

1 IMPROVEMENT ON CORPORATE GOVERNANCE

In 2004, Sinopec Corp. continued to make effort to improve its corporate operations and strengthen its corporate governance.

- (1) In accordance with the Notice on Certain Issues Relating to Regulating Fund Transfers between a Listed Company and Connected Parties and the External Guarantees of Listed Company (Zheng Jian Fa [2003] No.56) promulgated by CSRC and the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and the new Listing Rules introduced by Hong Kong Stock Exchange, the Company has made prompt amendments to its corporate governance documents such as Articles of Association, Rules and Procedures for the General Meeting of Shareholders and Rules and Procedures for Board of Directors Meeting and in particular, revised various provisions related to corporate guarantee, voting on connected transactions and nomination of directors.
- (2) Based on the evaluation results in respect to the operation of the internal control system during its implementation phase, the Company revised and optimized the system by introducing two new procedures, namely, Procedure for Importing Ordinary Equipment and Materials as an Agent and Intangible Assets Management Procedure. The revised internal control system comprises 13 broad categories which are sub-divided into 43 individual procedures regarding production, operation and management of the Company. The proposal of the revision of the system was approved at the twelfth meeting of the Second Session of the Board of Directors held on 31 October 2004, and the revised system has been implemented in all operation and management areas of the Company since January 2005.
- (3) Pursuant to relevant domestic and overseas regulatory requirements and Rules on Corporate Information Disclosure System and Rules on the Work of

Corporate Investor Relations of Sinopec Corp., the Company is committed to enhancing information disclosure and to improving investor relations.

In 2004, Sinopec Corp. was awarded the “Best Petrochemical Company in Asia” by Euro Money and was selected by the sell-side analysts as “the Best Investor Relations in the Oil and Natural Gas Industry” and “the Best Investor Relations in China (Hong Kong Inclusive)” according to the magazine Institutional Investor.

2 INDEPENDENT DIRECTORS' PERFORMANCE OF THEIR DUTIES

During the reporting period, the independent directors were very committed to carrying out their duties and fulfilling the fiduciary obligations as specified in the relevant laws, regulations and the Articles of Association. They attended meetings of both the Board of Directors (please refer to the following table) and professional committees, and put forth many constructive comments and suggestions relating to the Company's development strategy, corporate governance, internal reform and production and operation. They were particularly concerned with the interests of individual shareholders and minority shareholders. They reviewed material connected transactions of the Company, including assets acquisition and disposal from/to Sinopec Group Company and came up with valuable independent suggestions. The independent directors also gave unbiased comments on other major issues such as appointment or dismissal of directors and significant guarantees provided by Sinopec Corp.. Their valuable input effectively ensured fairness and protection to Sinopec Corp. and its shareholders as a whole.

As required by Hong Kong Stock Exchange, the Company makes the following affirmation statement concerning its independent directors: The Company has received annual confirmations from all the independent non-executive directors, acknowledging full compliance with the relevant requirements in respect of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors independent.

Presence of Independent Directors at Board of Directors Meetings

Names of the independent directors	Number of meetings held during the reporting period	Counts of presence (times)	Counts of commissioned presence (times)
Chen Qingtai	9	9	0
Ho Tsu Kwok Charles	9	6	3
Shi Wanpeng	9	8	1
Zhang Youcai	9	8	1

3 SEPARATION BETWEEN SINOPEC CORP. AND ITS CONTROLLING SHAREHOLDER

Sinopec Corp. is independent from its controlling shareholder, Sinopec Group Company, in respect of business, personnel, asset, organisational structure and finance and has its own independent and comprehensive business operations and management capability.

4 SENIOR MANAGEMENT EVALUATION AND INCENTIVE SCHEMES

Sinopec Corp. has established and is continuously improving the fairness and transparency of its performance evaluation and incentive schemes for the directors, supervisors and other senior management officers. Incentive policies such as Performance Evaluation and Salary Incentive

Plan for the Senior Management of Sinopec Corp., Plan of Share Appreciation Rights for the Senior Management of Sinopec Corp. and Measures on the First Granting of Share Appreciation Rights to the Senior Management of Sinopec Corp. were approved at the Fourth Extraordinary General Meeting of Shareholders held on 7 September 2000, as well as Implementing Measures of Salary for Senior Management of Sinopec Corp. (Tentative) and Supplementary Implementing Measures of Salary for Senior Management of Sinopec Corp. (Tentative).

During the period of this report, the provision for the share appreciation rights has been made according to the Measures on the First Granting of Stock Appreciation Rights for the Senior Management of Sinopec Corp.

5 COMPARISON OF NEW YORK STOCK EXCHANGE CORPORATE GOVERNANCE RULES AND CHINA CORPORATE GOVERNANCE RULES FOR LISTED COMPANIES

Under the amended Corporate Governance Rules of New York Stock Exchange (NYSE), foreign issuers (including Sinopec Corp.) listed on the NYSE are required to disclose a summary of the significant differences between their domestic corporate governance rules and NYSE corporate governance rules that would apply to a U.S. domestic issuer. A summary of such differences is listed below:

NYSE corporate governance rules	Corporate governance rules applicable to the domestically listed companies in China and the Company's governance practices
<p>Director Independence</p> <p>A listed company must have a majority of independent directors on its board of directors. No director qualifies as "independent" unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). In addition, a director must meet certain standards to be deemed independent. For example, a director is not independent if the director is, or has been within the last three years, an employee of the listed company, or if the director has received, during any twelve-month period within the last three years, more than US\$100,000 in direct compensation from the listed company.</p> <p>To empower non-management directors to serve as a more effective check on management, the non-management directors of each listed company must meet at regularly scheduled executive sessions without management.</p>	<p>It is required in China that any listed company must establish an independent director system and set forth specific requirements for the qualification of independent directors. For example, an independent director shall not hold any other position in the listed company other than being a director and shall not be influenced by the main shareholders or the controlling persons of the listed company, or by any other entities or persons with whom the listed company has a significant relationship. The Company has complied with the relevant Chinese corporate governance rules and has implemented internal rules governing the independence and responsibilities of independent directors. The Company determines the independence of independent directors every year.</p> <p>No similar requirements.</p>
<p>Nominating/Corporate Governance Committee</p> <p>Listed companies must have a nominating/corporate governance committee composed entirely of independent directors.</p> <p>The nominating/corporate governance committee must have a written charter that addresses the committee's purposes and responsibilities which, at minimum, must be to: search for eligible people for the board of directors, select and nominate directors for the next session of the shareholders' annual meeting, study and propose corporate governance guidelines, supervise the evaluation of the board of directors and management, and evaluate the performance of the committee every year.</p>	<p>The board of directors of a listed company may, through the resolution of the shareholders' meeting, establish a nominating committee composed entirely of directors, of which the independent directors shall be the majority and the convener. Up to now, the Company has not set up any nominating committee.</p> <p>Relevant responsibilities of the nominating/corporate governance committee are similar to those stipulated by the NYSE rules, but the main responsibilities do not include the research and recommendation of corporate governance guidelines, the supervision of the evaluation of the board of directors and management, or the annual evaluation of the committee.</p>

NYSE corporate governance rules	Corporate governance rules applicable to the domestically listed companies in China and the Company's governance practices
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Compensation Committee

Listed companies must have a compensation committee composed entirely of independent directors.

The written charter of the compensation committee must state, at least, the following purposes and responsibilities:

- (1) review and approve the corporate goals associated with CEO's compensation, evaluate the performance of the CEO in fulfilling these goals, and based on such evaluation determine and approve the CEO's compensation level;
- (2) make recommendations to the board with respect to non-CEO executive officer compensation, and incentive-compensation and equity-based plans that are subject to board approval;
- (3) produce a committee report on executive compensation as required by the SEC to be included in the annual proxy statement or annual report filed with the SEC.

The charter must also include the requirement for an annual performance evaluation of the compensation committee.

The board of directors of a listed company can, through the resolution of shareholders' meeting, have a compensation and assessment committee composed entirely of directors, of whom the independent directors are the majority and act as the convener.

The responsibilities are similar to those stipulated by the NYSE rules, but the committee is not required to produce a report on the executive compensation or make an annual performance evaluation of the committee. The board of directors of the Company has established a compensation and assessment committee composed mainly of independent directors who act as the convener, and the committee has a written charter.

Audit Committee

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 of Securities Exchange Act of 1934 (the "Exchange Act"). It must have a minimum of three members, and all audit committee members must satisfy the requirements for independence set forth in Section 303A.02 of NYSE Corporate Governance Rules as well as the requirements of Rule 10A-3b (1) of the Exchange Act.

The written charter of the audit committee must specify that the purpose of the audit committee is to assist the board oversight of the integrity of financial statements, the company's compliance with legal and regulatory requirements, qualifications and independence of independent auditors and the performance of the listed company's internal audit function and independent auditors.

The written charter must also require the audit committee to prepare an audit committee report as required by the SEC to be included in the listed company's annual proxy statement as well as an annual performance evaluation of the audit committee.

The board of directors of a listed company can, through the resolution of the shareholders' meeting, establish an audit committee composed entirely of directors, of which the independent directors are the majority and act as the convener, and, at minimum, one independent director is an accounting professional.

The responsibilities of the audit committee are similar to those stipulated by the NYSE rules, but according to the domestic practices, the company is not required to make an annual performance evaluation of the audit committee, and the audit committee is not required to prepare an audit report to be included in the company's annual proxy statement. The Board of Directors of the Company has established an audit committee that satisfies relevant domestic requirements and the audit committee has a written charter.

NYSE corporate governance rules	Corporate governance rules applicable to the domestically listed companies in China and the Company's governance practices
<p>Audit Committee <i>(Continued)</i></p> <p>Each listed company must have an internal audit department.</p> <p>Shareholders must be given the opportunity to vote on equity-compensation plans and material revisions thereto, except for employment incentive plans, certain awards and plans in the context of mergers and acquisitions.</p>	<p>China has a similar regulatory provision, and the Company has an internal audit department.</p> <p>The relevant regulations of China require the board of directors propose plans on the amount and types of director compensation for the shareholders' meeting to approve. The compensation plan of executive officers shall be approved by the board and announced at the shareholders' meeting and disclosed to the public upon the approval of the board of directors.</p>
<p>Corporate governance guidelines</p> <p>Listed companies must adopt and disclose corporate governance guidelines, involving director qualification standards, director compensation, director continuing education, annual performance evaluation of the board of directors, etc.</p>	<p>CSRS has issued the Corporate Governance Rules, to which the Company has complied.</p>
<p>Code of ethics for directors, officers and employees</p> <p>Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.</p> <p>Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards and he or she must promptly notify the NYSE on writing of any material non-compliance with any applicable provisions of Section 303A.</p>	<p>China does not have such requirement for a code for ethics. But, since the directors and officers of the Company have all signed the Director Service Agreement, they are bound by their fiduciary duties to the Company. In addition, the directors and officers must perform their legal responsibilities in accordance with the Company Law of PRC, relative requirements of CSRS and Mandatory Provisions to the Charter of Companies Listed Overseas.</p> <p>No similar requirements.</p>