

“associate(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Board”	the board of directors of the Company
“Company”	SINOPEC Engineering (Group) Co., Ltd., a joint stock limited liability company incorporated under the laws of the PRC in August 2012, which is listed on the Hong Kong Stock Exchange (Stock Code: 2386)
“connected person(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“connected transaction(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“CPC”	China Petrochemical Corporation (中國石油化工集團有限公司), 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
“Director(s)”	the director(s) of the Company

“EGM”	the first extraordinary general meeting of the Company for the year 2024 proposed to be convened
“Engineering and Construction Services Framework Agreement”	an engineering and construction services framework agreement entered into between the Company and CPC on 19 December 2012, as amended by certain supplemental agreements dated 16 August 2024, etc., respectively
“Financial Services Framework Agreement”	a financial services framework agreement entered into between the Company and CPC on 19 December 2012, as amended by certain supplemental agreements dated 16 August 2024, etc., respectively
“Framework Agreements”	the General Services Framework Agreement, the Technology R&D Framework Agreement, the Land Use Right and Properties Leasing Framework Agreement, the Financial Services Framework Agreement and the Engineering and Construction Services Framework Agreement
“General Services Framework Agreement”	a general services framework agreement entered into between the Company and CPC on 19 December 2012, as amended by certain supplemental agreements dated 16 August 2024, etc., respectively
“Group” or “we” or “us”	the Company and its subsidiaries
“HK\$”	the lawful currency of Hong Kong
“Hong Kong”	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, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	the independent Board committee comprising Mr. HUI Chiu Chung, Stephen, Mr. DUAN Xue, Mr. YE Zheng and Mr. ZHAO Jinsong, which is set up for the purpose of advising the Independent Shareholders on the terms of the Non-exempt Transactions and the proposed annual caps thereunder

“Independent Financial Adviser” or “Maxa Capital”	Maxa Capital Limited, a licensed corporation permitted to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong), which was appointed by the Company as the independent financial adviser for the purpose of advising the Independent Board Committee and the Independent Shareholders on the terms of the Non-exempt Transactions and the proposed annual caps thereunder
“Independent Shareholders”	Shareholders other than Sinopec Group
“Independent Third Party(ies)”	party(ies) not connected with any of the Directors, the Supervisors, the chief executive or the substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Land Use Right and Properties Leasing Framework”	a land use right and properties leasing framework agreement entered into between the Company and CPC on 19 December 2012, as amended by certain supplemental agreements dated 16 August 2024, etc., respectively
“NFRA”	the National Financial Regulatory Administration
“Non-exempt Framework Agreements”	the Financial Services Framework Agreement and the Engineering and Construction Services Framework Agreement
“Non-exempt Transactions”	the continuing connected transactions in relation to the deposits and entrustment loans under the Financial Services Framework Agreement and the continuing connected transactions under the Engineering and Construction Services Framework Agreement
“PBOC”	the People’s Bank of China (中國人民銀行)
“PRC” or “People’s Republic of China”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administration Region of the PRC and Taiwan
“Prospectus”	the prospectus of the Company dated 10 May 2013
“Renewal of Continuing Connected Transactions”	renewal of the Framework Agreements and the annual caps for 2025 to 2027
“R&D”	research and development
“RMB”	the lawful currency of the PRC

“Safety Operation Training Services”	the all-system daily safety operation training and safety technology R&D services within Sinopec Group provided by the Group as entrusted by Sinopec Group
“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 CPC
“Share(s)”	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each
“Shareholder(s)”	holder(s) of the Shares
“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 29 November 1994 and a connected person of the Company, with 100% of its equity interest being held by CPC
“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 (Stock Code: 0386) and Shanghai Stock Exchange (Stock Code: 600028) and is a subsidiary of CPC
“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, which is 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 CPC
“Sinopec Finance Institutions”	Sinopec Century Bright and Sinopec Finance
“Sinopec Group”	CPC and its associates
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“substantial shareholder(s)”	has the meaning ascribed thereto in the Hong Kong Listing Rules
“Supervisor(s)”	the members of the Supervisory Committee
“Supervisory Committee”	the Company’s supervisory committee established pursuant to the Company Law

“Technology R&D Framework Agreement”	a technology R&D framework agreement entered into between the Company and CPC on 19 December 2012, as amended by certain supplemental agreements dated 16 August 2024, etc., respectively
“Technology R&D Services”	pursuant to 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
“US\$”	the lawful currency of the United States of America
“%”	percentage ratio

By Order of the Board
SINOPEC ENGINEERING (GROUP) CO., LTD.
YIN Fengbing
Chief Financial Officer & Secretary to the Board

Beijing, the PRC
18 August 2024

As at the date of this announcement, directors of the Company are: *JIANG Dejun*[#], *ZHANG Xinming*[#], *XIANG Wenwu*^{*}, *LI Chengfeng*^{*}, *YU Renming*^{*}, *HUI Chiu Chung, Stephen*⁺, *DUAN Xue*⁺, *YE Zheng*⁺, *ZHAO Jinsong*⁺ and *XIE Yanli*[#].

[#] *Executive Directors*

^{*} *Non-executive Directors*

⁺ *Independent non-executive Directors*

This announcement is available on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and on the website of the Company (www.segroup.cn).

^{*} *For identification purposes only*