

### 1 IMPROVEMENT ON CORPORATE GOVERNANCE DURING THE REPORTING PERIOD

During the reporting period, Sinopec Corp. continued to work to improve its corporate governance, this primarily involved:

- (1) In line with the requirements of China Securities Regulatory Commission, Sinopec Corp. carried out investigation of use of its proceeds, guarantees, use of funds by connected parties and matters regarding enhancement of listed company quality, and rectified deficiencies uncovered in the inspection investigation process. The Audit Committee Rules was amended and refined in accordance with the requirements of domestic and foreign regulators and the composition of the Audit Committee of the Board of Directors was adjusted in a timely manner.
- (2) The internal control system was fully implemented. The internal control system was fully implemented in 2005 and comprehensive investigation was carried out over the implementation of branches and subsidiaries. In response to deficiencies uncovered in the investigation, the Internal Control Manual and complementary rules and regulations were further refined. The amended Internal Control Manual was approved by the Board of Director at the end of 2005 and came into effect from January 2006.
- (3) The directors, supervisors and senior management of Sinopec Corp. have carefully studied the Code on Corporate Governance Practices issued by the Hong Kong Stock Exchange. The Company drafted and the Board of Directors approved the "Rules for Securities Dealing by Company Employees", in accordance with the requirements under the Code on Corporate Governance Practices.

- (4) Sinopec Corp. has worked through various effective methods and routes to further optimise its rules and procedures for information disclosure and investor relations and endeavored to strengthen its communications with domestic and foreign investors and to continually improve corporate transparency.

In 2005, Sinopec Corp. continued to be well regarded in the capital market and was awarded "Best Investor Relations (Large Cap)" in China and "Best Annual Report and Other Corporate Literature" by the periodical Investor Relations.

### 2 INDEPENDENT DIRECTORS' PERFORMANCE OF THEIR DUTIES AND CONFIRMATION OF INDEPENDENCE

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 (for the information about attendance, please refer to the Report of the Board of Directors in this Annual Report) 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 the documents submitted by the Company, listened to reports delivered by relevant personnel, gave independent comments on connected transactions, guarantees and appointment and dismissal of senior management officers, all of which ensured the interests of the Company and all shareholders are safeguarded.

As required by Hong Kong Stock Exchange, Sinopec Corp. makes the following confirmations concerning its independent directors: Sinopec Corp. 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. Sinopec Corp. considers all independent non-executive directors independent.

### **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. Sinopec Corp. implements various incentive schemes like “Measures for Implementation of Senior Management Remuneration Packages”.

Remuneration for Sinopec Corp. directors, supervisors and other senior management officers consists of base salary and performance bonus, including contributions by Sinopec Corp. to pension plans for its directors, supervisors and other senior management officers.

During the period of this report, the provision for the share appreciation rights has been made according to the terms as stipulated in “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**

For details, please refer to the website of Sinopec Corp. at <http://english.sinopec.com/en-ir/en-governance/index.shtml>

## 6 CORPORATE GOVERNANCE REPORT

**(1) Compliance with Code on Corporate Governance Practices**

Since its listing, in accordance with the relevant requirements of the domestic and foreign regulating bodies, Sinopec Corp. has set up compliant corporate governance structures and has continually improved its Articles of Association, Rules and Procedures for the General Meeting of Shareholders, Rules and Procedures for the Meeting of Board of Directors, Rules and Procedures for the Meeting of Supervisory Committee and other related rules. The operations of the general meeting of shareholders, the Board of Directors (including the three professional committees: Strategies and Development Committee, Audit Committee, and Remuneration and Performance Evaluation Committee), the Supervisory Committee and the President's office are compliant and coordinated. At the same time, the Company has continually improved its internal control system and actively enhanced information disclosure and investor relations. The level of corporate governance has continually improved.

Sinopec Corp.'s compliance with the Code on Corporate Governance Practices is principally as follows:

**A Board of Directors****A.1 Board of Directors**

Principle: The Company should be headed by an effective board which should assume responsibility for leadership and control of the Company.

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
Board meetings shall be held at least four times a year	√	The Board convenes at least a meeting every quarter. In 2005, Sinopec Corp. convened nine Board meetings. For the information about attendances, please refer to the Report of the Board of Directors of this Annual Report.
All directors are given an opportunity to include matters in the agenda for regular Board meetings	√	Pursuant to the Rules and Procedures for the Meeting of Board of Directors, each Board member may submit proposals for inclusion in to the agenda for Board meetings (including regular Board meetings).
Notice of at least 14 days shall be given of any regular meeting	√	For any regular meeting of the Board, a notice will be given 14 days in advance, while for other types of Board meetings, a notice will normally be given 10 days in advance in line with the Rules and Procedures for the Meeting of Board of Directors.
All directors should have access to the advice and services of the Board Secretary	√	Pursuant to Sinopec Corp.'s Articles of Association, the Board Secretary shall assist the directors in addressing the routine tasks of the Board, keep the directors informed and alerted about any regulation, policy and other requirements of domestic and foreign regulators and ensure that the directors observe domestic and foreign laws and regulations as well as the Articles of Association and other related regulations when performing their duties and responsibilities.

#### A.2 Chairman and the Chief Executive Officer

Principle: Distinction of the Board of Directors from the Management

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
The respective roles of the Chairman and the Chief Executive Officer shall be separate, and shall be clearly established and set out in writing	√	Mr. Chen Tonghai serves as Chairman of the Board, while Mr. Wang Tianpu serves as the President. The Chairman is elected by a simple majority vote, while the President will be nominated by the Chairman and appointed by the Board. The duties and responsibilities of the Chairman and the President are separate and the scope of their respective duties and responsibilities are set forth in the Articles of Association.
The Chairman shall ensure that all directors are properly briefed on issues arising at board meetings	√	Each of the directors will normally receive meeting information and related documents 10 days before the Board meeting, as well as special briefing if necessary. In addition, the Board Secretary will prepare meeting materials such as related explanations for each proposal, so as to ensure that each of the directors clearly understands the content of each proposal.
The Chairman shall be responsible for ensuring that directors receive adequate information in a timely manner	√	Under the Articles of Association, the President shall provide necessary information and materials to each of the directors, and each of the directors may request the President, or request, via the President, relevant departments to provide information and explanations necessary for a prompt, informed and prudent decision.

#### A.3 Board Composition

Principle: the Board shall have a combination of appropriate skills and experience.

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
Board Composition	√	The Board is made up of 13 members, each with extensive professional and governance experiences. Of the 13 members, 4 are independent non-executive directors. Over 1/2 of the Board are non-executive directors and independent non-executive directors. Sinopec Corp. has received from each independent non-executive director a letter of confirmation for 2005 regarding its qualification under relevant independence requirements set out in rule 3.13 of the Listing Rules of the Hong Kong Stock Exchange. Sinopec Corp. considers that each of the independent non-executive directors is independent.

#### A.4 Appointment; Re-election and Removal

Principle: there should be a formal, prudent and transparent procedures for appointment of directors

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
Non-executive directors should be appointed for a specific term	√	Pursuant to the Articles of Association, terms of each session of the Board (including non-executive directors) shall be 3 years.
Each of the directors shall be subject to election and to retirement by rotation at least once every three years	√	Pursuant to the Articles of Association, all directors shall be elected by the general meeting of shareholders, each for a term of 3 years. The Board is not authorised to fill casual vacancies.

## A.5 Responsibility of Directors

Principle: Each director is required to keep abreast of his responsibilities as a director

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
Each newly appointed director shall be inducted on the first occasion of his appointment	√	For each new appointment, Sinopec Corp. will arrange for professional consultants, including PRC and Hong Kong lawyers, to induct the newly appointed director.
Non-executive directors shall have certain authorities	√	Non-executive directors have certain authorities, including decision making for the Board in case of abstention of executive directors to avoid conflict of interest, and to serve on Board committees.
Every director shall ensure that he can give sufficient time and attention to the affairs of the Company and should not accept the appointment if he cannot do so	√	Sinopec Corp. considers that each of the directors can devote enough time and efforts to the affairs of the Company.
Every director must comply with its obligations under the Model Code set out in Appendix 10; the Board of Directors shall develop written guidelines for the dealings by employees in the issuer's securities	√	Upon inquiry, each of the directors confirmed that he has always complied with the Model Code during the reporting period. Sinopec Corp. formulated "Rules for Employee Dealing in Securities" in 2005 in accordance with the Code on Corporate Governance Practices.

## A.6 Supply and Access to Information

Principle: Directors should be provided in a timely manner with appropriate information.

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
The agenda and accompanying board documents shall be sent at least 3 days before the intended date of the meeting	√	According to the Rules and Procedures for the Meeting of Board of Directors, the meeting agenda and related documents should normally be sent out 10 days in advance. Each director is entitled to request other related information.
The management has an obligation to supply the board directors with adequate information relevant to the meeting	√	The Board Secretary is responsible for organising and preparing materials for Board meetings, including preparation of explanations for each proposed agenda to enable clear understanding by each director.
All directors are entitled to have access to board minutes and related materials	√	All directors may inspect Board minutes and related data at any time.

## B Remuneration and related Disclosure

Principle: The director remuneration system should be transparent.

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
A remuneration committee shall be set up with written scope of authorities	√	A Remuneration and Performance Evaluation Committee has been set up, its members including director Shi Wanpeng (Chairman), director Chen Qingtai (Deputy Chairman), director Zhang Youcai (Deputy Chairman), director Mu Shuling (Commissioner) and director Liu Genyuan (Commissioner), one of its main authorities is to propose to the Board related remuneration plans for directors and senior managements officers. Its written scope of authorities are available for inspection from the Board Secretary.
The Remuneration Committee shall consult the Chairman and/or President about proposed remuneration for other executive directors, and shall have access to professional advice if necessary	√	The Remuneration and Performance Evaluation Committee has always consulted the Chairman and the President regarding proposed compensations to other executive directors.
The Remuneration Committee shall be provided with sufficient resources to discharge its duties and responsibilities	√	Committee member may obtain independent professional advice. Costs arising from or in connection with such consultation are borne by the Company.

## C Accountability and Audit

### C.1 Financial Reporting

Principle: The Board should present a balanced, clear and comprehensive assessment of the company's performance, status and prospects.

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
Management should provide such explanation and information to the board as will enable the board to make informed assessment of the financial and other information put before the board for approval	√	Sinopec Corp. has adopted an internal mechanism to ensure that the management and related Sinopec Corp. departments have provided sufficient financial data to the board and its audit committee.
The directors should acknowledge their responsibility for preparing the accounts and there should be a statement by the auditors about their reporting responsibilities in the auditor's report on the financial statements	√	The directors are responsible for supervising the preparation of accounts for every fiscal period to ensure an authentic and fair presentation of the business status, performance and cash flows year ended fiscal period. When preparing the accounts for the ending on December 31, 2005, the directors have consistently applied appropriate accounting policies, made reasonable and prudent judgment and estimates and prepared the accounts on a going-concern basis.
The board should acknowledge its responsibility for financial disclosure, reports submitted to regulators as well as other disclosure required under statutory requirements	√	Sinopec Corp. is in compliance with the Listing Rules by publishing its annual, interim and quarterly results.  Sinopec Corp. has adopted an internal mechanism for ensuring formal disclosure of price-sensitive information.

## C.2 Internal Control

Principle: The issuer should maintain sound and effective internal controls

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
The directors shall at least annually conduct a review of the effectiveness of the system of internal control of the issuer and its affiliates	√	Sinopec Corp. has established an internal control system to assist the Company in achieving all business targets and guarding the safety of its assets, ensuring that the Company maintains proper accounting records to provide reliable financial information for internal use and public disclosures and ensuring compliance with related rules and regulations. During the reporting period, Sinopec Corp. conducted comprehensive of its branches and subsidiaries to review the implementation of internal control system, and in response to problems uncovered in the investigation, the Internal Control Manual and related systems were further refined and improved.

## C.3 Audit Committee

Principle: The arrangements regarding the board and company auditors should be formal and transparent

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
Minutes of the committee meeting shall be kept by a duly appointed secretary of the meeting. The draft and final minutes shall be sent to all members of the committee within a reasonable period after the meeting	√	The minutes of committee meeting are kept by a general office under the committee. The draft and final minutes are generally sent out to each of the committee members within a reasonable period after the meeting.
A former partner of the issuer's current auditing firm shall be refrained from acting as a member of the issuer's audit committee	√	The audit committee members include Messrs. Chen Qingtai (Chairman), Shi Wanpeng (Deputy Chairman), Zhang Youcai (Deputy Chairman) and Ho Tsu Kwok, Charles (Commissioner). As verified, none of the members had served as a partner to the current auditing firm.
The written terms of reference of the audit committee (including the minimum requirements regarding authority and duties) shall be made available for inspection or be posted on the website	√	During this reporting period, the Audit Committee Rules was further improved with supplementary provisions. The main authorities of the committee include: make recommendations on appointment of external auditors, review annual, interim and quarterly financial statements, make recommendations on adoption of accounting policies and changes to financial reporting requirements. The written terms of reference are available for inspection at the secretariat of the board.  During the reporting period, the Audit Committee held three meetings which were attended by all its members. For details, please refer to the Report of the Board of Directors of this Annual Report.
Where the board disagrees with the audit committee's view on selection, appointment, resignation or dismissal of external auditors, such disagreement shall be set out in the Corporate Governance Report	√	The board and the audit committee did not have any different opinion in 2005.
The audit committee should be provided with sufficient resources to discharge its duties	√	The committee members may seek independent professional advice, the costs of which will be borne by the Company.

## D Delegation by the Board

### D.1 Management function of the Board

Principle: The scope of authorisation should be clear

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
The board should give clear directions as to the powers of management, in particular, as to circumstances where the management should obtain prior approval or authorisation from the board	√	The board, the management and each of the board committees have clear terms of reference. The Articles of Association and the Rules and Procedures for the General Meeting of Shareholders and the Rules and Procedures for the Meeting of Board of Directors have clear scope regarding the duties and authorities of the Board and the management, which are posted on the Website of Sinopec Corp. at <a href="http://www.sinopec.com.cn">http://www.sinopec.com.cn</a> .

### D.2 Board committees

Principle: Board committees should be formed with specific written terms of reference

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
Where board committees are established to deal with matters, the board should subscribe sufficiently clear terms of reference to enable the committee to properly discharge its functions	√	The board, the management and each of the board committees have clear terms of reference.
The terms of reference of the board committees should require such committees to report to the board on their decisions and recommendations	√	The rules of the board committees require such committees to report to the Board on their decision and recommendations.

**E Effective communication with shareholders***E.1 Effective communication*

Principle: The board should endeavor to maintain an ongoing dialogue with shareholders

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
In respect of a substantially separate issue at a general meeting of shareholders, a separate resolution shall be proposed by the chairman of that meeting	√	A separate resolution is always proposed for each substantially separate issue.
The chairman of the board shall attend the annual general meeting and shall arrange the chairman of the audit, remuneration and nomination committees to attend (as appropriate)	√	The chairman of the Board attended the annual general meeting of 2004.

*E.2 Voting by poll*

Principle: The issuer should regularly inform shareholders of the procedures for demanding a poll.

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
Voting by poll is required under certain circumstances in the general meeting	√	To ensure the interests of all shareholders, all resolutions at the general meetings are subject to voting by poll.

**(2) Nomination of Directors**

The Board of Sinopec Corp. has not established Nomination Committee. No director nominations were made in 2005.

According to the Articles of Association, the list of director candidates is submitted to the general meeting of shareholders by way of a proposal.

Independent directors shall be nominated by the board of directors, the Supervisory Committee and shareholders who individually or jointly hold 1% or more of the voting stock of the Company and be elected by the general meeting of

shareholders. All other directors other than independent directors shall be nominated by the board of directors, the Supervisory Committee and shareholders who individually or jointly hold 5% or more of the voting stock of the Company and be elected by the general meeting of shareholders.

**(3) Other Information about Sinopec Corp.'s Corporate Governance**

For information regarding changes in share capital and shareholdings of principal shareholders, please refer to Page 10; for information regarding

general meetings of shareholders, please refer to Page 63; for information regarding meetings of the board of directors, please refer to Page 64; for information regarding equity interests of directors, supervisors and senior management officers, please refer to Page 47; for information regarding resume and annual remuneration of directors, supervisors and senior management officers, please refer to Page 74; and for information regarding external auditors, please refer to Page 83.