

1 IMPROVEMENT ON CORPORATE GOVERNANCE DURING THE REPORTING PERIOD

During the reporting period, Sinopec Corp. continued to standardise its operation and improve its corporate governance in accordance with the requirements of domestic and foreign regulations. The members of the Third Session of the Board of Directors and the Third Session of the Supervisory Board were elected, and members of senior management were appointed. The directors, supervisors and senior management of Sinopec Corp. have systematically studied domestic and overseas securities rules. The documents for corporate governance such as Rules of the Strategy and Development Committee and Rules of the Remuneration and Performance Evaluation Committee were revised and improved. The internal control system was fully implemented. The A-Share Reform of the Company was accomplished. Great improvements on information disclosure and investor relations were achieved. In 2006, Sinopec Corp. continued to be well regarded in the capital market and was awarded “Best Investor Relations for State-owned Enterprises” and “Best Corporate Governance” by IR magazine.

2 THE ESTABLISHMENT AND IMPLEMENTATION OF THE INTERNAL CONTROL SYSTEM

The Sarbanes-Oxley Act was promulgated in July 2002 by the US Congress, placing rules on the internal control and disclosure of US listed companies. The PRC, Ministry of Finance, China Securities Regulatory Commission, Shanghai Stock Exchange and Hong Kong Stock Exchange also have established rules and regulations to reinforce the internal control of listed companies. Sinopec Corp., which is listed on domestic and overseas stock exchanges, set up an internal control steering committee in 2003 led by the chairman, CEO and chief financial officer to further improve its internal control system. The headquarters of Sinopec Corp. established a special internal control office to organise and coordinate the works relating to the implementation and improvement of the internal control system. Each of the branches or subsidiaries of Sinopec Corp. also set up relevant internal control office to carry out the daily management over its internal control.

Sinopec Corp. formulated an Internal Control Handbook according to the relevant laws and regulations, the actual circumstances of the operation and management of the Company as well as the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission. The internal control system implements control over the work flow based

on the characteristics of the business line, and regulates on the important processes, procedures, and control points. The Internal Control Handbook currently covers 15 major categories, including investment, procurement, sales and consolidated statements, and 53 business work flows. The branches and subsidiaries of Sinopec Corp. also formulated their corresponding “Detailed Implementing Rules”.

After improvement, trainings, testing and trial run for more than one year, the Internal Control Handbook was approved at the 12th meeting of the Second Session of the Board of Directors on October 31, 2004, and was put into effect since January 1 2005 and will be updated every year. The Company strictly implemented the Internal Control Handbook and created measures and standards for evaluation of its internal control. Sinopec Corp.’s branches and subsidiaries carried out self-evaluation every half year and work-flow examination every quarter. In 2006, the management of Sinopec Corp. carried out self-evaluation on the implementation of internal control by the headquarter and 87 branches and subsidiaries and ratified the problems discovered in the relevant branches or subsidiaries in a timely manner. The Internal Control Handbook (2007 Edition) was approved at the seventh meeting of the Third Session of the Board of Directors on December 27, 2006.

According to the domestic and overseas regulatory requirements, the management of Sinopec Corp. performed self-evaluation on the effectiveness of its internal control system during this reporting period, and concluded that the internal control of Sinopec Corp. was effective during this reporting period.

In 2007, Sinopec Corp. will continue to implement the Internal Control Handbook (2007 Edition) approved by the Board of Directors and further improve its internal control system according to the actual situation and the regulatory requirements.

3 INDEPENDENT DIRECTORS’ PERFORMANCE OF THEIR DUTIES AND CONFIRMATION OF INDEPENDENCE

During the reporting period, the independent directors were very committed to carrying out the system of independent directors and fulfilling their duties and fiduciary obligations as specified in the relevant laws, regulations and the Articles of Association of Sinopec Corp.. They reviewed the documents submitted by Sinopec Corp., attended meetings of both the Board of Directors and the professional committees, (Please refer to the Section “Report of the Board of Directors” in this annual report for

detailed information on attendance of the meetings.) gave independent opinions on connected transactions, guarantees and appointment and dismissal of senior management officers and put forth many constructive comments and suggestions relating to the Sinopec Corp.’s corporate governance, reform and development, production and operation etc. They fully discharged their duties of independent directors objectively and independently protecting the interests of individual shareholders, in particular, the interests of the minority shareholders.

As required by the 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.

4 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.

5 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.

6 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>

7 CORPORATE GOVERNANCE REPORT (IN ACCORDANCE WITH THE LISTING RULES OF THE HONG KONG STOCK EXCHANGE)

(1) Compliance with Code on Corporate Governance Practices

Since its listing, in accordance with the relevant requirements of the domestic and foreign regulatory 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 Board 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 Board and the senior management officers were in compliant with the relevant requirements and well co-ordinated. 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. has fully complied with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange during the year ended 31st December 2006. 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 2006, Sinopec Corp. convened 10 Board meetings. For the information about attendance, 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 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 11 members, each with extensive professional and governance experiences (Please refer to the Section "Directors, Supervisors, Senior Management and Employees" in this report for detailed information.) Of the 11 members, 3 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 2006 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 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. Pursuant to the "Rules and Procedures for the meeting of the Board of Directors", the President of the Company shall provide the directors with necessary information and data. The director may request the President, or request the President to instruct the relevant departments of the Company to provide them necessary data and explanation so as to enable them to make scientific, prompt and cautious decisions.
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 Liu Zhongli, director Li Deshui and director Dai Houliang, its main authorities include proposing to the Board remuneration plans for directors and senior management officers. Its written scope of authorities is 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 members may obtain independent professional advice. Costs arising from or in connection with such consultation are borne by the Company. The senior management officers and relevant departments of the Company shall adopt positive and cooperative attitude and actively cooperate with the work of the Remuneration and Performance Evaluation Committee by providing it with the relevant information.

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 for that fiscal period. When preparing the accounts for the year ended December 31, 2006, 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. Please refer to "The Establishment and Implementation of the Internal Control system" section of the "Corporate Governance" in this Annual report.

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 director Liu Zhongli (Chairman), director Shi Wanpeng (commissioner) and director Li Deshui (commissioner). As verified, none of the members had served as a partner or former 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, quarterly financial statements and the internal control system of Sinopec Corp., 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 four meetings. 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 2006.
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. The senior management officers and relevant departments of the Company shall adopt positive and cooperative attitude and actively co-operate with the work of the Audit Committee by providing it with the relevant information.

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 http://www.sinopec.com

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 have sufficiently clear terms of reference to enable the committee to properly discharge its functions	√	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 decisions 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 2005.

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 a Nomination Committee. During the reporting period, the nomination of directors (including independent non-executive directors) was put forward in accordance with the Articles of Association by shareholders. According to the Articles of Association, the list of director candidates is submitted to the general meeting of shareholders by way of proposal.

May 24, 2006, KPMG Huazhen and KPMG were re-appointed as the domestic and overseas auditors of Sinopec Corp. for the year 2006, respectively, and the Board of Directors was authorised to determine their remunerations. As approved at the ninth meeting of the Third Session of the Board of Directors of Sinopec Corp., the audit fee for 2006 was HK\$ 60 million. The financial statements for year 2006 have been audited by KPMG Huazhen and KPMG. Wu Wei and Zhang Jingjing are China Registered Certified Public Accountants of KPMG Huazhen.

KPMG Huazhen and KPMG have provided audit services to Sinopec Corp. for 6.5 years since the second half of 2000, and the first audit engagement was entered into in March 2001.

During the reporting period, both KPMG Huazhen and KPMG did not provide any non-audit service to the Company.

(3) Auditors

At the Annual General Meeting of Sinopec Corp. for the year 2005 held on

Auditors appointed	KPMG Huazhen (Domestic)	KPMG (Overseas)
Audit fees of Sinopec Corp. for year 2006	HK\$ 1,500,000 (unpaid) HK\$1,500,000 (paid)	HK\$34,500,000 (unpaid) HK\$ 22,500,000 (paid)
Audit fees of Sinopec Corp. for year 2005	HK\$ 3,000,000 (paid)	HK\$ 45,000,000 (paid)
Audit fees of Sinopec Corp. for year 2004	HK\$ 3,000,000 (paid)	HK\$ 47,000,000 (paid)
Travel and other expenses	Borne by the firm	Borne by the firm

Note: Most domestic and overseas listed subsidiaries of Sinopec Corp. appointed KPMG Huazhen and KPMG as their auditors, and a few domestic listed subsidiaries selected other firms as their auditors. Please refer to their respective annual reports for details about such subsidiaries' appointments and dismissals of auditing firms.

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

Except their working relationships with Sinopec Corp, none of the directors, supervisors and senior management has any financial, business or family relationships or any relationships in other material aspects with each other. For information regarding changes in

share capital and shareholdings of principal shareholders, please refer to Page 9; for information regarding general meetings of shareholders, please refer to Page 56; for information regarding meetings of the Board of Directors, please refer to Page 57; for information regarding equity interests of directors, supervisors and senior management

officers, please refer to Page 46; for information regarding resume and annual remuneration of directors, supervisors and senior management officers, please refer to Page 68; and for information regarding external auditors, please refer to Page 77.