



SINOPEC ENGINEERING (GROUP) CO., LTD.

Stock code: 2386.HK



2016

Environmental Social and Governance Report

Introduction

The 2016 Environmental, Social and Governance Report (the “Report”) is compiled to give shareholders of the Company (the “Shareholders”) and other relevant stakeholders a thorough report of the Company’s work in terms of the performance of corporate social responsibility and the achievement of sustainable development as well as give a display of the Company’s good image. With the goal of “building a world-class engineering company”, the Report puts its main focus on company development mode, innovation-driven strategy and key social responsibility work, and gives a systematic introduction of the Company’s policies and objectives, implementation measures and effects regarding environmental, social and governance issues from four aspects, namely work safety assurance, value creation, environmental protection and win-win profits.

The report gives a detailed description of the efforts SEG made in 2016 for promoting its four strategies, which are “energy and chemical-oriented, innovation-driven, globalisation-targeted and value-focused”, as well as the efforts that it has made to assume its social responsibilities through means of innovation that is aimed to promote market expansion, enhance competitive strength and promote values, and continuous development of advanced energy saving and environmental friendly technologies that makes the energy and petrochemical process cleaner, more efficient and safer. In addition to the management approach, strategies and efforts that SEG made in the environmental, social and governance aspects in 2016, the progress made in this regard is also described in the Report. A few cases are presented in the Report to demonstrate our efforts in continuously upgrading technologies for the reduction of environmental footprint in project construction. Meanwhile, the Report also illustrates how the Company maintained its good image through assuming social responsibilities and adopting green and low-carbon development, which reflects the Company’s focus on return to shareholders, customer service, care for employees, cooperation with partners and giving back to the society.

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Chairman's Statement

Dear Shareholders:

First of all, on behalf of the Board of Directors of SINOPEC SEG, I express my heartfelt gratitude to you and all sectors of the society for your care and support.

2016 was a year in which the global energy and chemical engineering industries encountered exceptional difficulties in operations. Faced with the complicated and grave business situation, the management of the Company led all employees in achieving the hard-won production and operation results through early planning and active response. For the year 2016, the Company's revenue was RMB39.375 billion, its net profit was RMB1.663 billion, and the total value of its new contracts was RMB27.564 billion. As at the end of 2016, the Group's backlog was RMB88.173 billion. After due consideration of the Company's earnings, the return to shareholders and the needs for future sustainable development as a whole, the Board recommended a final dividend of RMB0.078 per Share for the year 2016. After taking into account the interim dividend of RMB0.072 per Share, the total dividend for the year will be RMB0.150 per Share.

In 2016, the Company continued to guide its reform and development along with the four strategies of "energy and petrochemical-oriented, innovation-driven, globalisation-targeted and value-focused", actively promoted cost-cutting and benefit-enhancing actions, and steadily promoted production and operation. In the implementation of projects, we strove to reduce operating cost through delicacy management; in market development, we remained market-oriented and customer-focused in the efforts made to enhance our competitive advantages in the market; in our overseas business, we seized the opportunity brought by the "Belt and Road" strategic initiative and fastened our steps of going global; in scientific and technological innovations, we worked hard to successfully organise the collaboration of major technologies and the implementation of technological innovation projects, made full use of the distinctive advantages of the R&D Center in the development of engineering technology and

continuously strengthened the collaboration with famous licensors in the world.

In 2016, all members of the Board were diligent in performing their duties, made decisions through a scientific process to ensure implementation of the resolutions passed at shareholders' meetings and guided the Company to develop in the right direction, thereby achieving its sustainable and healthy development. Meanwhile, we revised the terms of reference of the Audit Committee of the Board to include the risk management function and restructured the risk management system to involve the Board as a crucial component of the said system. It has been a year since the implementation of the revised terms of reference of the Audit Committee of the Board, which has led to more scientific and effective risk-control decisions.

In 2016, the Company proactively performed its social responsibilities. The Company developed, promoted and utilised upgraded refined oil products and new environmental protection and energy saving technologies. In particular, we launched Tianjin gasoline quality upgrading project in the year, which was the first domestic project of the kind that produces gasoline meeting the national CHINA 6 standard. The Company fully implemented QHSE (quality, health, safety and environment) management, adhered to the people-oriented principle, cared for employees and promoted sustainable corporate development. The Company also paid much attention to the protection of legitimate interests of stakeholders, such as customers and suppliers, in the areas where the projects are operated and promoted the harmonious and stable development of society. Meanwhile, in response to the regulations of The Hong Kong Stock Exchange on disclosure of environmental, social and governance matters, we released our 2016 "Report on Environment, Society and Governance" concurrently with this annual report to meet the needs and expectations of investors and all sectors of the society for the relevant information of the Company.

In 2016, due to work adjustments, Mr. ZHANG Jianhua and Mr. YAN Shaochun resigned from their

directorship. We hereby express our heartfelt gratitude to them for their diligent fulfillment of their duties, hard work and prominent contributions to the operations and development of the Company during their tenure. It was very kind of the Directors to elect me to the position of the Chairman of the Board. I would like to thank the shareholders and the Board for their trust and support.

The macro environment will remain grave in 2017. The world economy is facing slowdown and challenges in growth, and the imbalance between global oil supply and demand may remain in the near future. The reform of energy production and consumption has been accelerated, and the investments in oil refining and petrochemical industry are weak and have become more competitive. All of these factors have brought great challenges to and imposed higher standards on the Company. The Company will accelerate its restructuring, enhance the quality and effectiveness of its businesses, and foster and develop new businesses. It will implement reform measures in a comprehensive manner, further improve its system and policy, optimise resources and increase operation efficiency. It will also actively fulfill its corporate social responsibility, develop energy-saving and eco-friendly business and contribute to the sustainable development of the energy and chemical industry.

In light of the coexistence of opportunities and challenges, along with the synchronous development of China's industrialisation, urbanisation, informatisation and agricultural modernisation will maintain the increase in market demands for energy and chemical products, and will provide room for sustainable development of the Company in the market. The implementation of the industrial plans for seven national petrochemical bases and four world-class refining bases of Sinopec will bring a new development opportunities to the Company. The progress of the "Belt and Road" initiative has injected new momentum into the economic development of the countries along the route and has also brought a strong boost to the Company in the expansion of its overseas business.



Chairman Ling Yiqun

Beijing, PRC March 17, 2017

Faced with opportunities and challenges, the Board and management of the Company will bear in mind their missions, shoulder great trust, remain industrious and diligent in fulfilling their duties. We will further solidify the foundation, scrupulously develop our projects, innovate our operating mechanisms, implement strict management, reinforce our strengths and build an outstanding enterprise to give back to the society, create returns to the shareholders and benefit the employees with better development and performance. I hereby would like to extend our heartfelt gratitude to the shareholders that support the reform and development of the Company, to all walks of life that assist the Company in its growth and to all the employees and their family members who have stood with the Company through thick and thin!

01

About Us

SEG is an international engineering corporation, with the leading edge in the PRC. With its industry experience of more than 60 years and continual innovation in technical expertise, the Group has achieved great success in the implementation of large-scale and complex oil refining, petrochemical, new coal chemical, natural gas processing as well as storage and transportation project, and possesses strong competitiveness. We are committed to pursue the coordinated development in the area of health, safety and environment to minimize impacts of production activities on the environment, and we are proactively assuming our social responsibility, making contribution to society.





1.1 Company profile

In 2012, SINOPEC Engineering (Group) Co., Ltd. (“SEG” “Company” or “we”) was restructured as China’ s largest and most long-standing company with the best execution in refinery, petrochemicals and new coal-chemical industry in China. After the restructuring, SEG has become a major integrated engineering service provider and technology licensor controlled by Sinopec Group, serving both the domestic and international chemical engineering markets. We enjoy a complete business chain ranging from oil refining, petrochemical, coal-based chemical engineering to natural gas processing, storage and transportation, which is capable of offering services in diversified areas, including feasibility studies, technology consultation, technology licensing, engineering consultation, engineering design, procurement, equipment manufacture, construction and project management as well as engineering, procurement and construction (“EPC”) services.

SEG has strong capability in executing large and complicated oil refining, petrochemical and coal-based chemical projects, leading in the domestic market and competitive in the international engineering market.

Developing and owning technologies in the energy and chemical fields is one of the distinctive features that differentiate SEG from its domestic and international competitors. We own or co-own several proprietary technologies in the oil refining, ethylene and down-stream business, aromatics and coal-based chemical fields. SEG has Grade-A certification for comprehensive engineering design and petrochemical industry engineering design, and has the capability for simultaneous engineering design of multiple 10 million tpa-class oil refining and million tpa-class ethylene refining and petrochemical projects; top grade certification for EPC of petrochemical projects and essential professional construction certification, and we have distinguished professional strengths in lifting, transportation and installation of large pieces of equipment, installation of large tanks, installation and commissioning of large automation DCS system as well as welding of special materials. We also proudly boast the capability and business scale to execute simultaneously over 20 large EPC projects and complete RMB100 billion of engineering design investment per annum.

Adhering to our core values of “people-oriented, integrity, tolerance, professional enthusiasm, innovation and win-win” , and guided by our strategies of “energy and chemical-oriented, innovation-driven, globalisation-targeted and value-focused” , we insist on scientific development and strive to maintain and enhance our competitive strengths, make continuous efforts in optimizing our business structure, accelerating the extension of our business chain and actively exploring new business opportunities. Relying on the advantages of operating as a corporate group, we are able to coordinate and balance our domestic and international markets, and strive to build a modern enterprise with sound decision-making, efficient management practices and a flexible business system.



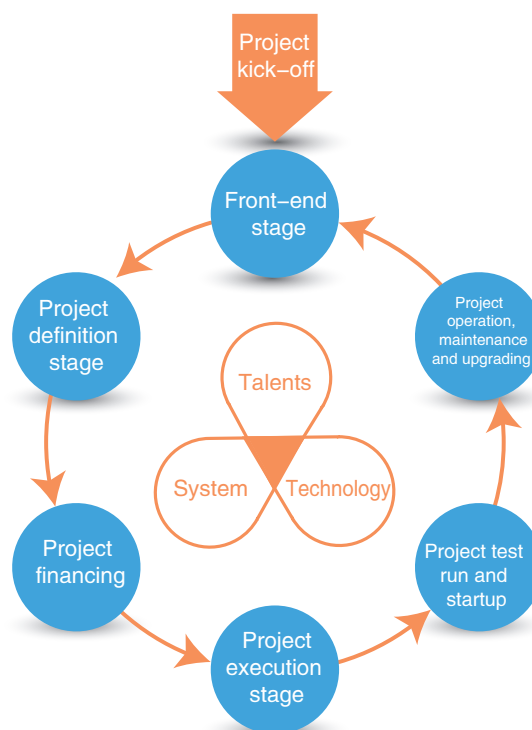
1.2 Business philosophy

Corporate core values:

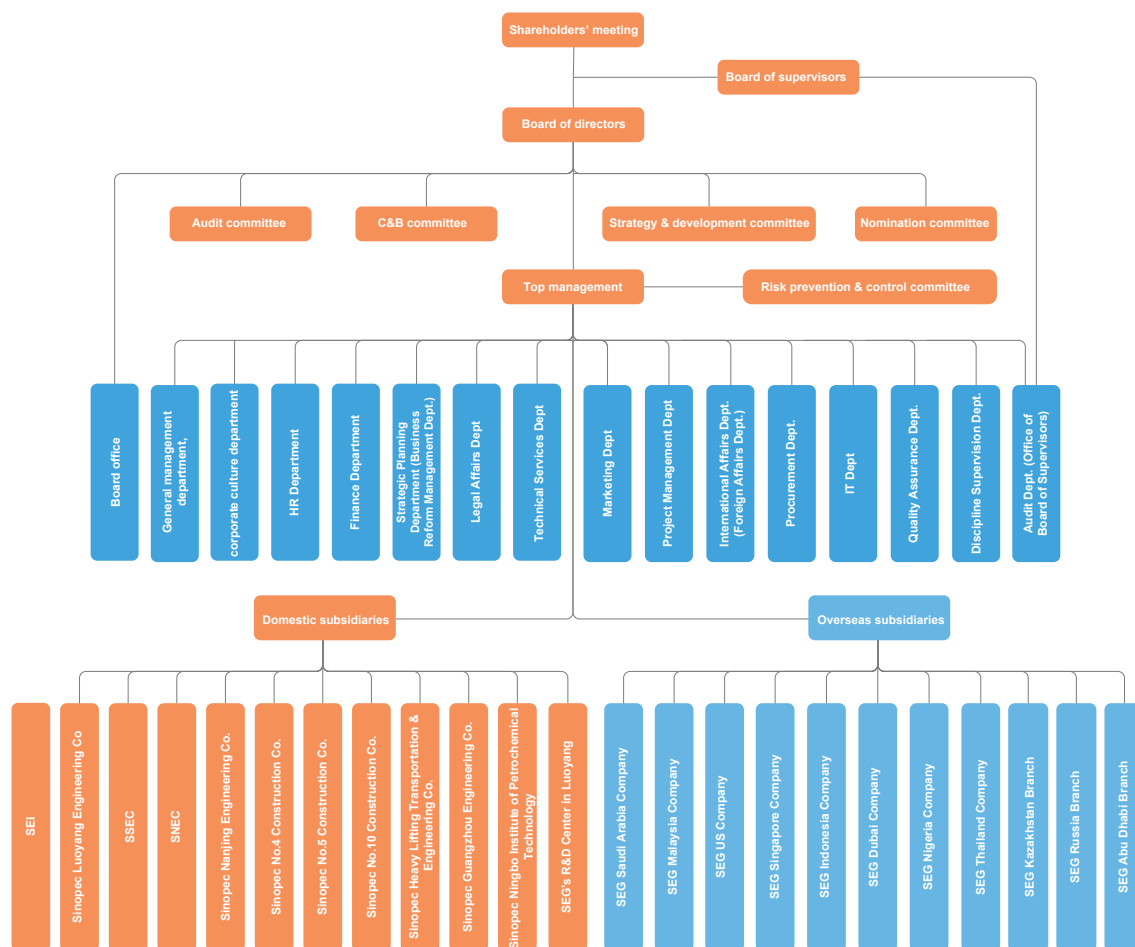
People-oriented, integrity, tolerance, professional enthusiasm, innovation and win-win.

Corporate vision and mission:

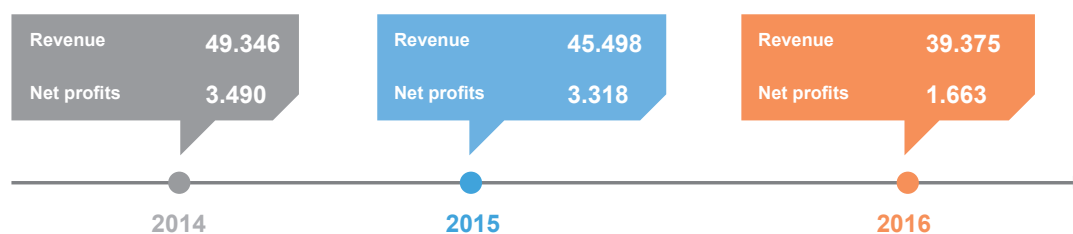
Under the corporate vision of “building a world-class engineering company”, SEG endeavors to deepen the implementation of its development strategies which are “energy and chemical-oriented, innovation-driven, globalisation-targeted and value-focused”, and strengthen its core competitiveness in providing one-stop integrated solutions in a bid to accomplish its corporate mission of “SINOPEC fights for the a quality of life; build SEG as a better place and share it with you” .



1.3 Organizational chart



1.4 Key business indicators (unit: RMB billion)



1.5 ERP Ranking

In 2016, SEG again secured its place in the top 50 of the “Ranking of Global Top 250 Engineering Contractors” through ranking the 46th, and ranked the 75th in the “Ranking of Top 250 International Contractors”, nine places higher than that in 2015. The “Ranking of Top 250 International Contractors” is based on the international operating revenue of construction companies, which is the only one index for evaluating the international competitiveness of construction companies. The increase in SEG’s ranking indicates the further enhancement of the Company’s international competitiveness in 2016 as a result of its continuous efforts in developing its overseas businesses.



02

Corporate Governance

SEG is devoted to “building a world-class engineering company”, for which sound corporate governance is a significant cornerstone.





2.1 Improving management structure

SEG is devoted to “building a world-class engineering company”, for which sound corporate governance is a significant cornerstone. Continuous improvement of corporate governance structure will provide a solid basis for our efforts towards our development targets. We will continuously upgrade our corporate governance, regulate our operations, intensify internal control and risk management, and improve the corporate capability of scientific decision-making and risk mitigation.

To improve its corporate governance, the Company standardized its corporate governance, in strict compliance with the working rules, systems and norms such as the Articles of Association, the Rules of Procedures for the General Meetings of Shareholders, the Rules of Procedures for Meetings of the Board and Rules of Procedures of the Supervisory Committee. We diligently and efficiently convened shareholders meetings and board meetings. All directors, supervisors and other executives are required to take trainings and diligently fulfill their duties. Independent directors have actively participated in management activities by providing business advice as to the Company’s growth through communications with the chairman of the Board, management team, external auditors and internal audit department, and conducting surveys in SEG’s affiliated companies.



2.2 Meetings convened

In 2016, one annual general meeting, two class meetings, four Board meetings, one Strategy and Development Committee meeting and two Audit Committee meetings were diligently organized, and a total of 46 proposals were considered.

2.3 Strict information disclosure

SEG highly values information disclosure and puts great emphasis on the communication with investors. We will stay open to communicate with investors and make sure all our business operations are transparent for the interests of our shareholders and investors.

2.4 Stakeholders



We put high emphasis on communications with our stakeholders, listen attentively to their voice through an open and transparent communication mechanism and take into account their opinions when formulating and executing strategies, policies and plans of the Company. We convey our understanding of sustainable development through visits, discussions and other means of effective communication. Trust and support from our stakeholders have become an inexhaustible force to drive our sustainable development. Our stakeholders include governments, employees, shareholders, customers, business partners, suppliers and subcontractors, financial institutions, media, communities, the public and non-governmental organizations. We hope to continue to improve our communication and cooperation with our stakeholders to jointly push forward the harmonious development of the economy, the environment and the society.

In 2016, after due consideration of return to Shareholders as well as the long-term interests of the Company, the aggregate amount of the dividends to be distributed by the Company for the year 2016 in cash is proposed to be approximately RMB0.664 billion (payment of final dividend is subject to the approval of the shareholders in the 2016 annual general meeting). Pursuant to this plan, after deduction of the interim dividends for the year 2016 in the total amount of approximately RMB0.319 billion paid by the Company, the aggregate amount of the final dividend shall be approximately RMB0.345 billion. Based on 4.428 billion shares, being the total share capital of the Company as at 31 December 2016, the final dividend of RMB0.078 (inclusive of applicable tax) per Share shall be payable to all Shareholders.

2.5 Internal control system

2.5.1 Internal control

SEG has put in place an internal control system that in compliance with the Listing Rules. The system covers 44 business processes in 23 major categories, including internal environment, risk evaluation, information exchange and internal supervision at the corporate level as well as capital expenditure and financing, procurement, production operations, assets management, sales activities, research and development, project sub-contracting, business guarantee, outsourcing, financial report, comprehensive budgeting, legal affairs management, related transactions management, tax management, HR management, HSE management, quality management, information resource management, IT system management, information disclosure, audit management, business reforms and management, foreign affairs administration and administration of overseas affiliates, etc.



2.5.2 Legal compliance

We always take “operations in accordance with laws” as the operation guideline and our lifeline. With the goal of “ensuring lawful corporate governance and compliant business operation”, we are provided robust legal support and guarantee for building a world-class engineering company. The Company expressly requires that all activities of the Company and every employee of the Company shall comply with relevant laws and regulations that have a significant impact on the Company. During the Reporting Period, the Company complied with such laws and regulations (Please refer to the Appendix of this Report for an overview of the relevant principal laws and regulations that have a significant impact on the Company).

In 2016, SEG organized extensive legal education workshops, such as symposiums titled Legal Risk and Control and the promotion of a series of laws and regulations including Environment Protection Laws and Laws on Work Safety in a bid to operate by law, raise legal awareness among all employees and mitigate operation risks.

Legal compliance is the lifeline of a listed company. We have sound compliance management policies and well-structured institutions which clearly state that the Board is the highest decision-making organization and the President is the chief person accountable for compliance management.

We have paid close attention to the requirements of capital market and regulatory environmental changes, streamlined our internal control processes and management systems, and built a long-term anti-money laundering, anti-commercial bribery, anti-extortion and anti-fraud mechanism. We have aggressively launched a comprehensive compliance culture construction and strived to create a corporate culture that is recognized by the employees, pursued by the managers, approved by the regulators and trusted by the investors.



2.5.3 Privacy protection

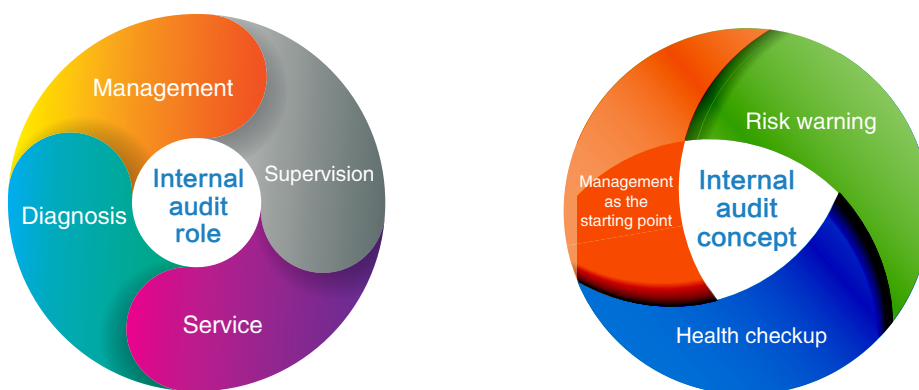
We establish a Corporate Secrecy Committee with confidential office to be responsible for the Company's confidentiality and privacy protection and management, so as to ensure the Company complies with the relevant confidentiality and privacy protection policies and regulations. Our employees regularly receive training on information confidentiality. All employees of the Company sign a strict confidentiality agreement. The Company also complies with all laws of confidentiality of information. The confidential information of all customers is only accessible to the employees responsible for projects related to the customer.

2.5.4 Use of advertisement and label

For information regarding fair publicity, the Company stipulates that all employees shall provide the customer with accurate and truthful service information in communicating or cooperating with the customer. Especially in our brand building, the Company has established and implemented its in-house codes and requirements governing use of brand identifications, such as Manual and Instructions of Operation for VI, which are distributed by its home office in form of internal documents to various subsidiaries and branches for follow-up.

2.5.5 Internal audit

Aiming at “preventing risks, enhancing management and adding values”, based on the auditing concept of “management as the starting point”, “health checkup”, and “risk warning”, regular audit activities were carried out by giving play to its “management, diagnosis, supervision and service” roles around the center of operation management and project management by innovating audit method and integrate current audit resources. In addition, the Company strengthened its pre-audit, mid-audit and post-audit activities. Special audits were carried out in the areas of implementation of growth strategies, allocation of resources, risk control and compliance to push for continuous improvement of management performance and improvement of risk resistance and market competitiveness towards a healthy and sustainable development.



2.5.6 Anti-Corruption

In the principle of conformance to laws and regulations, we actively carried out anti-corruption work from two core aspects, namely system construction and cultural construction. A series of documents were issued for implementation, including Rules for the Implementation of Main-body Responsibility Regarding the Construction of Party Style & Honest Administration Issued by Party Committee (《黨委落實黨風廉政建設主體責任的實施細則》), Rules for the Implementation of Supervision Responsibility Regarding the Construction of Party Style & Honest Administration Issued by Discipline Inspection Commission (《紀委落實黨風廉政建設監督責任的實施細則》), Implementation Measures for Honest and Clean Conversation (《廉潔談話實施辦法》),

Efficiency Supervision Provisions (《效能監察規定》), Comments on the Implementation of Work for Integrity Risk Prevention and Control (《廉潔風險防控工作實施意見》), Methods for Signing the Letter of Commitment for Integrity (《廉潔從業承諾書簽訂辦法》), Methods for Implementing the Construction of Party Style and Honest Administration (《黨風廉政建設責任制實施辦法》) and Methods for Implementing the “Three-Important and One-Large” Decision-making System (《關於落實“三重一大”決策制度實施辦法》), which form a solid regulation basis for carrying out work related to the construction of party style and honest administration as well as discipline inspection and supervision, thereby accelerating the formation of the “corruption disenabling” restriction mechanism.



In 2016, SEG and its affiliates organized around 350 anti-corruption educational activities, attracting a total of 15,000 participants, among which 6,833 participants signed the Letter of Commitment for Integrity.

2.6 Consolidate management fundamentals

In carrying out the activities to raise management performance, steps were taken to accelerate business restructuring and upgrade. As a result, a substantial improvement in fundamental management was seen.

Objectives of the activities: consolidate and strengthen fundamentals, control risks, conduct fine management, minimize costs and improve efficiency, restructure and upgrade, to maintain and add values; be better and stronger and develop in a scientific way.

6 combinations:

combination of self-learning and learning from others, combination of individual breakthrough and comprehensive improvement, combination of strengthening corporate governance and management innovation, combination of strengthening management and deepening reforms; combination of benchmarking management and pursuing for excellence, and combination of management improvement and routine management.

10 improvements:

ability to make scientific decision, ability to cut back costs and improve efficiency, ability to integrate resources, ability to develop markets, ability to manage projects, ability to make scientific innovations, ability to prevent and mitigate risks, ability to cultivate talents, ability to coordinate the relationship between the Party and the general public and ability to anti-corruption.

14 special areas:

management of systems and institutional mechanisms, comprehensive risk management, HR management, scientific innovation management, marketing management, project management, work safety and quality management, materials and equipment procurement management, investment decision management, comprehensive budgeting management, legal compliance management, information application management, systemic Party construction management and anti-corruption management.

03

CSR Management

Corporate social responsibility remained as one of the business focuses of SEG in 2016. Serious efforts have been made in promoting the awareness of CSR throughout the entire system.







3.1 Refine CSR management system

In 2016, led by the SEG CSR management team, SEG and all subsidiaries performed their CSR duties in a comprehensive manner. By carrying out extensive discussions on CSR performance appraisal indicators and benchmarking with outstanding enterprises, we sought to integrate CSR into our business strategy planning, business operations and management, corporate culture and brand establishment, which advanced a comprehensive CSR implementation plan.

3.2 Enhance CSR communications

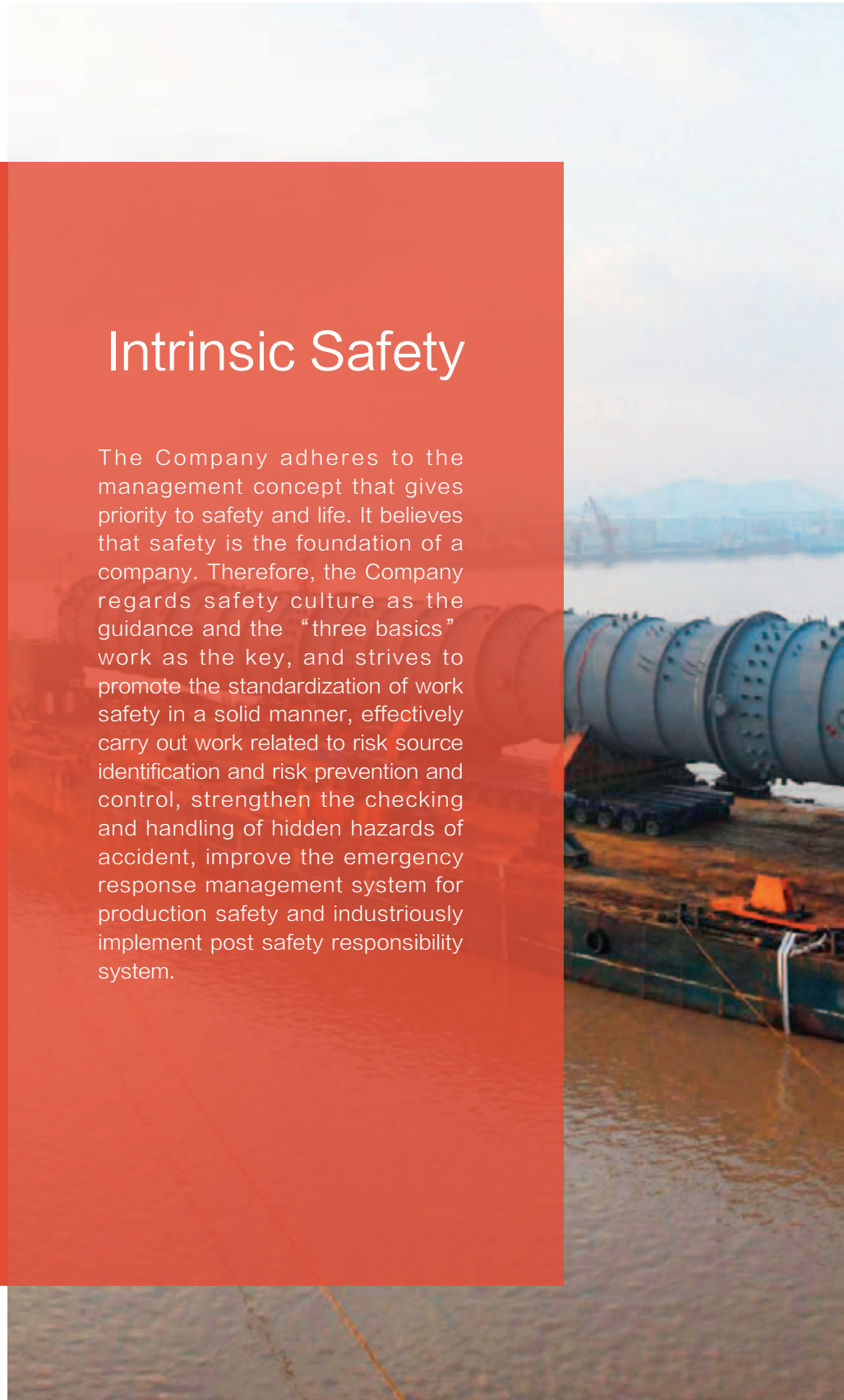
Internal and external CSR communication is an important part of CSR activities in SEG. Constant efforts have been made to improve communication channels to enable local governments as well as our employees, clients, partners and the general public to understand how we perform our social responsibilities. We enhanced both internal and external communications by preparing the Environmental, Social and Governance report, further improving our official website and coverage at a number of media like the Xinhua News Agency and China Petrochemical News. In the meantime, the Company played an active role in external communications and exchanges regarding CSR in order to understand and be understood better, and promptly study CSR management theories and practices in a timely manner.



04

Intrinsic Safety

The Company adheres to the management concept that gives priority to safety and life. It believes that safety is the foundation of a company. Therefore, the Company regards safety culture as the guidance and the “three basics” work as the key, and strives to promote the standardization of work safety in a solid manner, effectively carry out work related to risk source identification and risk prevention and control, strengthen the checking and handling of hidden hazards of accident, improve the emergency response management system for production safety and industriously implement post safety responsibility system.





4.1 Work safety culture

People-oriented concept is established. In order to carry out the guideline of “life supreme, safe development, prevention first, comprehensive governance, leader contracting and responsibility of all”, the Company innovatively builds safety culture based on people-oriented concept, which is also a new exploration for assuring the safety and health of employees. The Company hopes to truly protect the interests of employees to ensure that the employees are satisfied, enjoying benefits, working safely and living a healthy life, and achieve all-win benefits for the society, the Company and the individuals to promote the sustainable development of the Company.

The concept that safety is the largest profit of a company is established. Safety is the guarantee for stable production. Without safety, no production, operation reform or development of the Company can progress normally.

The concept that work safety is the responsibility of all is established. Safety is not only the responsibility of the Company, but also that of every individual. The Company shall provide an intrinsically safe environment for employees where the Company’s core idea of “people-oriented, human rights, humanity and human sympathy” can be reflected sufficiently. On the other hand, the employees shall have a good understanding of the importance of work safety, constantly improve their safety awareness and conduct self-management so as to assure the safety of themselves and others and achieve both family happiness and company development.



4.2 Safety management system

The Board of SEG established a QHSE management committee and an emergency response commanding center and a quality safety department as a part of SEG's organization structure. And every affiliate of SEG was assigned with a clear QHSE management responsibility.

With constant efforts in improving its QHSE system, SEG has established a series of management approaches and corresponding implementation rules with regard to hazard identification & risk evaluation, quality management, occupational health management, energy-saving and environmental protection, emergency management, accident and hidden hazard management, project QHSE management, contractor QHSE management and overseas project QHSE management. In addition, it also worked on developing and applying the HSE

standardization manual of engineering projects, which greatly promoted the systematization, standardization and normalization of QHSE work.

Basic management was further strengthened. Safe operating rules for 103 types of equipment under 10 categories and 27 types of work were compiled, and the Atlas of HSE Standardization Management were compiled and published. That brought field work and management behaviors under the management of standard procedures and provided uniform standards for HSE management. Three types of training related to the publicity of safety management manual, safety supervision & management and the work permit approval for class C workers were organized for around 2,800 persons, which strengthened the foundation of HSE management.

4.3 Fine project construction

Adhering to the operation concept of honest, standardization and scientific development, the Company strove to meet quality requirements by means of all-staff involvement, responsibility system, process control, constant improvement and customer-oriented service while continuously improving its system, optimizing its mechanism and strengthening its field management. In order to control the quality of all levels, special departments and personnel for quality management were established at related companies and projects. There are a total of 1,800 persons working for quality management. The affiliates also carried out relevant work and activities, such as forming project quality team, organizing quality competition activities and providing special trainings aimed for quality management staff, ordinary staff and newcomers, which greatly increased the quality awareness and ability of all employees.

In 2016, the Company continuously carried out the activities related to “design advanced process by standardized design approach; procure quality products by standardized procurement procedures and construct fine projects by modular construction. SEG designs every project as an artwork. The Company always chose the most rational process flow, configuration and distribution by strictly going through three-level optimization and four-level review. As for site construction management, it

regarded every construction site as a system and carried out activities to set standardized and pilot construction sites. The Company was very serious with the rule of “the first work must be inspected” and also extremely strict with every link relating to quality control and the implementation of construction process standards. Through strict quality management and process control, the Company is aimed at high level and high standard while making sure the starting point is high. The final goal of the Company is to build every project as an international first-class petrochemical project through constant improvement of construction quality.

SEG designed and constructed over 50 sets of petrochemical units for different purposes in 2016. All of the 21 petrochemical and coal-chemical units under EPC contracting had a successful on-load start-up at the first try. Among the project designed and constructed by SEG, the Petrochemical Wuhan 800,000 t/a ethylene and auxiliary project won gold prize of national fine project award, five projects won national fine project award, 27 projects won ministerial and provincial fine project award and 8 won excellent welding works award.

4.4 Tremendous efforts in work safety

The implementation of HSE responsibility system was further strengthened. Leaders of various levels took the lead to perform their own responsibilities by establishing contracting communication points and regularly carrying out safety inspection and supervision. And the scope of supervision and management scope of the leaders was expanded to cover all related entities and projects. 32 sub-committees were established at head office and affiliates to form a complete organization so that the concept of “safety management is a part of production management” could be well carried out. The content of post responsibility system for 6,928 work posts throughout the Company was revised according to the requirements of “one responsibility and one standard for one post”.

The safety inspection & supervision work achieved remarkable effects. The adoption of inspection sheet and uniform inspection standards helped to ensure inspection is more target-oriented. Through the “Three Linkages” action, namely linkage between head office and affiliates, linkage between domestic and overseas inspection and linkage between internal and external projects, a series of high-frequency and large-scale safety inspection activities were

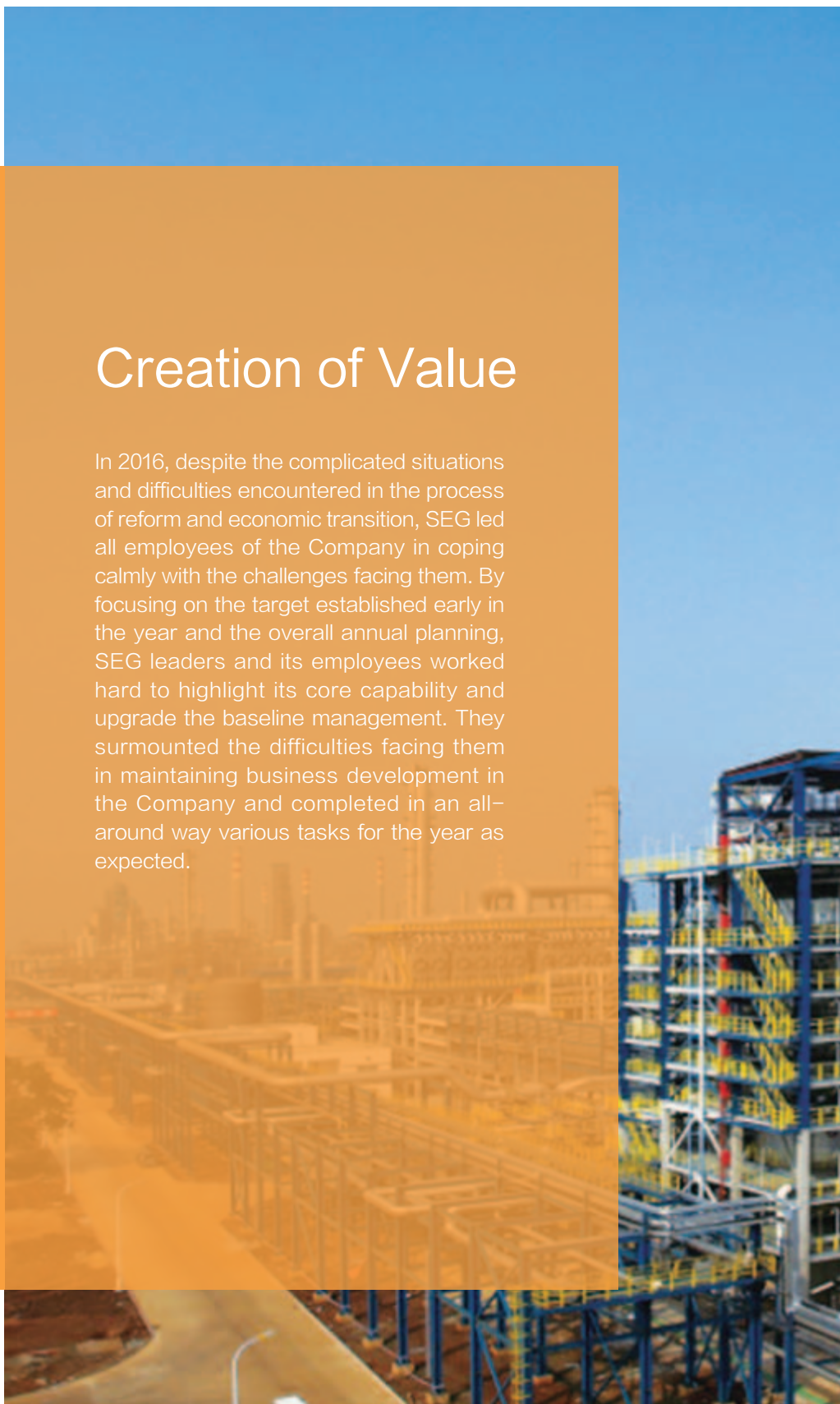
carried out, which involved four project groups, 5 affiliates and 6 level-2 entities and generated obvious effects. With the Company as the head of supervision work, 11 times of safety supervision work were done, involving 9 affiliates and 13 project departments. “Counter-check” was also conducted timely to ensure problems are found and resolved as timely and effectively as possible. Inspection summary meetings were also held in a timely manner, aiming to promote experience exchange and the enhancement of Company overall management level.

The Company paid great attention to production safety, especially the quality safety management of EPC projects. The QHSE supervision team conducted site supervision several times, in an aim to eliminate all hidden hazards threatening safety and quality. About 40 large safety and quality inspections were conducted throughout 2016 at domestic and overseas and grass-root entities, including Zhongtian Hechuang Coal-Chemical Project, Sinopec Tianjin LNG Project, CNOOC Huizhou Project and Jazan Refinery&Terminal Project in Saudi Arabia, etc., which greatly helped to guarantee the safe and stable operation of these projects.

05

Creation of Value

In 2016, despite the complicated situations and difficulties encountered in the process of reform and economic transition, SEG led all employees of the Company in coping calmly with the challenges facing them. By focusing on the target established early in the year and the overall annual planning, SEG leaders and its employees worked hard to highlight its core capability and upgrade the baseline management. They surmounted the difficulties facing them in maintaining business development in the Company and completed in an all-around way various tasks for the year as expected.





5.1 Steady business development

5.1.1 Effective implementation of major projects

The Company effectively implemented major projects. Throughout the year of 2016, the Company's revenue was RMB 24.892 billion domestically, whereas the overseas revenue was RMB 14.48 billion, accounting for 36.8% of its total revenue and had reached a new record.



5.1.2 Redoubled energy efficiency and environmental-friendly development through technical innovation

Sustained technical innovation is an important means to promote environmental-friendly development. We have made efforts to redouble the energy efficiency through all-around research and development in environmental protection:

Pilot test study for wastewater treatment in cellulosic ethanol plant and comprehensive study on sewage treatment for CTC process, aiming to promote environmental-friendly development by using new technology;

Improvement of the existing living environment through technical innovation programs including construction of platform for soil restoration and optimization for integrated thermal desorption technology and technology for integrated plasma-mercury and particulate removal through membrane catalysis;

Sustainable exploration for development and application of green energies, including bench experiment program for liquid fuel generation via biomass catalysis, development of integrated technology for dry fermentation treatment of domestic refuses and production of biogas.

5.1.3 Service sharing platforms established

The Company established an education and training center which held 37 trainings for 5,561 persons in 2016. Also a series of reform schemes for assets management center, equipment manufacture center, energy conservation and environmental center and soil treatment center, etc. were discussed, which laid a solid foundation for the deeper reform of the Company.



5.2 Tightened management and control

5.2.1 Sustainably intensified guiding role for strategic plan

Intensified guiding role for strategic plans: The plan was also used to define scope of the corporate business and strategy for marketing, direct its resource allocation and establish the corporate strategy and measures for development. In the meantime, the target and orientation of corporate development were adjusted timely by combining with the annual overall planning to adapt to the entire macro-environment and industrial development. A strategic management system covering and connecting horizontally and longitudinally various respects including long-term strategy, business planning, plan, investment budget, business

operation and performance assessment has set up. The mechanism for strategy compliance and execution oversight was optimized to form a strategic evaluation system by combining with performance assessment. Intensified efforts were made to render further strategic instructions on subsidiaries and development of their own strategy execution plan. The head office' s positioning as "Four Major Centers" was further consolidated and diversified efforts were made for strategic popularization thereof.

5.2.2 Obvious effects in fine management and cost reduction & efficiency enhancement approach

Activities targeted at cost reduction and efficiency enhancement were carried out through the overall planning of the Company and the joint efforts of affiliates. The engineering construction company put forward eight concrete measures aimed for increasing income and reducing expenditures and established a rewards and punishment system for encouraging fine design, in an attempt to cut cost and enhance efficiency in an early stage. Sinopec Luoyang Petrochemical Engineering Company continuously carried out economic activity analysis and held regular meetings for budget management while strengthening the links of fiscal budget and fund estimation with production and operation plans, aiming to enhance capital gains. Sinopec Ningbo Engineering Co., Ltd. established a project application and examination mechanism aimed at cost reduction and efficiency enhancement. Sinopec No. 4 Construction Company saved RMB 23.85 million of investment through repetitive optimization of the scheme for purchasing Malaysian Rapid construction equipment. Sinopec No. 5 Construction Company revitalized its inefficient and invalid assets through introducing e-commerce industrial park with the support of the Lanzhou local government.

The group management and control of engineering software saved over USD2 million. The saving rate of procurement fund reached 7.85% in average, an increase of 1.5% compared with that in 2015. Strengthened investment management contributed to the investment decrease of RMB110 million for general technical measures and sporadic purchasing alone.

Fund occupation for products and accounts receivable was well-controlled. The Company strictly implemented the responsibility system for bad loans decreasing and collection, formulated detailed project department settlement rules and collection examination indexes, including clear responsible person, planning deadline, requirements and measures. As of December 31, 2016, the net value of receipts receivable and trade receivables was RMB9.99 billion, decreased by RMB1.881 billion yuan over the beginning of the year; the amount of stock balance was RMB1.197 billion, decreased by RMB633 million over the beginning of the year. The net cash inflow of the year was RMB4.522 billion.



5.2.3 More vigorous efforts made to improve operational management and control

In market exploration, we focused on customers to ensure the exploration is quality- and benefit-driven. Intensified efforts were made to improve the consciousness and competency in service and front-end consultancy and service. The cultivation for market was carried out initiatively so as to create more value to customers by closely combining owner's demand with enterprise superiority. While maintaining the traditional business, strategic businesses were laid out actively to make the middle- and high-end business and special business stronger, provide new points for business growth and explore new marketplace for development.

In project execution, the mode of delicacy management is promoted to enhance cost management. Full play was given to the advantage in design, procurement, manufacturing and construction industry chain for construction to better interface integration. Resources were optimized through design optimization and closer interfacing between design and procurement, manufacturing and construction. High emphasis was put on main cost elements including labor, machinery and material and so on to tighten the management of procurement and subcontracting and administrative expenditures. Project full-life span management was intensified to explore potential for benefits and reduce costs.

5.2.4 Improve supply chain management

We strove to create a fair, just and open supply chain management system through the integration of social responsibility into the full-process management of suppliers, hoping to promote the healthy and fast development of the Company.

We advocated "sunshine procurement" using information and network as the carrier, constantly improve procurement regulations and procedures, and supported and purchased responsible products and services. Centering around the work principle of "integrated management and group management and control", we insisted on providing perfect top-level design for suppliers management to generate an optimized supply chain; on the other hand, we established a complete suppliers management system and a suppliers examination and evaluation system, in which suppliers' default is reported on a monthly basis. Suppliers are rated according to annual examination and evaluation, and the examination and evaluation results in turn are regarded as

the basis for optimizing supplier approval system, supplier directory system and informatization management procedures. The examination and evaluation are upgraded from time to time. We established a suppliers management system platform to put global suppliers under network-based management. We have kept a win-win cooperation relationship with suppliers of various levels while making efforts to develop strategic suppliers and maintain good communication with them.

In 2016, we drafted a supplier contract that clearly stipulates that suppliers must comply with any applicable environmental law and regulation and corresponding rules, including obtaining necessary environmental permit, produce less waste during the whole process of production and handle wastes according to regulations in an environmentally responsible way. Furthermore, suppliers must also assure the health and safety of all of their employees and all staff in the workplace.

5.3 Scientific innovation and international business operation

5.3.1 Smooth progress made in scientific innovations

We established strategies and tactics aimed for developing technological innovation capability, further improved the scientific research system, formed the basic frame of technological system and carried out scientific research as planned. We also established an innovation platform fitting the Company's features from aspects of market orientation and the establishment of innovation team, innovation culture and learning group.

More efforts were made in protecting intellectual property rights, increasing protection awareness, improving protection mechanism and enhancing protection technology.

We constantly conducted technological sourcing to provide continuous developing power for the Company. Centering around the development strategy of the Company as well as the development requirements of "build a technology-based, innovation-driven and service-oriented company", we made great efforts in technological sourcing within the extensive scope of petrochemical industry in order to seek technological cooperation in terms of environmental protection and energy conservation technology as well as strategic, forward-looking and cutting-edge technologies, and to create conditions for expanding technology market. We also strengthened cooperation with research institutes and tried to make a good use of external resources to realize a win-win situation.

Patent application and authorization: This year we made 453 new patent applications (including 236 inventory patents, accounting for 52.1%) and received 429 patent authorizations (including 219 inventory patents, accounting for 51%).

Awards: During the Reporting Period, the Group was awarded with 114 items (times) of various prizes for scientific and technological advancement above provincial/ministerial levels, including one special prize for scientific and technological advancement at each of national level and provincial/ministerial level, six first-class prizes for scientific and technological advancement at provincial/ministerial level, one gold prize for national outstanding engineering design, one special prize and five first-class prizes for outstanding engineering design at provincial/ministerial level, and six gold prizes for national outstanding engineering design.





5.3.2 Push forward internationalized business operation steadily

SEG has made the Middle East, Central Asia, Southeast Asia, Africa and America as its key target overseas markets. Based on the policy of “Establish a flag and achieve two initiatives” and in compliance with the governance requirements for the listed companies, the Company will be more active in exploring new mechanisms and modes of business management for overseas refining projects. The Company’s overseas marketing network is being optimized consecutively, and its efficiency in market development has enhanced remarkably.



06

Care for employees

SEG has always taken “Employee’s Career Development” as one of its important missions. SEG is people-oriented in conducting its business management and strives to provide wide space and channels for their career development. It endeavors to enable its employees share the corporate development with enterprise. The Company helps its employees to realize their own values so that they develop along with the enterprise.





6.1 Safeguard employee's interests

6.1.1 Equal employment

Employment of child and forced labor are forbidden in the Company. Employees shall not be discriminated due to their sex, ethnic background, nationality, belief and cultural backgrounds. In 2016, the rate of employment contract execution attained 100% and all contract employees of the Company have joined the trade union.

6.1.2 Payroll and welfare

The Company provides welfare guarantee for its employees as per the laws and specifications issued by the state, covering the “5 Insurances and 1 Provident Fund” social security system, namely, the insurance coverage for pension, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance, and housing fund, official holiday and festivals, marital and bereavement leaves, maternity leave, leave for nursing, fees for heatstroke prevention and leave with pays, etc.

In the meantime, we also offered, based upon actual conditions of enterprise and employees, differentiated welfare package for our employees, which mainly include physical check-up, subsidy for rehabilitation, personal accident insurance for employees working abroad, corporate pension, supplementary medical insurance and assistance for employees in trouble.

According to the standard working-system of the Company, employees shall not work more than 8 hours a day and 44 hours in average in a week. As a large integrated project service provider and technology licensor aiming at both domestic and overseas project markets, we have been dedicated to providing high quality and timely service for customers. For employees who, out of work reasons, have to work during

non-normal working hours or public holidays, we provide leave in lieu and overtime pay in accordance with the related provisions of the Labor law of the People's Republic of China and the Labor Contract law of the People's Republic of China.

We strictly observe laws and regulations governing protection for female workers to safeguard their interests at root. Female employee commissions have been established in labor unions of various levels to resolve issues they may encounter in work and life. We have made consecutive efforts to improve the working environment and conditions for female employees and implemented the systems governing their leave during pregnancy, maternity and nursing period and regular physical check-ups, providing special care to the physical and mental health of female employees. We cared about career development of female employees. The number of female employees in the Company accounts for 26.62% of the total, including 5.43% for those in management posts of intermediate levels and above.

6.1.3 Democratic management

The Company maintains and improves its system for democratic management, set up complete set of systems for various levels of staff congress. By making public enterprise affairs and focusing on democratic management, it broadens initiatively the channel for employee's involvement in democratic management and maintains earnestly employee's democratic rights and legal interests. The Company organized democratic assessment of corporate leaders through staff congress to enable exercise of its rights to consider proposals, consider and adopt, oversee and comment and democratic election.

6.2 Care for occupational health



6.2.1 Emphasis on employees' health

The Company organizes physical check-ups at fixed intervals for its employees. It has set up dossier for occupational health and carries out health and psychological consultation periodically. Some of the subsidiaries (branch companies) and project site overseas render instructions on mental health via training and lectures and organize psychological consultation to help employees to manipulate their personal mood and psychological status.

6.2.2 Do a good job in prevention of occupational diseases

The Company continued to increase its investment to optimize layout of facilities for dust suppression, noise suppression and safety at the site. It intensified its efforts for measurement and treatment of harmful gases, dust and noise to strive to provide a safe, healthy and comfortable environment for its employees and prevent and treat various occupational diseases effectively.



6.3 Intensified talents construction



Employees are cornerstones of enterprise development while enterprise is the stage through which employees realize their dreams. The Company continued construction of channels to promote development of its talents so that they realize their own value, positional value and social value while growing together with the Company.

As driven by the corporate operation and business development, requirements for various positions and actual conditions facing its employees, the Company takes capacity and quality upgrading as core and applies a “By levels, take key point, emphasize experiences” mode of training which offers sustainable opportunity of training for its employees. In 2016, there were a total of 33.2 thousand attendees for training, of which there were 4.2 thousand attendances of operation management staff, 24.9 thousand attendances of engineering and technical staff, and 4.1 thousand attendances of operational staff.



6.4 Harmonious enterprise

6.4.1 Community construction for employees working at front line

The Company was active in system construction for construction related logistic projects. Communities (camps at jobsite) for front-line employees are tidy and in good order and provided with accessory facilities including canteen, sports ground, library and recreational facilities, etc. Services for hot water, network and AC are available in most of the communities (camps) to make employees' living convenient, comfortable and pleasant.



6.4.2 Enterprise culture construction

Efforts were made to continue to popularize the enterprise' s mission "SINOPEC fights for the quality of life; builds SEG as a better place and shares it with you" . The Company carried out theme culture construction activities for enterprise actively to cultivate a culture atmosphere featuring opening, inclusion, communication, respect, collaboration and earnestness through diversified culture and sport activities and multi-level communications. It emphasized enhancement of the corporate cohesion through culture-based guidance on employee' s value orientation and spiritual pursuits. It spared no efforts in building the



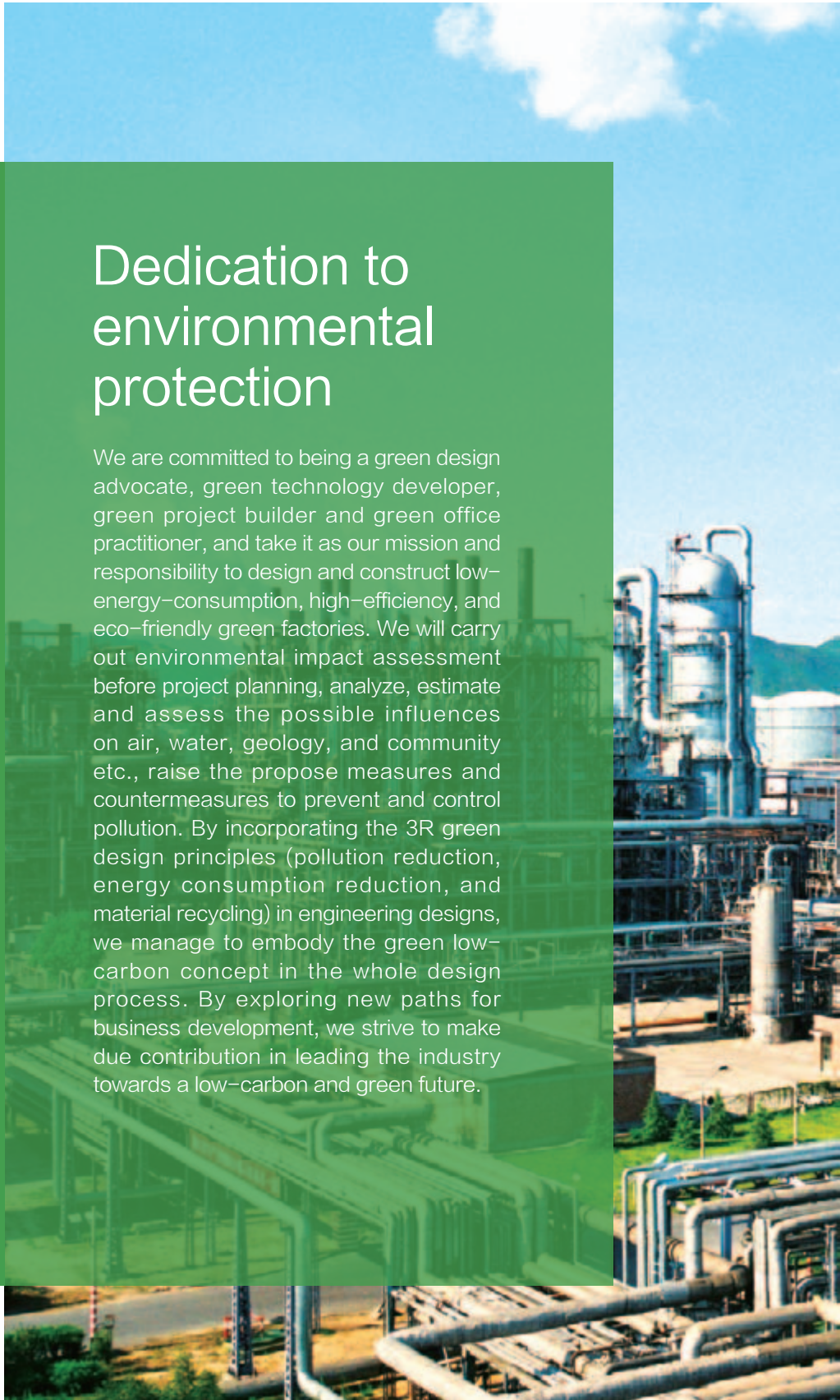
Company' s entire strength to promote common development of both the Company and its employees and creation and sharing of enterprise value by them.



07

Dedication to environmental protection

We are committed to being a green design advocate, green technology developer, green project builder and green office practitioner, and take it as our mission and responsibility to design and construct low-energy-consumption, high-efficiency, and eco-friendly green factories. We will carry out environmental impact assessment before project planning, analyze, estimate and assess the possible influences on air, water, geology, and community etc., raise the propose measures and countermeasures to prevent and control pollution. By incorporating the 3R green design principles (pollution reduction, energy consumption reduction, and material recycling) in engineering designs, we manage to embody the green low-carbon concept in the whole design process. By exploring new paths for business development, we strive to make due contribution in leading the industry towards a low-carbon and green future.





7.1 Green design

Safety, energy efficiency, and environmental protection are three cornerstones for green engineering designs. We design utilities and infrastructures for each and every customer according to the hydrological and climate conditions at each project location, and recommend safe, reliable, advanced, and eco-friendly production process and technologies to investors according to customers' requirements and market conditions. Basing on the following three principles, we provide green design blueprints for each project, and construct energy-saving, green plants for each customer.



Safety:

Safe and stable operation of equipment in their whole life is the foundation and core of our engineering design. We have adopted advanced safety analysis methods such as HAZOP and LOPA, which are qualitative or semi-quantitative, engage the most experienced experts to develop safe and reliable production process for investors. We design sophisticated DCS control system and provide long-term, stable, safe and reliable equipment for our customers.

Energy conservation:

We have excellent process optimization experts, who use our self-developed software to optimize the operation of each unit for shorter process and lower energy and material consumption. Based on the analysis of consumption of materials (including fresh water) and energy (electricity and steam) in the design process, we provide guaranteed amount of material and energy consumption for each project. Moreover, we engage professional mobile equipment experts for energy-saving design and selection of mobile equipment such as large compressors. In addition, we have an "Energy Efficiency Doubling" expert team to draw up comprehensive "Energy Efficiency Doubling" energy-saving plans for existing equipment.

Environmental protection:

For large complexes, we can provide plant-wide green design programme for energy saving and consumption reduction as well as plant-wide harmless treatment programme for waste water, waste gas and solid wastes, so that optimized green operation of the whole plant can be realized.

The research and development of environmental protection and energy-saving technologies has produced remarkable fruits. In 2016, SEG carried out soil restoration research and a series of environmental workshops targeted at capture system of CO₂ in boiler flue gas – DEA chemical absorption, high ammonia-nitrogen wastewater treatment, ecological treatment technology for 1,3-propanediol, etc. And significant progress has been made in these areas.

7.2 Green construction

We integrate low-carbon economy and green economy concepts into the whole process of construction and adhere to the principle of “Control-Reduction-Recycling”. Through actively promoting the application of new techniques and technologies for engineering construction and optimizing organizational structure for construction, we have minimized the harm to the environment brought by construction activities. We have developed special harmless welding technology to achieve zero emission of harmful gas generated in the process of welding. Moreover, we use new waterjet cutting process for metal to achieve green construction.

At construction sites, the Group applies environmental protection concept at each management stage. Effective measures of dust prevention and suppression are adopted at construction sites. The emissions from onsite vehicles, machinery and equipment, as well as pollutions from dust, noise and waste during

transportation are also under control. Standard workshop of prefabrication is built for project construction, where noise reduction barrier is set. SEG would refrain from construction at night and using equipment that would make loud noises so as to reduce noise pollution. In addition, dust removal facilities are provided to reduce dust pollution from sand-blasting and anti-corrosion activities. We have been improving the efficiency of energy utilisation during construction, saving energy, formulating energy-saving measures, using energy-efficient equipment and products, optimizing construction process, and making full use of clean and renewable energy. We have also adopted effective measures to supervise and promote the reasonable and economical use of materials, recycle and reuse surplus materials as much as possible, minimize the consumption of materials and resources during construction, and pay attention to the protection of biodiversity and restoration of original ecosystem during construction and strives for the fusion between project construction and natural environment.

7.3 Resources efficiency enhancement

We have been actively working on enhancing facilities energy efficiency and reducing resources (including energy, water and other raw materials) consumption. We promise to utilize resources in an effective way to service customers and build a green enterprise.

7.3.1 Energy consumption reduction

Energy conservation does not only contribute to environmental protection and social development, but also helps to cut operation cost of the Company. We expand our energy-saving potentials as possible as we could so as to save energy to the largest degree while protecting safe production and operation.

We established a system of statistics, monitoring and examination for energy conservation and emission reduction, defined a complete set of technical indexes and developed the methods of indexes statistics and calculation, and also established a complete monitoring system for pollutant discharge and energy consumption.

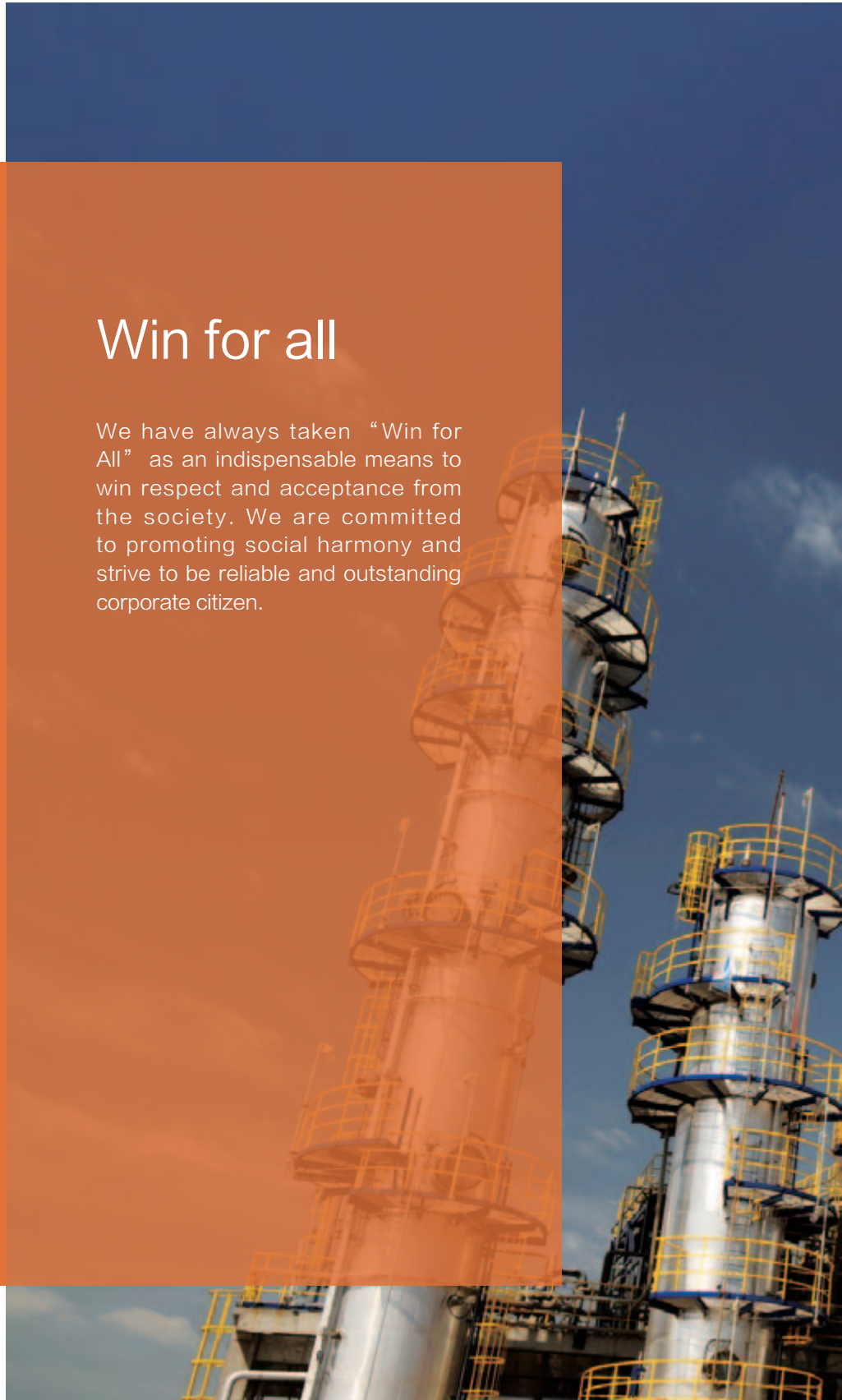
7.3.2 Green office work

The Company intensified its efforts to popularize the concept of green office work. It promoted green practice and paperless office work. By applying electronic and network-based modes, paperless transmission and storage of official documents and information were realized at the corporate home office and between the home office and various subsidiaries (branches), thus consumption of papers for office work purpose was reduced. Construction for video information system was promoted positively, where meetings between the corporate home office and various subsidiaries (branches) were held via videos as much as possible to enhance working efficiency, save costs for meetings and reduce energy consumption. Procurement of one-off disposable items was minimized to promote use of durable items.

08

Win for all

We have always taken “Win for All” as an indispensable means to win respect and acceptance from the society. We are committed to promoting social harmony and strive to be reliable and outstanding corporate citizen.





8.1 Promote the employment of the enterprise

Any discrimination in race, color of skin, nationality, language, ethnicity, belief, physical disability and political groups is banned in our recruitment, selection, employee development, payroll and welfare, and the signing, management and termination of employment contract. Our employees with minority nationalities account for 3.03% of the total. In 2016, 268 graduates of the current year were retained by SEG. By standardized management, 747 persons working in the Company under other forms of employment became corporate employees under contract to stabilize the number of permanent employees and ensure smooth carry-out of business operations in the Company.



8.2 Poverty alleviation



We have, as an outstanding enterprise should have done, always put stress on feedback to the society, and be active in public welfare programs and contribute our shares in poverty alleviation. As guided by the trade union, the home office and subsidiaries carried out and participated in many effective programs for public welfare based on local realities. For providing relief to areas stricken by earthquake, flood and drought, SEG spared no efforts and actively shouldered its CSR to provide relief for people in those areas. The Company donated a total amount of RMB0.09 million in 2016.

8.3 Volunteer activities

The Company encourages its employees to participate in various programs for voluntary service and social public welfare. In 2016, various subsidiaries (branches) organized and carried out various forms of voluntary services to follow the example of Lei Feng, including charity-driven donation, work and blood donation free of charge, care for special groups etc. to give back to the society and create harmonious atmosphere.



8.4 Promote community development

8.4.1 Service system for communities optimized sustainably

Following the concept of “local integration, mutual development and win-win collaboration”, social organizations and volunteers in communities are encouraged and directed to carry out public welfare service to promote professional development for community services. For example, for concerns on physical health, community security and property management etc. from the community residents, professional services on physical fitness, psychological relaxation and investigation and rectification for safety incident potential for community were carried out positively to hoping to realize the harmonious coexistence with the community.



8.4.2 Build jointly green communities and pleasant homelands

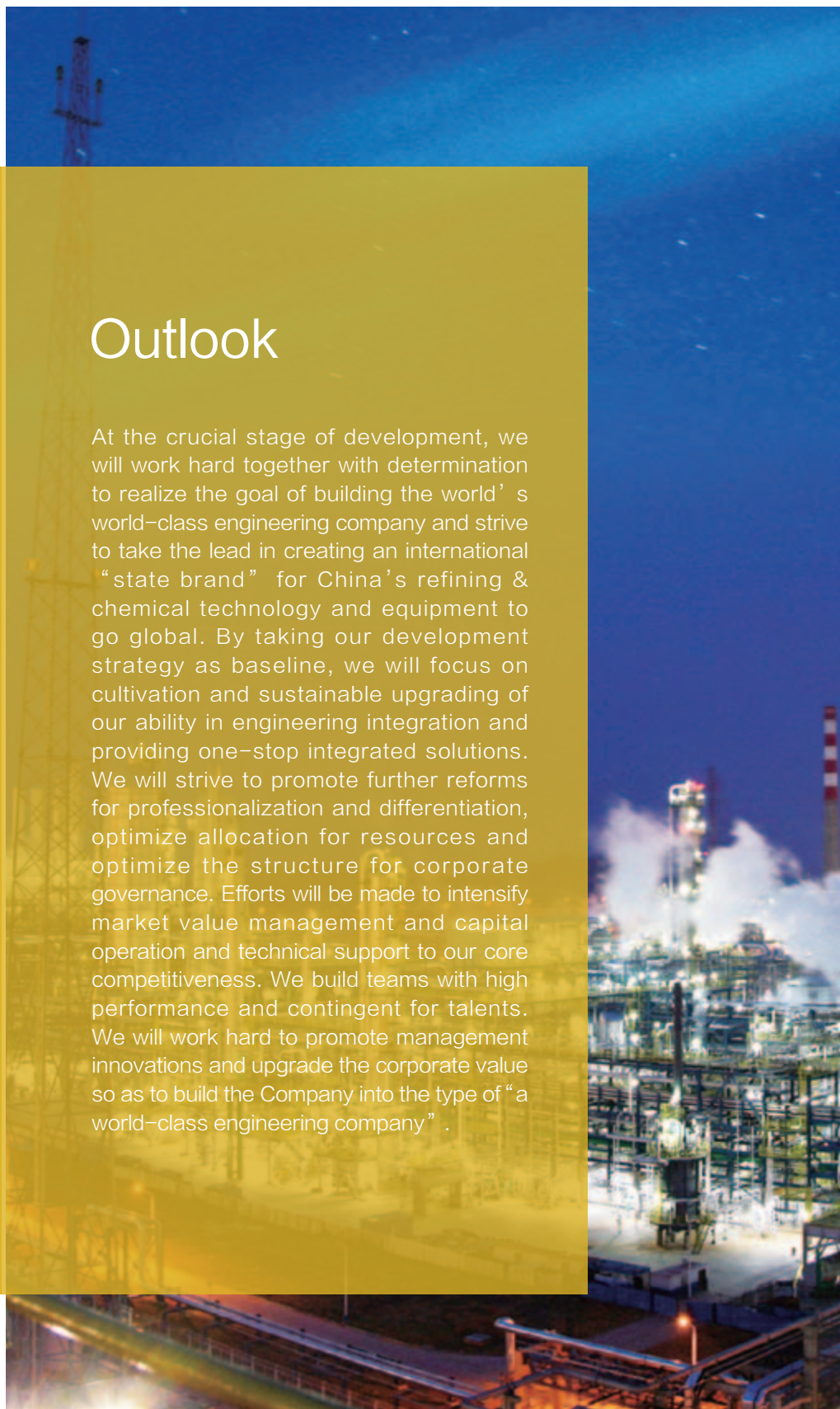
We have been focusing equally on production and livelihood to achieve harmonious balance among economic, environmental and social benefits. We have been making efforts to promote community development to achieve social harmony based on long-term mechanism of mutual interaction and joint efforts. In 2016, the Company focused on the construction of green communities by taking “Being Green and Environmentally Friendly” as a theme to enable community residents to better work, study and live in pleasant and green environment.



09

Outlook

At the crucial stage of development, we will work hard together with determination to realize the goal of building the world's world-class engineering company and strive to take the lead in creating an international "state brand" for China's refining & chemical technology and equipment to go global. By taking our development strategy as baseline, we will focus on cultivation and sustainable upgrading of our ability in engineering integration and providing one-stop integrated solutions. We will strive to promote further reforms for professionalization and differentiation, optimize allocation for resources and optimize the structure for corporate governance. Efforts will be made to intensify market value management and capital operation and technical support to our core competitiveness. We build teams with high performance and contingent for talents. We will work hard to promote management innovations and upgrade the corporate value so as to build the Company into the type of "a world-class engineering company" .





Appendix

Overview of principal laws and regulations relating to environmental, social, and governance issues

Principal Applicable Laws and Regulations in the PRC

©Laws and regulations on environmental protection, energy conservation and emissions reduction

According to the Law of Environmental Protection of the People's Republic of China passed on December 26, 1989, revised on April 24, 2014, and enforced on January 1, 2015 by the Standing Committee of the National People's Congress of the People's Republic of China, the Ministry of Environmental Protection is authorized to establish national environment quality standards and supervise the implementation of China's environmental protection plan. Local environmental protection institutions may set more stringent local standards, which the enterprises must abide by. In case of any noncompliance, the Ministry of Environmental Protection and local environmental protection institutions are entitled to impose a fine to the non-compliant enterprises.

The Law of Environmental Protection of the People's Republic of China enforced since January 1, 2015 (hereinafter referred to as the "New Environmental Protection Law") strengthens the enterprises' responsibility in preventing and controlling environmental pollution, escalates punishment to the enterprises which violate the environmental protection law, establishes the policies of the state in encouraging environmental industry development and supports the enterprises to actively take environmental protection measures and establishes the system of environmental public interest litigation.

To strengthen enterprises' responsibility in preventing and controlling environmental pollution, the New Environmental Protection Law expands the scope of projects for environmental impact assessment and specifies the legal

consequences; requires enterprises to establish their environmental protection responsibility system; implements the total emission control system for key pollutants; establishes the discharge permit system; and requires enterprises to formulate contingency plan for emergency environmental incidents and establishes the environmental information disclosure system.

To escalate punishment to the enterprises who violate the environmental protection law, the New Environmental Protection Law stipulates that the environmental authorities have the power to directly suspend or close the enterprises causing serious pollution; seal up or seize pollution facilities; introduce the system of "penalty by days" and set no ceiling limit to the penalty of illegal emission; implement the blacklist system for pollution enterprises; and impose administrative detention to the head of the enterprises who violate the environmental protection law.

To establish the public interest litigation system, the New Environmental Protection Law makes specific provisions on subject scope, indemnity liability and the statute of limitations.

The Ministry of Environmental Protection deliberated and approved the Measures for Continuous Punishment by Days of the Environmental Protection Authorities, the Measures for Seal-up and Seizure of the Environmental Protection Authorities, the Measures for Limited Production and Shutdown for Renovation of the Environmental Protection Authorities, and the Measures for Environmental

Information Disclosure of Enterprises and Institutions as the associated ministerial regulations on December 15, 2014 and put the said measures in force since January 1, 2015; deliberated and approved the Measures for Investigation and Treatment of Emergent Environmental Incidents on December 15, 2014 and put said measures in force since March 1, 2015; deliberated and approved the revised List of Classified Management for Environmental Impact Assessment of Construction Projects on March 19, 2015 and put said list in force since June 1, 2015; deliberated and approved the Measures for Emergency Management of Emergent Environmental Incidents on March 19, 2015 and put said measures in force since June 5, 2015. The above associated ministerial regulations effectively ensure the implementation of provisions of the new environmental protection law.

To prevent construction projects inside China from producing pollution and destroying ecological environment, the State Council issued and enforced the Ordinance on Administration for Environmental Protection of Construction Projects on November 29, 1998, which stipulates that the construction projects with potential environment pollution shall comply with national and local pollutant emission standards. The associated environment protection facilities for construction projects shall be designed, constructed, put into use, inspected and accepted at the same time with the body project. Meanwhile, based on the impact of construction projects on the environment, the Ordinance introduces the

environmental impact assessment system, which is divided into three reporting levels, namely environmental impact report, environmental impact statement and environmental impact record.

The Law of the People's Republic of China on Environmental Impact Assessment enforced on September 1, 2003 further elaborates on the abovementioned three reporting levels. If the construction project may have significant impacts on the environment, an environmental impact report shall be prepared to make overall assessment on the possible impacts on the environment. If the construction project may have slight impacts on the environment, an environmental impact statement shall be prepared to analyze or evaluate the specific possible impacts on the environment. If the project has small environment impacts and thus doesn't call for the environment impact assessment, an environmental impact record shall be submitted. The environmental impact assessment documents for construction projects shall be approved by relevant authorities in China prior to commencement of construction.

According to the Measures for Management of Environment Protection Acceptance for Construction Project Completion enforced on February 1, 2002 and revised on December 22, 2010, the environment protection acceptance for construction project completion refers to that, when the construction project is completed, relevant Chinese governmental environment protection authorities shall assess

whether the construction project meets the environment protection requirements according to environment protection acceptance monitor or investigation results, as well as site inspection and other means. The scope of environment protection acceptance covers: (i) environment protection facilities related to the construction project, including facilities, equipment, apparatus, monitoring method and ecological protection facilities constructed or equipped to prevent pollution and protect environment; and (ii) other environment protection measures specified in the environmental impact report, environmental impact statement, environmental impact record and related project design documents.

Business operations shall abide by the relevant Chinese environment laws and regulations, mainly including the Law of the People's Republic of China on the Water Pollution Prevention and Control, the Law of the People's Republic of China on Atmospheric Pollution Prevention and Control, the Law of the People's Republic of China on Environmental Noise Pollution Prevention and Control, the Law of the People's Republic of China on Solid Waste Environmental Pollution Prevention and Control, the Notice of the State Council on Issuing the Action Plan for Atmospheric Pollution Prevention and Control, the Notice of the State Council on Issuing the Action Plan for Water Pollution Prevention and Control, and the Notice of the State Council on Issuing the Action Plan for Soil Pollution Prevention and Control. The enterprise shall have the discharged pollutants recorded at the environmental protection authorities. The enterprises that discharge more pollutants than the amount prescribed in national or local standards shall pay for the excess emission and shall be responsible for eliminating or controlling the pollution.

According to the Law of the People's Republic of China on Atmospheric Pollution Prevention and Control, for the emission of key atmospheric pollutants, enterprises shall not only comply

with the pollutant emission standards, but also comply with the provision of total control index. The local environmental protection institutions shall determine whether the enterprises are included in the list of key pollutant discharge entities based on atmospheric pollutant type, quantity and concentration. The enterprises included in the list of key pollutant discharge entities will receive more stringent environmental law enforcement supervision such as installation and utilization of automatic monitoring equipment for atmospheric pollutant discharge, connection to the monitoring equipment of the environmental protection authorities and disclosure of pollutant emission information to the public according to the law. Meanwhile, petroleum enterprises, chemical enterprises and other enterprises of specific industries producing or using organic solvent shall take measures to make daily repair and maintenance of pipelines and equipment to reduce material leakage.

According to the Law of the People's Republic of China on the Water Pollution Prevention and Control, water pollutants discharged by enterprises shall not exceed national or local water pollutant emission standards and the total emission control index for key water pollutants. The State implements a total amount control mechanism for key water pollutants. The prevention of water pollution shall be planned in unity by drainage basins or areas. The enterprises or institutions that discharge industrial or medical waste water directly or indirectly to the water body or the enterprises or institutions which are obliged to obtain a discharge permit to discharge waste water or sewage shall obtain the discharge permits. The Notice of the State Council on Issuing the Action Plan for Water Pollution Prevention and Control further strengthens the discharge permit in terms of quality and risk control, and emphasizes the discharge of pollutants according to the terms of the permit; highlights management of comprehensive control of pollution sources and pays closer attention to water resource

conservation and protection. Authorities shall closely supervise and manage industrial parks, and eliminate direct sewage discharge in built-up areas to facilitate the comprehensive prevention and control of pollution sources, to reduce aggregate amount of water pollutant discharge and to increase water amount through measures of water conservation, recycled water use, ecological water flow guarantee, water source conservation, and so on.

The Notice of the State Council on Issuing the Action Plan for Soil Pollution Prevention and Control enforced on May 28, 2016 stipulates that the laws, regulations, ministerial regulations, standards, systems, etc. on soil pollution prevention and control will be revised to establish and complete soil pollution prevention laws, regulations, standards and systems; the entities which are responsible for governance and restoration will be specified, the lifelong responsibility system for soil pollution governance and restoration will be implemented, and the enterprises causing soil pollution shall undertake the entity responsibilities for governance and restoration. The State will establish the soil environment investigation assessment system, gradually establish the list of contaminated plots and a negative list of their development and utilization, and implement strict land access. Meanwhile, local authorities will determine and publish to the public the list of key enterprises to be supervised on soil environment. The supervision of enterprises by the general public will grow constantly, and there will form a soil pollution prevention and government system led by the government, undertaken by the enterprises, participated by the public and supervised by the society.

According to the Law of the People's Republic of China on Solid Waste Environmental Pollution Prevention and Control, enterprises shall develop hazardous waste management plans based on relevant national regulations and report the types, quantities, flow direction, storage, disposal

and other information on hazardous wastes to the administrative environmental protection authorities of the local people's government at or above the county level. The enterprises producing hazardous wastes may outsource to other companies with business qualification the disposal of hazardous wastes, or utilize and dispose of hazardous wastes by themselves. Enterprises utilizing and disposing of hazardous wastes shall make environment impact assessment according to the law for projects utilizing and disposing of hazardous wastes, implement regular environmental monitoring and surveillance of pollutant emission from the disposal facilities, and strictly comply with relevant national standards. Hazardous wastes shall be disposed of together. The entities that are engaged in hazardous waste collection, storage, disposal and other operation activities shall apply for a permit. It is forbidden to dispose of hazardous wastes without a permit or illegally. The permit shall not be lent or transferred.

According to the Law of the People's Republic of China on Promotion of Cleaner Production, the enterprises engaged in production and services within China shall practice cleaner production. Construction projects shall adopt energy saving, water saving and other building design plans, building and decoration materials, building components and equipment conducive to environment and resource protection. Building and decoration materials shall comply with national standards. It is forbidden to produce, market and utilize building and decoration materials whose toxic and harmful substance exceeds national standards. According to the Notice of the State Council on Issuing the 13th Five-Year Work Plan to Control Greenhouse Gas Emission published on October 27, 2016, by 2020, the carbon dioxide emission of unit GDP will be 18% less than that of 2015 and the total carbon dioxide emission will be effectively controlled; energy conservation and cost reduction will be promoted in industry, building, transportation, public institutions and other

key fields to implement nationwide energy conservation action plan and organize key energy saving projects; economically applicable low carbon technologies will be researched and developed in energy, industry, building, transportation, agriculture, forestry, ocean and other key fields.

©Laws and regulations on work safety and labor protection

The entities engaging in production operation activities in China shall comply with the provisions of the Law of the People's Republic of China on Work Safety (enforced since November 1, 2002 and revised on August 27, 2009 and August 31, 2014). The State Administration of Work Safety of the People's Republic of China implements comprehensive supervision and management of national work safety, and municipal government authorities implement comprehensive supervision and management on work safety within their administrative areas. According to said law, the main responsible person of the production operation entity shall be responsible for the entity's work safety, such as: establish and improve work safety responsibility system; develop work safety regulations and systems; inspection work safety to eliminate hidden danger to work safety; develop emergency rescue plan; and timely report work safety accidents. The labor contracts that the production operation entities sign with employees shall contain clauses guaranteeing the employee's work safety and preventing occupational hazards and clause on employment injury insurance. Moreover, according to the Labor Law of the People's Republic of China, if the employing entity compels the employee to violate regulations and work at risk, which causes major casualties and grave consequences, the responsible persons shall be investigated for criminal liabilities according to relevant laws.

The production operation entities shall set conspicuous safety warning signs at the production operation places with high risks

and on the associated facilities and equipment. The safety equipment shall be designed, manufactured, installed, utilized, detected, maintained, renovated and rejected according to national or industrial standards. The safety facilities of greenfield and brownfield projects (hereinafter referred to as "Construction Projects") of the production operation entity shall be designed, constructed and put into production and use at the same time with the main project. The investment of safety facilities shall be included into the budget of relevant construction projects.

The Regulations on Work Safety Permits of the People's Republic of China enforced on January 13, 2004 introduces the permit system for work safety management. According to the Regulations, the enterprises engaged in specified production industries shall obtain a work safety permit prior to production. The construction industry is specified in the Regulations and the relevant permits are to be issued and managed by the provincial housing and construction authorities. Enterprises shall meet a number of work safety conditions to obtain work safety permits, including (among others) the establishment of complete work safety regulations and systems, safety input compliant to work safety requirements, establishment of in-house work safety management divisions with full-time competent work safety management personnel, safety education and training of practitioners, payment of industrial injury insurance premium, etc.

The former Ministry of Construction issued the Provisions on Work Safety Permit Management of Construction Enterprises and the Implementation Suggestions of the Provisions on Work Safety Permit Management of Construction Enterprises on July 5, 2004 and August 27, 2004 respectively. According to the provisions, the building construction enterprises, i.e. the enterprises involved in newly building, expanding, upgrading and dismantling activities

in civil projects, building projects, pipe and equipment installation projects and decoration projects shall not be engaged in construction activities without work safety permits. To obtain the work safety permit, enterprises shall meet the following work safety conditions: complete work safety responsibility system, as well as integrated work safety regulations, systems and operation specifications; capital input to secure work safety conditions; establishment of in-house work safety management divisions with full-time competent work safety management personnel; at least one safety education training and evaluation every year; payment of industrial injury insurance premium for employees; purchase and payment of accidental injury insurance for personnel involved in risk operation at construction sites; safety protection appliance, mechanical equipment, construction equipment and accessory compliant to law requirements; emergency plans and rescue organizations or emergency rescue personnel and equipment, etc. After the eligible enterprises submit the application, the provincial or above construction authorities will review and issue work safety permits to those in compliance with the applicable documents or other certifications.

According to the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases revised on December 31, 2011, the employer shall take effective occupational disease prevention measures and provide the employee with personal occupational-disease-prevention devices. For the employee engaged in operation contacting occupational disease hazard, the employer shall follow the regulations of the Work Safety Supervision and Administration Department and the Health Administrative Department of the State Council to make occupational health examination before, during and after the employment and inform the employee of the results. The occupational health examination fee shall be paid by the employer.

©Laws and regulations on labor employment and social security

The Labor Law of the People's Republic of China (issued on July 5, 1994 and enforced since January 1, 1995), the Labor Contract Law of the People's Republic of China (issued on June 29, 2007 and revised on December 28, 2012) and the Regulation on the Implementation of the Labor Contract Law of the People's Republic of China (issued on and enforced since September 18, 2008) specify the establishment of labor relations between the employer and the employee and the fulfillment and termination of the labor contract concluded, etc. The laws and regulations provide extra guarantee to the employee, such as development of written labor contracts, time limitation for the trial period, regulations on the cases that the employer shall pay release pay to the employee, limited range of punishment from the employee's violation of contracts, and imposition of tough sanctions on the employer who fail to pay social security fund for the employee. Moreover, the latest Labor Contract Law of the People's Republic of China enforce on July 1, 2013 implements a more stringent labor dispatching mechanism to prevent the employer's incompliance, pay discrimination and other actions.

According to the Labor Law of the People's Republic of China and the Labor Contract Law of the People's Republic of China, the employer has the right to have equal employment and choose jobs, the right to get payment, the right to have rest and vacation, the right to have access to labor safety and health protection, the right to receive vocational skills training, the right to enjoy social insurance and welfare, the right to appeal for labor dispute settlement and other labor rights stipulated by laws. The employee shall not be discriminated in employment, regardless of their ethnic background, race, gender or religious belief. Females shall enjoy equal right as males in employment. The employer determines their remuneration allocation and salary levels by themselves according to laws based on

their production operation characteristics and economic benefits. The labor remuneration and other benchmarks in the labor contract concluded between the employer and the employee shall not be lower than the minimum standards set by the local people's government. Under the standard working hour system, the employer's daily working hours shall be no more than 8 and the weekly working hours shall be no more than 44. Besides the standard working hour system, the enterprises are allowed to implement the special working hour system, including irregular working hour system and comprehensive working hour system, but such system shall be approved by the local labor and social security department. Meanwhile, the employee who has worked continuously for more than one year is entitled to enjoy paid annual leave, which is to be agreed by the employer and the employee in the labor contract.

The current social security laws and regulations in China are the Social Insurance Law of the People's Republic of China, the Interim Regulation on the Collection and Payment of Social Insurance Premiums, the Trial Measures for Enterprise Employees' Maternity Insurance, the Regulations on Management of Housing Provident Fund, the Work-related Injury Insurance Regulations and the provincial and municipal regulations adopted by different administrative regions in China.

According to the laws and regulations, China's social insurance includes pension insurance, medical insurance, unemployment insurance, maternity insurance and industrial injury insurance fund. The employer is responsible to pay the social insurance premium payable by the employer to relevant social insurance agency and withhold and pay the social insurance premium payable by the employee to relevant social insurance agency. If the employer fails to pay the social insurance premium or fails to withhold and pay the social insurance premium payable by the employee, the social insurance

premium collection agency will order the employer to pay it before the deadline. If the employer fails to pay it beyond the deadline, the social insurance premium collection agency will charge a 0.05% overdue fine starting from the date of default of payment. If the employer still fails to pay the society insurance premium, the social insurance premium collection agency will inquire about the deposit account to banks and other financial institutions and ask the relevant administrative authorities to make the decision to appropriate the social insurance premiums and give a written notice to the bank or other financial institution to compulsory appropriate the social insurance premium. If the account balance is less than the payable society insurance premium, the social insurance premium collection agency may require the employer to provide sufficient guarantee and sign a deferred payment agreement. If the employer fails to provide guarantee, the social insurance premium collection agency may ask the court seize, seal up and auction its property whose value equals to the payable society insurance premium so as to pay the outstanding social insurance premium with auction proceeds.

The housing accumulation fund is also a main part of the social security system in China. The "Regulations on the Administration of Housing Accumulation Fund (enforced on April 3, 1999 and revised on March 24, 2002) specified that employers and their employees on the job shall deposit long-term housing savings for the employees to purchase, build, rebuild and renovate the house in which they live. Employers shall register the deposit of housing accumulation fund at the housing accumulation fund management center and handle the establishment of housing accumulation fund account for every employee at the entrusted bank. If the employer fails to register the deposit of housing accumulation fund or handle the establishment of housing accumulation fund account, the housing accumulation fund management center will order the employer

to handle it and impose a certain fine. The proportion of the housing accumulation fund shall be no less than 5% of the previous year's monthly average salary of the employee

The Opinion of CPC Central Committee and the State Council on Construction of Harmonious Labor Relations" issued on April 8, 2015 requires to build harmonious labor relations, guarantee the employees' basic rights and interests, improve the coordination mechanism of labor relations, strengthen the construction of enterprise democratic management system, improve the contradiction mediation mechanism of labor relations, and foster the sound environment for building harmonious labor relations.

◎Prevention of Child Labor and Forced Labor

In order to protect the physical and mental health of minors and maintain their legitimate rights and interests, China formulated and enforced the Provisions on Prohibition of Child Labor since December 1, 2002. Except for employers in arts, sports and special arts and crafts who shall fulfill the formalities for examination and approval in accordance with the relevant national provisions to recruit juveniles under the age of 16, other employer shall not recruit juveniles under the age of 16. According to the Labor Law of the People's Republic of China, the employer who illegally recruits juveniles under the age of 16 shall be ordered to make correction and fined by the labor administrative department; for serious circumstances, the business license shall be revoked by the industrial and commercial administrative department. The employer who violates the protective provisions of juvenile employees specified in the Labor Law of the People's Republic of China and infringes the juvenile employee's lawful rights and interests shall be ordered to make correction and fined by the labor administrative department; and shall be liable for compensation in case of any damage to the juvenile employee.

According to the Labor Law of the People's Republic of China, if the employer commits one of the following acts, the responsible person shall be detained for a maximum of 15 days, fined or warned by the public security organization; if it constitutes a crime, the responsible person shall be investigated for criminal liabilities according to relevant laws: (I) coercing the employee into labor by means of violence, threat or illegal restriction of personal freedom; (II) humiliating, giving corporal punishment, beating, illegally searching or detaining laborers.

◎Anti-money Laundering

To prevent money laundering activities, safeguard financial order and inhibit the crime of money laundering and related crimes, China developed and enforced the Law of the People's Republic of China on Anti-money Laundering since January 1, 2007.

According to the provisions of the Law of the People's Republic of China on Anti-money Laundering, the object of money laundering prevention is "money laundering activities", i.e. activities to conceal and hide proceeds of drug crimes, underworld organization crimes, terrorism crimes, smuggling crimes, embezzlement and bribery crimes, crimes of destroying financial management order, financial fraud crimes and other crimes and the income sources and nature by all means. Anti-money laundering activities are not only the establishment and implementation of customer identification system, client ID information and transaction record keeping system, large and suspicious transactions reporting system by subject financial institutions with anti-money laundering obligations and specific non-financial institutions in accordance with the law, but also supervision management, investigation and international cooperation by anti-money laundering administrative departments and other departments with anti-money laundering responsibilities in accordance with law.

In addition, the Provisions on Anti-Money Laundering of Financial Institutions, the Administrative Measures on Reporting Large-Sum and Suspicious Renminbi Payment Transactions and the Administrative Measures for Financial Institutions on Reporting Large-Sum and Suspicious Foreign Exchange Transactions establish the comprehensive anti-money laundering management system of financial institutions with banking industry as the core.

China joined the Anti-Money Laundering Financial Action Task Force in 2007, adopted the first mutual review report in June 2007, and published the follow-up reports in March 2012. The Anti-Money Laundering Financial Action Task Force was an intergovernmental agency established in 1989 with the goal to set standards and to promote the effective implementation of laws, regulations and operating measures to combat money laundering, terrorist financing and other threats to the international financial system. The Anti-Money Laundering Financial Action Task Force supervises its members in implementing necessary measures, analyzing money laundering and terrorist financing technologies and countermeasures, and promoting the adoption and implementation of appropriate measures in the world.

◎National security and counter-terrorism

According to the State Security Law of the People's Republic of China enforced on July 1, 2015, to safeguard national security, one shall take prevention first, seek both temporary and permanent solutions, combine specialized work and the mass line, give full play to the functions of maintaining national security of specialized organs and other relevant agencies, widely mobilize citizens and organizations to prevent, inhibit and punish actions endangering national security according to law. Chinese citizens, enterprises, institutions and other social organizations have the duties and obligations to

safeguard national security.

According to the Counterterrorism Law of the People's Republic of China enforced on January 1, 2016, China opposes all forms of terrorism and any entity and individual has the duties to assist in and cooperate with related departments to carry out anti-terrorism work and to report to the public security organ or relevant departments in case of any suspected terroristic activities or terrorism suspects. According to the Administrative Measures on Terrorism Asset Freeze, the financial institutions and special non-financial institutions established within the territory of China shall take freezing measures for related assets in accordance with the law, the list of terroristic organizations and terrorists, and the decision to freeze assets issued by the Ministry of Public Security. The International Convention for the Suppression of the Financing of Terrorism appeals to intensify international cooperation between countries, develop and take effective measures to prevent the financing of terrorism, and inhibit terrorism through prosecuting and punishing the actors of terrorism. The Chinese government approved the Convention with reservation in 2006.

◎Anti-corruption

The Law of the People's Republic of China against Unfair Competition enforced on December 1, 1993 stipulates that business operators shall not market or purchase goods through bribery with money, valuables or other means. If it constitutes a crime, the operator shall be investigated for criminal liabilities according to the law. The Interim Provisions on Prohibiting Commercial Bribery further specifies the composition of commercial bribery and legal responsibility, etc.

China is a contracting state of the United Nations Convention against Corruption, which was adopted at the United Nations general assembly on October 31, 2003 and aims to promote and strengthen measures to more efficiently and

effectively prevent and crack down corruption; promote, facilitate and support prevention and combat of corruption in international cooperation and technical assistance, including asset recovery; advocate integrity and accountability system and proper management of public affairs and public properties. The Chinese government approved the Convention with reservation in 2005.

◎Poverty alleviation and Public Welfare Donations

The Decision of CPC Central Committee on Winning the Fight Against Poverty published on November 29, 2015 and the Measures for Implementing Responsibility System of Poverty Alleviation issued on October 11, 2016 take targeted poverty alleviation and poverty eradication as the principal strategy, and strengthen poverty alleviation cooperation with enterprise cooperation as the carrier; deepen the activities of “counties and villages” for central enterprises to assist designated poor old revolutionary districts; guide central enterprises and private enterprises to respectively set up industrial investment fund in poverty-stricken areas mainly for attracting enterprise engaged in resources development, industrial park construction, new urbanization development, etc. in poverty-stricken areas with marketing operation potentials; improve the recognition system of leading poverty alleviation enterprises and enhance their capacity in helping poor households increase income; encourage qualified enterprises to set up public welfare funds and establish public trusts to achieve poverty alleviation; expand skills improvement plans, poor household education and training project implementation to guide enterprises to combine poverty alleviation with vocational education, and encourage vocational colleges and technician training schools to take in children of poor families, etc..

According to the Law of the People's Republic of China on Public Welfare Donations Act and

the Notice of Matters on Enhancing Central Enterprises' External Donation Management, central enterprises shall actively participate in social public welfare undertakings, standardize external donation activities and fulfill social responsibility. Central enterprises' external donation management shall be carried out under the supervisory approach of combining the management of the annual budget and the filing management of ordinary major donations. The annual budget management is to master the overall arrangement of annual donations of the enterprise, while the major donations filing procedures is to manage the enterprise' s large donations. Central enterprises shall report the amount of major donations to the State-owned Assets Supervision and Administration (SASAC) for filing and shall make the donation after SASAC' s approval; for sudden major natural disasters or other special matters requiring urgent arrangement of donation which exceed the budget, central enterprise shall make the donation through internal decision-making procedures, regardless of the amount, and then timely report it to SASAC for filing.

◎Advertising

The revised Advertisement Law of the People's Republic of China enforced on September 1, 2015 specifies that both false and misleading advertising contents are false advertisement, lists particular cases of false advertisement and intensifies punishment on false illegal advertisement. Serious illegal advertising behaviors, such as false advertising, advertising commodities or services that are forbidden to be produced or provided are subject to heavy legal liabilities.

◎Product and service security

According to the Regulations of Safe Production Management for Construction Projects, the entities that are engaged in the supervision, construction and other matters related to construction safety of building, expanding,

upgrading and demolishing activities shall conform to the provisions of work safety laws and regulations, ensure construction project work safety and undertake construction project work safety responsibilities in accordance with law. The chief responsible person of the construction entity shall take full responsibilities on its work safety. The construction entity shall establish complete work safety responsibility system and work safety education and training system, formulate work safety regulations, systems and operation instructions, ensure capital input for the entity's work safety conditions, make regular and special safety inspection for its construction project and make safety inspection records. The construction entity shall establish work safety management organizations with full-time work safety management personnel. When the construction project is entrusted in EPC mode, the EPC contractor shall take full responsibilities in work safety in the construction site.

©Privacy

According to the Contract Law, the contracting parties shall not reveal or improperly utilize any business secret acquired in the course of concluding the contract, no matter whether the contract is established or not. The contracting party who reveals or improperly utilizes any business secret and cause damage to the other party shall be liable for damages. According to the Law of the People's Republic of China on Promoting the Transformation of Scientific and

Technological Achievements, if the scientific and technological achievements are transformed by the accomplishing entity and other entities, all parties shall reach an agreement on keeping the technology secret; the parties involved shall not violate the agreement nor violate the requirement of the right holder to keep the technology secret to reveal or allow others to utilize the technology. Companies shall establish a complete technical secret protection mechanism to protect their technology secret. Employees shall comply with his employer's technology secret protection mechanism.

Principal Applicable Laws and Regulations in Saudi Arabia

The operations of SINOPEC Engineering (Group) Co., Ltd. (“SEG” or “Company”) in Saudi Arabia (“KSA”) are subject to regulation by the relevant competent governmental authorities and relevant laws and regulations in the KSA as outlined below.

Fundamentally, the legal system in the KSA is based on Sharia (Islamic) law.

Saudi laws are also derived from a variety of sources including Royal Decrees and Ministerial Resolutions which are all ultimately subject to, and shall not conflict with, Sharia (Islamic) law.

◎Foreign Investment

The main regulation of foreign investment in the KSA is derived from the Foreign Investment Law issued by Royal Decree in 2000 (“FIL”). All foreign investors (other than investors from other Gulf Co-operation Council countries) such as the Company must have a license issued under the FIL by the Saudi Arabia General Investment Authority (“SAGIA”) in order to operate in the KSA.

There are a number of activities which are excluded from foreign investment and cannot be the subject of a SAGIA license (the “Negative List”). The Negative List includes oil exploration, drilling and production (except certain services related to the mining sector).

◎Anti-Bribery Law

Under the Anti-Bribery Law of 1992, it is a criminal offence for any person or company which offers

or makes a bribe to a public official in the KSA for the purpose of such public official:

- performing his duties;
- refraining from performing his duties;
- breaching his duties; or
- following up on a matter or exerting any real or pretended influence over a public authority of the KSA.

◎Commercial Fraud

Generally, criminal liability may potentially arise under Sharia (Islamic) law in relation to the supply of goods and/or services if any deceit or fraud is proven.

The Anti-Commercial Fraud Law (“ACFL”) applies to products which have been tampered with or do not conform with approved standard specifications or which are defective. Amongst other things, deceit or fraud in relation to products is a criminal offence under the ACFL.

Breach of the ACFL can lead to fines of up to SAR 1 million or imprisonment for up to 3 years. A person in breach of the ACFL is liable to refund the price paid for any relevant goods to any buyer, and defective or non conforming goods can be ordered to be destroyed and/or confiscated. A travel ban can be imposed on any person who is involved in a formal investigation in relation to a breach of the ACFL and is found to be in violation of the ACFL pending a final judgment by the court in the KSA. A business can be ordered to be closed for a year where deceit or fraud is proven. The penalties under the ACFL are

expressed to apply to (i) any person participating in or instigating a violation of the ACFL; and (ii) the company involved and its directors/managers (unless they can prove that the violation was outside their control).

If documents are shown to have been forged there may also be criminal liability under the Anti-Forgery Law which also provides for fines, imprisonment and other remedies depending on the particular offence.

◎ Exchange Control

There is no exchange control in the KSA. The Saudi currency (the Saudi Riyal or SAR) is freely convertible and currently has a fixed exchange rate with the U.S. dollar roughly equal to US\$1 to SAR3.75.

◎ Construction and Engineering

The Law of Roads and Buildings is the main law governing construction in the KSA. Generally speaking, application to and approval from the appropriate municipality of a license for construction is required prior to commencement of all construction projects. After completion of the construction project, the appropriate competent municipality will carry out an inspection of the completed work to ensure compliance with the approved application and license.

Construction contractors must be appropriately licensed by the relevant authorities.

Under the Rules and Procedures for Practising as an Engineering Consultant, all individuals and companies carrying out engineering consultancy activities in the KSA must be licensed by the relevant authorities.

◎ Labeling

The Commercial Data Law requires producers and importers of goods in the KSA to label goods.

Amongst other things this law requires:

- Each unit of goods and its container must bear a label containing certain mandatory data such

as quantity of goods, size, capacity, weight, production and expiry dates, the country of origin, the component elements and the name of the manufacturer;

- If the goods may impact on human or animal health or the environment, the data on the label must indicate if the item contains hazardous material and how serious the risk is and indicate if the item is processed by radiation;

- Labeling to be in Arabic or bi-lingual.

Importing or selling products that are not properly labeled in accordance with the Commercial Data Law is prohibited. Breach of this law can result in fines and other penalties including business closure for up to a year for repeated offences.

Depending on the severity of the offence goods and products that infringe the Commercial Data Law may be seized by the authorities and ordered to be destroyed or disposed of.

◎ Environmental Protection

The General Environmental Law ("GEL") and its Implementing Regulations Law promulgated by Royal Decree in 2003 sets out the basic environmental regulations in the KSA and is supplemented by general and local environmental regulations such as the Environmental Protection Standards and regional standards and regulations in the KSA (such as the Royal Commission for Jubail and Yanbu Environmental Regulations). The GEL contains a general obligation on all persons engaged in production, servicing or other activities to take "necessary precautions" to prevent specified types of pollution.

Sharia (Islamic) law also recognizes a general obligation on all companies and individuals in the KSA to protect and not damage the environment.

In general terms the GEL provides that there is a duty for companies and individuals to exercise objectively reasonable care which involves:

- using the best and most suitable technology available;

- using materials that cause the least amount of contamination of the environment; taking all appropriate steps to minimise the impact on the environment;

- preventing the contamination of surface, ground and coastal water;

- preserving soil and land and minimise contamination thereof; and

- limiting noise pollution particularly when operating machinery and noise levels must not exceed prescribed standards promulgated at the relevant time in the KSA.

Companies are obliged to take necessary precautions for the safe storage and transportation of waste and the avoidance of leakage and emission of air pollutants beyond allowable limits.

Emission of smoke, gases, vapours and solid or liquid resulting from burning any fuel or similar action must be within the limits specified in the environmental standards.

Facilities must not allow leakage or emission of air pollutants into the work place beyond the allowable limits of the environmental standards promulgated at the relevant time in the KSA

Facilities must not allow discharge of harmful pollutants, poisonous, hazardous or radioactive wastes into waters or exclusive economic zones in the KSA.

Contractors wishing to carry out projects in the KSA must submit an environmental impact assessment to and receive environmental approval from the relevant licensing authority for the particular project having power to approve projects which may impact on the environment.

Severe penalties can arise under the GEL for acts involving:

- the introduction of hazardous, poisonous or radioactive wastes into the KSA and its territorial waters and exclusive economic zones;

- a failure to comply with the regulations in relation to the handling of such materials under the GEL; and

- the discharge or disposal of such materials in the KSA's territorial waters or its exclusive economic zones.

Companies or individuals engaged in any of the above acts may be subject to penalties which include:

- imprisonment of up to 5 years;

- a fine of up to SAR 500,000;

- payment of compensation to third parties affected by the violations;

- elimination of the violation by carrying out remedial works; and

- closure of the relevant facility for up to 90 days.

The Royal Commission for Jubail and Yanbu Environmental Regulations (the "RCJY Regulations") which cover the areas within the boundaries of the industrial cities of Jubail, Yanbu and Ras Al Khair in the KSA provides the following air quality regulations in respect of facilities that emit air pollutants in the KSA:

- the operator of a facility shall not emit at any time air pollutants; in such concentration and of such duration as to be injurious to, adversely affect, or cause nuisance to public health or welfare, animal life, vegetation, or property;

- the operator of a facility shall use best available technology in accordance with the RCJY Regulations to control emissions of air pollutants;

- the operator of a facility shall not conceal or appear to minimize the effects of an emission to achieve compliance with the RCJY Regulations. This includes the introduction of dilution air or incorrect operation of monitoring equipment;

- the operator of a facility shall phase out chlorofluorocarbons (CFC) and halons or any other substances defined in the Montreal Protocol (as amended) which are capable of depleting stratospheric ozone. The total phase out of ozone depleting substances shall be completed in accordance with the schedule and deadline stated within the protocol. Venting of CFC's and other ozone depleting substances to the atmosphere is prohibited except in the case of firefighting;

- any facility, having potential of dust emissions from loading or unloading activity or during storing raw materials, shall take necessary measures (such as closed hanger, shield spraying system, etc.), to avoid dust emissions from the sources with prior approval from the Royal Commission;

- all quarries, crushers, ready-mix concrete plants, landfills and other similar facilities shall install appropriate dust control devices with prior approval from the Royal Commission;

- all facilities (including landfills) shall follow appropriate dust control measures during construction/site preparation phase to control dust emission to a level within the limit set by Ambient Air Quality Standards under the RCJY Regulations. for particulate matters; and

- all facilities (including pretreatment plants, sanitary and industrial wastewater treatment plants, pumping stations, waste management plants or systems) shall adopt appropriate environmental practices and measures (based on best available technology) to control the emissions of odours from their operating units.

©Employment

The Labour Law, originally issued in 2005 (Council of Ministers Resolution No. 219 dated 22/8/1426 H (26 September 2005) as amended and supplemented by regulation, is the principal legislation governing the employer – employee relationship. The Labour Law is administered by the KSA Ministry of Labour and Social Development.

The Labour Law applies to all workers employed in the KSA including expatriates and Saudi nationals irrespective of whether the parties nominate a foreign law as the governing law of the relevant employment contracts.

Amongst other things, the Labour Law provides provisions in relation to termination of employment, annual vacation entitlements, retirement age, end of service benefits and minimum age of 14 for employees.

Employers and employees are free to agree on the compensation terms; however, in order for Saudi nationals to be registered with the General Organisation for Social Insurance (GOSI) and to be counted as full-time employees for the purposes of Saudisation (as set out below), they must be paid a minimum salary of SAR 3,000 per month. There is no minimum salary requirement for employees who are expatriates.

Social insurance contributions to GOSI are required for all employees (including expatriates and Saudi nationals). Employers are required to contribute 2% of the payroll for all employees to GOSI to cover workplace injuries. Saudi national employees are entitled to a pension and the following contributions apply to them:

- 9% of basic salary and housing allowance by employer; and

- 9% of basic salary and housing allowance by employee.

Additionally, employers make unemployment insurance contributions for employees who are Saudi nationals of 1% of basic salary and housing allowance.

It is mandatory for an employer to provide private medical insurance for its employees (including expatriates and Saudi nationals).

The Saudisation policy (*Nitaqat*) requires a minimum number of Saudi nationals to be employed by each company (the Saudisation targets). This minimum number depends on the type of company, industry and job titles.

In 2011, the KSA Ministry of Labour and Social Development introduced the *Nitaqat* Programme by which employers are penalised if they fail to achieve the Saudisation targets which are applicable to them.

Companies are categorised into four categories: Excellent, Green, Yellow and Red. The categorisation is based upon the percentage of Saudisation of the company (i.e. the number of Saudi nationals employed as a percentage of the total number of employees). Companies in the Excellent or Green categories have the greatest privileges for visa requests for foreign employees. Companies in the Yellow and Red categories are subject to various restrictions in relation to visa applications and work permits for foreign employees.

Expatriates must be sponsored for employment and have a work/residence permit issued to them by the KSA Ministry of Labour and Social Development. Employment contracts for Saudi nationals may be for a limited or unlimited period. However, contracts for expatriates must always be for a fixed term which is usually linked to the period of the work permit.

Maximum working hours for employees (except for senior employees or managers, who are exempt from the relevant provisions) are 8 hours per day or 48 hours per week (on a six-working-day basis). An employee's total working hours (including overtime hours) shall not normally exceed 10 hours per day or 60 hours per week (on a six-working-day basis) under any circumstances. Furthermore, employees should not work for more than 5 consecutive hours without a break of at least 30 minutes in any working day and should not remain at the workplace for more than 11 hours a day in total (of which one hour must be for rest, food and prayer). Work in excess of the statutory maximum working hours is compensated at 100% of hourly wages plus 50% of the basic hourly wages. Overtime in a year shall normally be no more than 720 hours.

The minimum entitlement to paid annual leave is 21 days a year, which is increased to 30 days a

year after five years' service.

Female employees are entitled to maternity leave of a minimum of ten weeks' paid leave, four weeks to be taken immediately preceding the expected date of delivery and the remaining six weeks following the birth of the child. Female employees may also choose to take an additional one-month unpaid maternity leave. If the baby is ill or disabled, the mother is entitled to an additional one-month paid leave. Upon returning to work, female employees are afforded, in addition to the rest periods granted to all employees, a rest period or periods not exceeding in aggregate one hour a day for nursing their infants (to be calculated as part of the actual working hours and not entail any reduction in wages). Male employees are entitled to paternity leave of three days for the birth of their child.

The minimum entitlement to sick leave is 120 calendar days a year, with full pay for 30 days, 75% pay for 60 days and nil pay for 30 days.

An employee is entitled to 10 to 15 days' paid leave to perform Haj after two years service.

There is currently no specific discrimination legislation applicable to workplace in the KSA. The Labour Law forbids gender pay gap and provides equal pay to male and female employees who perform the same job. With the exception of termination for just cause, the employment contract of a pregnant female employee may not be terminated while she is on maternity leave. A legal quota requires a certain percentage of disable employees where the nature of the work permits.

©Health and Safety

The KSA has no separate law covering health and safety. Under the Labour Law, employers are under a general duty to safeguard the health and safety of employees in the workplace and specific duties include the following:

- registration of all employees (both Saudi nationals and expatriates) with GOSI, and the

payment of 2% of basic salary and housing allowance to cover compensation resulting from workplace accidents;

- provision of adequate drinking water and ventilation in the workplace;
- ban on working in exposed conditions during the summer months between 12.30 pm and 3 pm;
- an obligation to have first aid kits and access to medical care in the workplace;
- an obligation to provide adequate transportation to and from the workplace depending on the location of the workplace;
- a requirement to post in a conspicuous place within the workplace the employer's rules regarding health and safety in a language the employees can understand; and
- a duty to maintain an accident logbook to record any accidents in the workplace and to report these accidents to the Ministry of Labour and Social Development and the police depending on the nature of the accidents.

There are no specific laws relating to health and safety in respect of products and services provided and methods of redress in the KSA. Under Sharia (Islamic) Law, companies and persons can be liable in relation to death or personal injury or damage to persons or property caused by negligence at the workplace or through the supply of defective or unsafe products or services in the KSA. Various regulations under Sharia (Islamic) Law require companies and persons to provide and display warning notices and labels in relation to hazards and risks to health and safety in respect of products and services in the KSA.

◎Tax

Under the Income Tax Law, a company is a tax resident if it is incorporated in the KSA or its place

of central control and management is in the KSA.

A foreign partner or shareholder of a KSA company which is a tax resident and a non-resident who is deemed under the Income Tax Law to be carrying on business in the KSA through a permanent place of business in the KSA are subject to corporate income tax on income and realised capital gains.

Registration of a company or branch with the General Authority for Zakat and Income Tax which deals with tax regulation in the KSA is mandatory.

The rate of corporate income tax is generally 20% of net profits except for some specified businesses such as gas and oil/hydrocarbon activities on which higher rates of 30% and 85%, respectively are imposed.

Saudi and Gulf Country (GCC) nationals who are shareholders in corporate entities are subject to a religious levy (Zakat) of 2.5% which is derived from what is known as the "Zakatable Base", which is a rather complex formula linked to the number of shares of the corporate entity and other values.

The Income Tax Law does not distinguish between different categories of income. Capital gains are treated as ordinary income.

Rates of customs duty vary depending on the type and quantity of the commodity.

Withholding tax is levied at rates between 5% (for dividends, interest, certain service fees, branch remittances abroad) and 15% (for royalties and certain service fee payments to related parties) paid to non-residents, subject to the provisions of any applicable double taxation treaty.

◎Competition Law

The KSA adopted a competition law in 2004 (Royal Decree No. M/25 of 4/5/1425H (22 June 2004)) and the Competition Law came into effect in January 2005. The Competition Law and the

associated Regulations and Competition Rules (the “Competition Regulations”) constitute Saudi Arabia’s competition law regime and they are enforced by the Competition Council of the KSA.

The Competition Law applies to all firms, i.e. any corporation or company or partnership doing business in the KSA including non-Saudi entities. The Competition Law does not apply to Saudi Government owned corporations and wholly-owned state enterprises in the KSA.

The Competition Law aims to protect and encourage fair competition and combat monopolistic practices that affect fair competition within the KSA by, among other measures:

- prohibiting agreements and arrangements between or among firms if their objective or effect is to restrict commerce or competition;
- restricting the ability of a firm to acquire a dominant position in the market; and
- making abuse of dominant market position by a firm illegal.

The existence of a dominating position in the Saudi market is not of itself prohibited, but the abuse of that dominating position is. Examples of “abuse” include price control, customer discrimination and creating barriers to market entry.

“Dominating Position” is in broad terms defined as:

- having sales of at least 40% of total sales in the Saudi market for a period of 12 months; or
- an entity or group of entities being in a position to influence the prevailing price in the Saudi market at any time.

The Dominating Position provisions of the Competition Law are reinforced by other provisions which focus on the acquisition of ownership which is referred to in the Competition

Regulations as “Economic Concentration” (the “Economic Concentration”).

Economic Concentration happens where an entity acquires a position of domination of an entity or group of entities through merger, takeover, acquisition or the combination of managements.

An entity intending to achieve Economic Concentration in order to dominate 40% of a commodity’s total supply in the Saudi market is required to make written application to the Competition Council of the KSA and provide prescribed information including a report detailing the consequences of the proposed Economic Concentration, in particular its positive effect on the Saudi market. The entity can proceed to complete the Economic Concentration if the Competition Council notifies its approval or if the Competition Council doesn’t notify its refusal within 60 days of the application date. These provisions could apply to so-called foreign-to-foreign mergers occurring outside the KSA.

A party claiming to be affected by conduct which it believes breaches the Competition Law or the Competition Regulations may request the Competition Council to conduct an investigation to determine whether breaches of the Competition Law have occurred. The Competition Council may also initiate investigations without receiving any prior request or complaint.

The Competition Council may require relevant entities to stop prohibited conduct, to dispose of relevant assets and to take other action to remove the effects of the violation. Violators may also be subject to financial penalties.

Anyone suffering from damages caused by conduct prohibited under the Competition Law may apply to the court for compensation.

Reporting entity

SINOPEC ENGINEERING (GROUP) CO., LTD., and its subsidiaries (branches), which are referred to as “SEG”, “Company” and “we”, respectively.

Reporting Period:

January 1 – December 31, 2016 (the “Reporting Period”), with some parts extending beyond the Reporting Period.

Reporting Scope:

SINOPEC ENGINEERING (GROUP) CO., LTD. and its subsidiaries (branches)

References:

- (1)HKEX’ s Environment, Social and Governance Reporting Guide
 - (2)Guideline for SOEs to Fulfilling Their CSR promulgated by State-owned Assets Supervision and Administration Commission
 - (3)Guideline for Preparing CSR in China (CASS-CSR2.0) released by CSR Center of Economics Department of Chinese Academy of Social Sciences
 - (4)Guideline for Preparing Sustainable Development Reports (GRIG3.1) released by Global Reporting Initiative
- * This report has not covered all relevant indicators.

Data clarification:

The data on business operation and financials contained in this report mainly come from the annual report of 2016. If any deviation, the annual report shall prevail. For the electronic version of this report, please visit www.segroup.cn. This report will also be submitted to HKSE and published on its website.

Disclaimer

This report contains some prospective statements. Except historical facts, all the statements about future or possible incidents (including but not limited to assumptions, targets, estimates and business plans) shall fall under the category of prospective statements. Owing to the impact of some changing factors, the future development or tendency of the facts are likely to be different with the prospective statements. The prospective statements contained herein were made in March 2017. SEG shall not be liable or obliged to revise these prospective statements.

This report is printed in both Chinese and English languages. Should there be any discrepancy between the English language and the Chinese language, the Chinese language shall prevail, except that the English language shall prevail with respect to the principal laws and regulations in Saudi Arabia.

Company information

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Name in English

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Mr. Xiang Wenwu

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Stock code: 2386

Uniform Social Credit Code

911100007109349087

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Designated website by Hong Kong Stock Exchange:
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