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)

2020 ANNUAL BUSINESS PLAN FOR FINANCIAL DERIVATIVES

SINOPEC Engineering (Group) Co., Ltd. (the "**Company**") held the tenth meeting of the Third Session of the board of directors (the "**Board**") on 20 March 2020, which approved, among others, the resolution in relation to the 2020 annual business plan for financial derivatives (the "**Annual Business Plan for Financial Derivatives**"). Details of the Annual Business Plan for Financial Derivatives are set out below.

I. BUSINESS OBJECTIVES

In light of the continuous operation of the overseas business of the Company, the Company faces certain scale of the foreign exchange exposure and fluctuations in its profits and losses due to the changes in foreign exchange rates. In order to effectively manage the exchange rate risks of U.S. dollar-denominated assets, the Company intends to trade in foreign exchange derivatives under appropriate market conditions in accordance with the risk management principles and strategies of the Company and with reference to its actual needs.

In order to plan and prepare in advance to facilitate the prompt reaction and execution of such transactions under favourable market conditions, the Company has formulated the Annual Business Plan for Financial Derivatives, which was considered and approved at the tenth meeting of the Third Session of the Board.

II. BUSINESS SCOPE

The Company will trade in financial derivatives under the principle of capital preservation by way of hedging. The Company intends to only utilise financial derivative products such as forwards, swaps and options or suitable portfolios of the aforementioned products as the business scope of financial derivative products.

* *For identification purposes only*

III. BUSINESS SCALE

In consideration of the balance of U.S. dollar monetary funds of the Company as at the end of 2019 and the expected transactions value in U.S. dollar in 2020, the trading scale of financial derivatives in 2020 shall not exceed US$1 billion.

The abovementioned cap is determined based on the assessment of the Company's risk exposure of U.S. dollar monetary funds. Any adjustment to such cap (if required) shall be separately submitted to the Board for consideration and approval.

The Company does not have any plan to expand the aforementioned trading scale by using any leveraged instrument.

IV. RISK ANALYSIS

1. **Market risks**: Whenever the trend of market exchange rates or interest rates substantially deviate from expectation, the exchange rates cost for U.S. dollar-denominated assets locked by the Company in advance by making use of financial derivatives might be higher than that would have been incurred if no hedging transactions were entered into, which would increase the financial expenses. In addition, a relatively large fluctuation in exchange rates could lead to a substantial change in the fair value of the financial derivatives. In the event that the existing assets were not fully hedged, the book gain or loss of the Company could be affected to some extent.

2. **Credit risks**: In the event of a credit default by the trading counterparties of designated financial derivatives, and the settlement is not completed in accordance with the agreed-upon price or amount, the Company may not be able to recover the exchange rates loss incurred from the appreciation of the exchange rate of Renminbi by entering into hedging transactions.

3. **Operational risks**: In the course of financial derivatives trading, transaction losses may be incurred due to any inaccurate or untimely deal execution arising from any subjective or objective factors such as manual operating fault or internal control deficiencies.

V. RISK CONTROL MEASURES

1. The Company will specify the objectives and principles for the use of financial derivatives and adhere to the purpose of capital preservation by way of hedging. The Company will fully leverage on the advantages of financial derivatives in terms of hedging the risks associated with the exchange rates of U.S. dollar-denominated assets, and prohibit any speculative transactions involving high risks. With respect to the trading tools, the Company will strictly adhere to the transaction principles, such as the matching and ratio, reverse hedging, gain/loss balances, simplified and systematic transactions.

2. In compliance with the relevant laws and regulations, the articles of association of the Company and the authorisation manual of the Company, the Company will strengthen its internal control system in relation to foreign exchange risks, clearly divide the power and duties involved in the approval and execution of business transactions, and separate the personnel of internal control, trading and accounting, so as to ensure the compliance and effectiveness of each financial derivative transaction.

3. The Company will only conduct its trading in financial derivatives with large banks with legitimate operation qualification and high credit ratings.

VI. PRINCIPLES OF ACCOUNTING

The Company will strictly comply with the International Financial Reporting Standard 9 published by the International Accounting Standards Board as well as the accounting requirements on financial instruments in the guidance thereof, and make accounting treatment for the financial derivatives trading activities as required.

Shareholders of the Company and potential investors are advised that after the approval of the Annual Business Plan for Financial Derivatives by the Board, the Company may trade in financial derivatives based on the expectation of then market trend in foreign exchange rates, interest rates and volatility, but the Company is not obliged to make such trade in any financial derivative in 2020.

By order of the Board
SINOPEC ENGINEERING (GROUP) CO., LTD.
JIA Yiqun
Chief Financial Officer, Company Secretary

Beijing, the PRC
23 March 2020

As at the date of this announcement, the Company's executive directors are YU Renming, XIANG Wenwu, SUN Lili (employee representative director) and ZHOU Yingguan (employee representative director); the non-executive director is WU Wenxin; and the independent non-executive directors are HUI Chiu Chung, Stephen, JIN Yong and YE Zheng.

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