

1 IMPROVEMENT ON CORPORATE GOVERNANCE

In 2003, the Company continued to improve the corporate governance and enhance its transparency in accordance with the laws and regulations including “Standards of Corporate Governance of Listed Companies” of China”, “Sarbanes-Oxley Act” of the U.S. and “Securities and Futures Ordinance” of HK, etc. In 2003, Sinopec Corp. mainly made the following efforts in respect of corporate governance:

- (1) In strict compliance with the requirements of domestic and overseas regulatory authorities, Sinopec Corp. has comprehensively and systematically amended its Articles of Association and the Appendices, namely, “Rules and Procedures for Shareholders’ Meeting”; “Rules and Procedures for Board of Directors Meeting”, “Rules and Procedures for the Supervisory Committees Meeting”, and made various rules including the “Rules on the Work of the President (Tentative)”, “Rules on Corporate Information Disclosure System” and “Rules on Corporate Investor Relation”, laying a firm foundation for the standardized operation of the Company.
- (2) In accordance with the requirements of domestic and overseas regulatory authorities and the Articles of Association, Sinopec Corp. has further optimized the composition of the Board of Directors and the Supervisory Committee, and the Board of Directors has established three professional committees, namely, Strategic Planning Committee, Audit Committee and Remuneration & Evaluation Committee. It has provided comprehensive and systematic training to newly elected directors and supervisors. The decision-making process of the Board of Directors has become more scientific, and the supervision of the Supervisory Committee has become more effective.
- (3) In accordance with the relevant laws and regulations and requirements of domestic and overseas regulatory authorities, the Company has studied, formulated and improved its internal control system (involving the business operation and management of 13 categories and 41 operation flows) and put it into preliminary operation within the Company, thereby further standardizing the management of the Company.
- (4) Actively and positively disclosed information and improved investor relations in strict compliance of the principles of truth, accurate, complete and timely disclosure, and by means of preparation of annual report, public announcement, domestic and overseas road show, teleconference, the Company’s website, interview and response to inquiry, etc., the Company has strengthened its communication with the investors to further increase transparency of the Company.
- (5) Carefully organized and implemented various provisions promulgated by regulatory authorities, carried out self-inspection in terms of insider trading of the Company, external guarantees, connected party transactions, risk notification and avoidance of the Company, trust of shares of the Company and standardized exercise of shareholders’ rights, etc, and prepared the management system and precautionary measures accordingly.

Sinopec Corp.’s efforts and practice in the aspect of corporate governance have been fully affirmed by the capital market. In 2003, Sinopec Corp. It was awarded by Euro Money as the “Best Company in the Emerging Capital Market of 2003”, “Best Petrochemical Company in Asia” and “Best Company with Information Transparency in Asia” and other awards. It was awarded by Finance Asia as “Chinese Company with the Best Investor Relation in 2003” and elected as the “Best Chinese Company in Promoting the Shareholders’ Returns” and the “Best Corporate Governance in China”.

In 2004, the Company will further improve and standardize its relevant operating mechanisms; further enhance the role of the professional committees under the Board of Directors; enhance the sense of good faith among directors, supervisors and senior managers; improve and implement the internal control system and continuously enhance the governance.

2 INDEPENDENT DIRECTORS' PERFORMANCE OF THEIR DUTIES

During the reporting period, the independent directors performed their duties seriously in strict compliance with the requirements of the relevant laws, regulations and the Articles of Association, and participated in major decision making with good faith, diligence and responsibility. Furthermore, they have actively attended the meetings of the Board of Directors and acted as members of the Board of Directors' professional committees, and also acted as member of the Audit Committee and the Remuneration & Evaluation Committee respectively. The independent directors put forth many constructive comments and advice on the Company's development strategy, corporate governance, internal reform and business operations. They have also independently examined material connected transactions, including the leasing of petrol stations from the parent company, the leasing of additional land use rights from the parent company, ongoing connected transactions, acquisitions of Maoming Ethylene, Xi'an Petrochemicals and Tahe Petrochemicals, etc. from the parent company, and provided their independent comments. Moreover, with respect to the appointment or dismissal of directors and the employment of senior management officers as well as guarantees, etc., the independent directors have put forth independent comments, thus safeguarding the interests of the Company and all its shareholders.

3 SEPARATION OF SINOPEC CORP. FROM ITS CONTROLLING SHAREHOLDER

Sinopec Corp. has basically separated from its controlling shareholder, Sinopec Group Company, in respects such as business, personnel, assets, organizational structure and finance and has its own independent and complete businesses and the ability of independent management and operation.

4 EVALUATION AND INCENTIVE MECHANISM OF SENIOR MANAGEMENT

Sinopec Corp. has established and continuously improved a fair and transparent performance evaluation standard and an incentive and constraint mechanism for the directors, supervisors and other senior management officers. It has implemented such incentive policies as "the Performance Evaluation and Salary Incentive Plan for the Senior Management of Sinopec Corp.", "the Plan of Stock Appreciation Rights for the Senior Management of Sinopec Corp." and "the Measures on the First Granting of Stock Appreciation Rights to the Senior Management of Sinopec Corp.", all of which were approved by the Fourth Extraordinary General Meeting of Shareholders held on 7 September, 2000. In 2003, Sinopec Corp. implemented the incentive policies such as "the Implementing Measures of Salary for Senior Management of Sinopec Corp. (Tentative)".

During the period of this report, the reserves for the stock appreciation rights to be granted at the first time have already been prepared according to "the Measures on the First Granting of Stock Appreciation Rights for the Senior Management of Sinopec Corp.".