

## 1 CORPORATE GOVERNANCE AND IMPROVEMENT

During the first half of 2002, Sinopec Corp. has carefully studied the “Listed Company’s Governance Standards” issued by the China Securities Regulatory Commission (CSRC), and the “Notice on Inspection for the Development of Listed Companies’ Establishment of Modern Enterprise System” published by the State Economic and Trade Commission (SETC) and CSRC. The Company has conducted serious self-inspection both on the listed company and controlling shareholding company levels, which was implemented at a special resolution of the Board of Directors. In July 2002, the Beijing Securities Regulatory Office of the CSRC conducted a routine investigation on Sinopec Corp., and found no irregularities in respect of corporate reorganization, operations and information disclosure etc. Achievements on aspects of realization of a diversified and balanced shareholding structure; standardized operations of general shareholders’ meetings, the board of directors and the board of supervisors; performance evaluation; incentive and disciplinary system; labor system reform; disclosure of information in an authentic, accurate, complete and timely manner; strict compliance with the procedure for significant connected transactions and improvement on the corporate governance of the Company were recognized by the relevant regulatory authorities.

Sinopec Corp. has been awarded first runner-up in the ranking by “Euromoney”’s listed companies in the emerging capital market with best corporate governance for the Hong Kong SAR and China region. (*Euromoney*, July 2002).

Currently, Sinopec Corp. is seriously implementing the “Listed Company’s Governance Standards”, “Guidelines for Articles of Association of Listed Company”, “Guidelines for Promoting Independent Director System Among Listed Companies”, “Mandatory Provisions in Articles of Association for Companies Listed Overseas” promulgated by the CSRC, and the recent release of corporate governance requirements by the Hong Kong Exchanges and Clearing Ltd, the US Securities Commission and the New York

Stock Exchange. Sinopec Corp. will further improve and enhance its “Articles of Association”, “Rules of Procedure for Shareholders’ Meeting”, “Rules of Procedure for the Board of Directors”, “Rules of Procedure for the Board of Supervisors”, “Rules of Work for the President” and “Guidelines for the Management of Disclosure of Information”, in particular, the newly introduced electoral system for directors, improvement on the structure of the Board of Directors and the Board of Supervisors. In addition, Sinopec Corp. further defined the principles and content of the authorization at the general shareholders meeting, the Board of Directors and the management. These are to be submitted to the next term of the Board of Directors which is to be elected in the first quarter of 2003 at an extraordinary shareholders’ meeting to be convened for discussion and approval for the building up of the electoral system, the implementation of which can be fully realized and thus continuing to improve corporate governance.

## 2 DIVIDEND DISTRIBUTION POLICY FOR THE YEAR ENDED 31 DECEMBER 2001 AND INTERIM DIVIDEND DISTRIBUTION POLICY FOR THE PERIOD ENDED 30 JUNE 2002

### 2.1 Sinopec Corp.’s Dividend Distribution Policy for the year ended 31 December 2001

As approved at the 2001 Annual General Meeting of Sinopec Corp., a cash dividend of RMB0.08 (tax included) per share was distributed, which amounted to a total cash dividends of RMB6.936 billion. The remaining RMB10.006 billion was carried forward to the financial year of 2002. Shareholders whose names were listed in Sinopec Corp.’s register of members as at 19 July 2002 had already received the final dividend. Details of the final dividend are stated in the relevant announcements of Sinopec Corp. published in the domestic newspapers – China Securities, Shanghai Securities and Securities Times, and the Hong Kong newspapers – South China Morning Post and The Hong Kong Economic Times on 14 June 2002.

### 2.2 Interim Dividend Distribution Policy for the period ended 30 June 2002

At the 2001 Annual General Meeting of Sinopec Corp., it was approved and the Board of Directors was authorised to distribute an interim dividend in the financial year of 2002. The dividend distribution policy for the period ended 30 June 2002 was approved by the 23rd meeting of the first session of the Board of Directors. Based on a total of 86,702.439 million shares as at 30 June 2002, a cash dividend of RMB0.02 (tax included) per share is to be distributed, which amounts to a total cash dividends of RMB1.734 billion.

The interim dividend is to be distributed on or before 30 September 2002 (Monday) to the shareholders whose names appear in Sinopec Corp.’s register of members as at 20 September 2002 (Friday).

Shareholders of H Shares who wish to receive the interim dividends should lodge the share certificate(s) accompanied by the relevant transfer forms to Sinopec Corp.’s share registrar, Computershare Hong Kong Investor Services Limited (formerly Hong Kong Registrars’ Limited prior to its merger) at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration of transfer by 4:00 p.m. of 13 September 2002 (Friday). The register of members of Sinopec Corp.’s shareholders of H Shares will be closed from 16 September 2002 (Monday) to 20 September 2002 (Friday) (both days inclusive).

Dividends will be denominated and declared in Renminbi. Dividends on domestic shares will be paid in Renminbi and dividends on foreign shares will be paid in Hong Kong dollars. The exchange rate for dividends to be paid in Hong Kong dollars is the mean of the average rate of Hong Kong dollars to Renminbi announced by Bank of China during the calendar week (5 August 2002 to 9 August 2002) prior to the date of declaration of dividends, being 16 August 2002 (Friday).

China Petroleum & Chemical Corporation

### 3 REGARDING THE TRANSFER OF THE STATE OWNED LEGAL PERSON SHARES OF SINOPEC HUBEI XINGHUA CO., LTD.

Upon the discussion in the 20th meeting of the first session of the Board of Directors, it was approved to transfer its 162,234,400 state owned legal person shares in Sinopec Hubei Xinghua Co. Ltd. ("Hubei Xinghua") (representing 57.58% of Hubei Xinghua's registered share capital) held by Sinopec Corp. in one lump sum to State Development & Investment Company of China. Furthermore, the Board of Directors authorized the Chairman, Mr. Li Yizhong, the President, Mr. Wang Jiming, and the Vice President & CFO, Mr. Zhang Jiaren, to sign the Share Transfer Agreement with State Development & Investment Company of China. This share transfer was approved by the Ministry of Finance. However, it is still subject to the granting of a waiver by the CSRC from making a general offer by the State Development & Investment Company, and assets swap arrangement to be approved at an extraordinary general meeting of Hubei Xinghua. Details of the transfer are set out in the announcements published in the domestic newspapers – China Securities, Shanghai Securities, and Securities Times, and the Hong Kong newspapers – South China Morning Post and Hong Kong Economic Times on 30 April 2002 and 17 June 2002 respectively.

### 4 THERE WAS NO MATERIAL LITIGATION AND ARBITRATION DURING THE REPORTING PERIOD.

### 5 CONNECTED TRANSACTIONS

#### 5.1 Connected Transactions entered into during the Reporting Period

During the reporting period, the actual volume of connected transactions entered into by the Company, amounted to an aggregate amount of RMB36.39 billion, of which incoming trade amounted to RMB21.575 billion and outgoing trade amounted to RMB14.815 billion (including outgoing products and services amounted to RMB14.785 billion). Details of all the connected transactions during the reporting period are set out in the notes to the financial statements contained in this report.

All connected transactions during the reporting period have been performed in compliance with its respective agreement as published in the annual report of 2001 and the relevant announcements.

#### 5.2 Significant Trusteeship, Contract and Leasehold

For the purpose of avoiding the same business competition, to expand and improve the retail business of refined oil products, conform with the market order, increase the Company's market share, Sinopec Corp. had leased 2,138 petrol stations from Sinopec Group Company as at 30 June 2002. The rental for these leases during the reporting period amounted to RMB33 million. It is expected that the Company will lease a total of approximately 2,600 petrol stations from Sinopec Group Company by 31 December 2002. The rental for these leases is estimated to be not exceeding RMB150 million. Details of these leases are set out in the announcement published in the domestic newspapers – China Securities, Shanghai Securities, and Securities Times, and Hong Kong newspapers – South China Morning Post and Hong Kong Economic Times on 30 April 2002.

During the reporting period, Sinopec Corp. did not have any significant trusteeship, or contract or any previous trusteeship or contract prior to but carried on to this reporting period.

#### 5.3 Other Connected Transactions Information

On 12 August 2002, Sinopec Corp. and Sinopec Yizheng Chemical Fibre Company Limited ("Yizheng") released a joint announcement on the connected transactions concerning the signing of PTA Project Construction Agreement between Yizheng and five engineering construction companies affiliated to Sinopec Group Company amounted to RMB199.3 million. Details of the transactions are set out in the joint announcement of Sinopec

Corp. and Yizheng published in the domestic newspapers – China Securities, Shanghai Securities, and Securities Times and Hong Kong newspapers – South China Morning Post and Hong Kong Economic Times on 12 August 2002.

#### 5.4 During the reporting period, Sinopec Corp. has no material trustee cash asset management event.

### 6 SIGNIFICANT GUARANTEES

At the fourteenth meeting of the first session of the Board of Directors, it was approved that Sinopec Corp. would conditionally provide a guarantee in both RMB and foreign currencies equal to an amount of RMB6.999 billion for the Shanghai – SECO project. Details of the transaction are set out in the Company's announcement published in the domestic newspaper – China Securities, Shanghai Securities and Securities Times, and Hong Kong newspapers – South China Morning Post and the Hong Kong Economic Times on 2 April 2002 and the 2001 Annual Report.

At the 22nd Meeting of the first session of the Board of Directors of Sinopec Corp., the resolution for the provision by Sinopec Corp. regarding a share mortgage for the Yangzi BASF project with a guarantee amount of RMB4.8748 billion under the mortgage agreement was approved. Furthermore, the resolution regarding the provision by Sinopec Corp. a guarantee for Yueyang Sinopec-Shell Coal Gasification Company Limited with a guarantee amount of RMB378.5 million was approved.

As of 30 June 2002, apart from the guarantee in respect of the Shanghai-SECO project, the Company has not entered into the above-mentioned guarantee agreements.

## 7 IMPLEMENTATION OF THE UNDERTAKINGS GIVEN BY SINOPEC CORP. AND ITS SHAREHOLDERS HOLDING 5% OR MORE OF THE TOTAL SHARE CAPITAL, NAMELY, SINOPEC GROUP COMPANY, CHINA DEVELOPMENT BANK AND CHINA XINDA ASSETS MANAGEMENT CORPORATION

### 7.1 As at the end of the reporting period, undertakings given by Sinopec Corp. include:

- (a) Effecting the reorganization of its three wholly owned subsidiaries, namely, Sinopec Shengli Oilfield Company Limited, Sinopec Sales Company Limited and Sinopec International Trade Company Limited within a specified period of time in accordance with the Company Law;
- (b) Changing the logo at the petrol stations within a specified period of time;
- (c) Setting up separate offices between Sinopec Group Company and Sinopec Corp. within a specified period of time;
- (d) Complying with the relevant applicable provisions and rules of the Stock Exchange of Hong Kong regarding waiver from the strict compliance with connected transactions rules.

### 7.2 As at the end of the reporting period, major undertakings given by Sinopec Group Company included:

- 1) Complying with the agreements concerning connected transactions;
- 2) Resolving the issues arising from the land use right certificates and building ownership certificate within a specified period of time;
- 3) Implementing the "Reorganisation Agreement" (as referred to in the prospectus for the issue of H Shares);

- 4) Granting licenses for intellectual properties;
- 5) Avoiding competition with Sinopec Corp. in the same business;
- 6) Resolving the business competition and conflict of interests with Sinopec Corp.

### 7.3 As at the end of the reporting period, China Development Bank and China Xinda Assets Management Corporation had given major undertakings that they would not dispose or transfer the shares in Sinopec Corp. held by them within a specified period of time.

Details of the above undertakings were included in the preliminary prospectus published by Sinopec Corp. in the China Securities, Shanghai Securities and Securities Times on 22 June 2001.

During the reporting period, Sinopec Corp. has not breached and is not aware of any of the principal shareholders having breached the undertakings.

## 8 USE OF PROCEEDS FROM H SHARES ISSUE AND A SHARE ISSUE

The proceeds from the issue of H Shares of Sinopec Corp. in 2000 amounted to RMB25.802 billion. After deducting the issuance expenses, the net proceeds amounted to RMB24.326 billion. In the year of 2000, RMB4.5 billion was used to repay loans; in the year of 2001, RMB13.735 billion was used in capital expenditure, mainly for exploration of gasoline and petrol stations construction projects. As at the end of the year of 2001, an amount of RMB6.091 billion from the proceeds from the issue of H Shares remain unused. During the reporting period, RMB2.041 billion had been applied, of which RMB1.318 billion for the exploration and production, RMB203 million for the construction and modification of petrol stations; RMB520 million for the investment in the Shanghai – SECO and BASF projects and Yueyang Dongting Nitrogenous Fertilizer Plant modification. As at 30 June 2002, an amount of RMB4.05 billion from the proceeds from the issue of H Shares remain unused.

The proceeds from the issue of A shares of Sinopec Corp. amounted to RMB11.816 billion. After deducting the issuance expenses, the net proceeds amounted to RMB11.648 billion. As at the end of year 2001, RMB6.446 billion was applied in the acquisition of Sinopec National Star, RMB50 million was applied to the Southwestern refined oil pipeline project and RMB1.27 billion was applied to the working capital of Sinopec Corp. As at the end of 2001, an amount of RMB3.882 billion from the proceeds from the issue of A Shares remain unused. During the reporting period, RMB105 million had been applied, of which, RMB46 million was applied in the initial expenses of the Southwestern oil pipeline, RMB59 million was applied in the Ningbo – Shanghai – Nanjing pipeline. As at 30 June 2002, an amount of RMB3.777 billion from the proceeds from the issue of A shares remain unused.

## 9 AUDITORS

At the 2001 Annual General Meeting held on 13 June 2002, Sinopec Corp. reappointed KPMG Huazhen and KPMG as its domestic and international auditors respectively for the year of 2002. In addition, by the authorisation from the Annual Meeting, the Board of Directors is authorised to decide the remuneration for the two auditors. The audit fee for this year has not been determined yet. By the approval of the 23rd meeting of the first session of the Board of Directors, the remuneration accrued for the first half of 2002 was RMB30 million. The financial statements of this report period have been audited by KPMG Huazhen and KPMG. The CPAs of KPMG Huazhen are Luo Zheng and Jin Naiwen.

## 10 AMENDMENT TO THE ARTICLES OF ASSOCIATION

At the Annual General Meeting of Sinopec Corp. held on 13 June 2002, it was approved that the Second Clause of Article 13 of the Articles of Association should be amended. The revised Clause was set out in the relevant announcements published in the domestic newspapers – China Securities, Shanghai Securities, and Securities Times, and Hong Kong newspapers – South China Morning Post and Hong Kong Economic Times on 14 June 2002.