

Corporate Governance

1. Shareholders' General Meeting

The Company held its 2003 annual general meeting on 18 June 2004 in strict compliance with the requirements for notices and convening procedures laid down in the relevant laws, regulations and the Company's Articles of Association.

Details on the Company's 2003 annual general meeting were published in Hong Kong newspapers, South China Morning Post and Wen Wei Po, on 21 June 2004.

2. Board of Directors

(1) The Composition of the Board of Directors

The Board of Directors of the Company comprises twelve Directors, six of whom are Executive Directors, namely, Mr Sun Weijun (Chairman), Mr Zhan Juping (Deputy Chairman), Mr Xu Liqiao, Mr Sun Jianli, Mr Zhao Jinxuan and Mr Yu Renming. The two Non-executive Directors are Ms Wang Lisheng and Mr Hu Weiqing. The four Independent Non-executive Directors are Mr Sun Yongsan, Mr Cen Kefa, Mr Li Linghong and Ms Qiu Yun. The composition of the Board of Directors fulfils the requirements of the Listing Rules.

(2) Functions of the Board of Directors

The Board of Directors is responsible for the Company's strategic development, setting objectives and formulating strategies and policies for the Company. To achieve the Company's strategic goals, the Board of Directors also supervises and controls operational and financial performance as well as formulates risk management policies in an appropriate

manner. The Board of Directors has appointed the General Manager to execute all the various strategies and to take charge of the Company's daily operations.

The Board of Directors holds meetings on a regular basis. If necessary, the Board of Directors will convene additional meetings. The Secretary of the Board of Directors is responsible for distributing detailed documents to Directors prior to the meetings of the Board of Directors to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings. The Secretary of the Board of Directors is also responsible for ensuring the procedures of the board meetings are observed and providing to the Board of Directors opinions on matters in relation to the compliance with the procedures of the board meetings.

Three professional committees with specific functions had been set up under the Board of Directors. Each professional committee, depending on situation, gives the Board of Directors advice on matters under discussion.

(3) Number of Board Meetings Held

During the period under review, the Company held three board meetings. Details of the meetings were as follows:

- a. The fourth meeting of the Fourth Board of Directors was held on 16 April 2004 at which the 2003 annual report and resolutions including the proposal regarding the amendments to the Company's Articles of Association were considered and approved. The aforementioned resolutions were proposed for

Corporate Governance

approval at the 2003 annual general meeting.

- b. The fifth meeting of the Fourth Board of Directors was held on 20 August 2004 at which the 2004 interim report was considered and approved.
- c. The sixth meeting of the Fourth Board of Directors was held on 7 December 2004 at which the “Agreement on the Supply of Naphtha” entered into between the Company and SECCO

and “Internal Control Handbook” were considered and approved.

The Executive Committee of the Board of Directors

During the period under review, the Executive Committee of the Board of Directors convened 10 meetings, faithfully performing the duties as stipulated in the Company’s Articles of Association and the “Rules Governing the Convention of Board Meetings”.

(4) Directors’ Attendance at Board Meetings

Name of Director	Number of board meetings held during the period under review	Attendance	Attendance by proxy
Sun Weijun (Chairman)	3	3	0
Zhan Juping (Deputy Chairman)	3	3	0
Xu Liqiao	3	3	0
Sun Jianli	3	2	1
Zhao Jinxuan	3	2	1
Yu Renming	3	2	1
Wang Lisheng	3	1	2
Hu Weiqing	3	1	2
Sun Yongsen	3	1	2
Cen Kefa	3	2	1
Li Linghong	3	3	0
Qiu Yun	3	2	1

(5) Training for Directors

In light of the amendments made to the Listing Rules, which came into effect on 31 March 2004, the Company held a training session for the Directors during the period under review to enhance their diligent

attitude, sense of responsibility and awareness of the need for standardised operation in order to seriously carry out their duties, thereby raising the level of standardised operation and the standard of disclosure of information of the Company.

Corporate Governance

3. Non-executive Directors

The term of the Company's Non-executive Directors lasts for three years with effect from the 2002 annual general meeting of the Company held on 20 June 2003.

4. Independent Non-executive Directors

The Company has, according to rule 3.10 of the Listing Rules, appointed a sufficient number of Independent Non-executive Directors and has appointed Independent Non-executive Directors with appropriate professional qualifications.

During the period under review, the Independent Non-executive Directors faithfully performed their duties and fulfilled their obligations of honesty, trust and diligence in accordance with the requirements of relevant laws, regulations and the Company's Articles of Association. The Independent Non-executive Directors actively participated in the meetings of the Board of Directors and the professional committee, providing constructive comments and suggestions on corporate governance, production and operation. They also reviewed and expressed independent opinions on matters such as the Company's connected transactions, thereby safeguarding the interests of the Company and its shareholders.

In April 2005, four Independent Non-executive Directors of the Company separately submitted their confirmation letters on their independence, confirming that they had strictly observed the requirements for independence as set out in rule 3.13 of the Listing Rules during the period under review. Independent Non-executive Directors are independent persons of the Company.

5. Emoluments for Directors and Supervisors

Wages in respect of position form the predominant part of the basic wage system implemented by the Company. The basic wage system mainly comprises wages in respect of position, basic salary, bonus and a certain amount of allowance and benefits.

Details of emoluments paid to each Director and Supervisor of the Company during the period under review are set out in note 8 to the financial statements.

The aggregate amount of emoluments paid to the Company's six Executive Directors and three Supervisors for the year ended 31 December 2004 was RMB1,408,000 (2003: RMB1,208,000) and RMB512,000 (2003: RMB432,000) respectively. Emoluments paid to each Executive Director and Supervisor did not exceed RMB300,000 (2003: RMB250,000). In addition, pension fund for Executive Directors, Supervisors and other employees is planned as a whole, details of which are set out in note 9 to the financial statements.

Pursuant to the approval given at the annual general meeting held on 20 June 2003, the Company entered into service contracts with all the Directors and Supervisors. In accordance with the service contracts, the aggregate amount of emoluments paid to Independent Directors and Independent Supervisors for the year ended 31 December 2004 was RMB58,000 and RMB32,000 respectively. Emoluments paid to each Independent Director and Independent Supervisor did not exceed RMB20,000. The aggregate amount of emoluments paid to external Directors and external Supervisors was RMB6,000 and RMB12,000 respectively. Emoluments paid to each external Director and external Supervisor did not exceed RMB20,000.

Corporate Governance

For the year ended 31 December 2004, the five highest-paid individuals of the Company were Directors.

The Directors of the Company and the Company had not entered into any service contract that could not be terminated within one year without payment of compensation (other than statutory compensation).

6. Audit Committee

During the period under review, the Company had, in accordance with the requirements of rule 3.21 of the Listing Rules, set up an audit committee. The Audit Committee comprises five Non-executive Directors, namely Ms Wang Lisheng, Mr Hu Weiqing, Mr Sun Yongsen, Mr Li Linghong and Ms Qiu Yun. Independent Non-executive Director Ms Qiu Yun was the head of the committee. The committee convenes meetings at least twice a year. The committee is responsible for reviewing the Company's financial information (including the Company's financial statements, annual reports, interim reports and major comments on financial reporting contained in the financial statements and reports), examining and studying the Company's financial reporting system and procedures for internal supervision and control, and making recommendations to the Board of Directors on matters regarding the appointment of external auditors and auditing fee etc.

During the period under review, the Audit Committee held three meetings on 16 April 2004, 20 August 2004 and 7 December 2004 respectively, during which "The 2003 Annual Financial Statements", "The 2004 Interim Financial Report" and "Internal Control Handbook" were reviewed.

7. Interests of Directors and Supervisors

As at 31 December 2004, neither the Directors nor the Supervisors of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO); they did not have any, direct or indirect, material interest in the Company's material contracts.

8. Securities Transactions by Directors

The Company's Board of Directors has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" contained in Appendix 10 of the Listing Rules as the Directors' code of conduct regarding transactions in securities. The Board of Directors is aware that pursuant to relevant laws and regulations of the PRC, only overseas investors in foreign countries and the regions of Hong Kong, Macau and Taiwan are eligible to purchase the Company's H shares. Members of the Board of Directors are not allowed to hold or deal in the Company's foreign shares.

9. Amendments to the Articles of Association

The amendments to the Company's Articles of Association were approved at the 2003 annual general meeting held by the Company on 18 June 2004. The details on the amendments to the Articles of Association were set out in the circular despatched to shareholders on 30 April 2004 and the relevant announcements published in Hong Kong newspapers, South China Morning Post and Wen Wei Po, on 21 June 2004.

Corporate Governance

The above-mentioned amendments to the Company's Articles of Association were approved by the approving department authorised by the State Council on 30 July 2004.

10. Investor Relations

The Company had actively and faithfully performed its duties regarding the disclosure of information and the work on investor relations. It had strictly abided by the principles of faith, regulation, transparency and timely disclosure of information. Through the various approaches and channels such as compiling results reports, issuing announcements, organising roadshows at home and abroad, using telephone conferencing, a corporate website, reception of investors and analysts, response to enquiries, the Company strengthened the communication and relationship with its investors, enhanced corporate transparency and helped investors to recognise its value, thereby achieving good results.

11. Connected Transactions

The connected transactions of the Group during the period under review were entered into in the ordinary course of business and were conducted on normal commercial terms and in accordance with the terms of the agreements on relevant transactions. The terms of the transactions were fair and reasonable, and in the interest of the Company's shareholders. The relevant connected transactions had been reviewed by auditors. Details are set out in note 32 to the financial statements. In accordance with the requirements of the Stock Exchange, the relevant connected transactions had been confirmed by the Independent Non-executive Directors.

On 10 November 2003, the Company and Yizheng Chemical entered into an agreement on the purchase and sales of PX (the "agreement").

The agreement is effective until 31 December 2005. The price of PX is determined in accordance with the pricing formula in the agreement, which is based on the ICIS CFR Northeast Asia Spot Price and Contract Price. The details of the agreement were published in Hong Kong newspapers, South China Morning Post and Wen Wei Po, on 12 November 2003.

Yizheng Chemical is 42% held by Sinopec Corp., which is also the holding company of the Company, and therefore Yizheng Chemical is a connected person of the Company under the Listing Rules. The sales under the agreement therefore constitute ongoing connected transactions and require independent shareholders' approval. On 27 December 2003, the Company held an extraordinary general meeting, at which transactions contemplated under the agreement were approved. Relevant details were published in Hong Kong newspapers, South China Morning Post and Wen Wei Po, on 29 December 2003.

On 9 January 2004, the Stock Exchange agreed, with conditions, to exempt the Company from the obligation to make ongoing disclosure in respect of the transactions and granted the Company a waiver for the three financial years ending 31 December 2005. During the aforesaid period, the Company need not comply with the Listing Rules' requirements in relation to ongoing disclosure of connected transactions in respect of the sales under the agreement, but has to fulfil the requirements stipulated in the waiver. The details on the conditions for granting the exemption from the obligation to make ongoing disclosure were published in the circular sent to all shareholders on 2 December 2003.

For the year ended 31 December 2004, the Company, in accordance with the agreement and the conditions set out in the waiver granted by the Stock Exchange, sold to Yizheng

Corporate Governance

Chemical approximately 250,000 tonnes of PX. The total sales amount of the PX sold to Yizheng Chemical did not exceed the cap of the waiver, which was set at 13% of the Company's consolidated turnover for the year ended 31 December 2003. The Company's auditors have reviewed and the Independent Non-executive Directors have verified the Group's connected transactions. The Company's auditors issued a letter regarding the ongoing connected transactions to the Board of Directors on 5 April 2005.

12. Internal Control System

In accordance with the requirements of the laws, regulations as well as domestic and overseas regulatory bodies, the Company studied, formulated and fine-tuned its internal control system, which is related to the Company's production, operation and

management. On 7 December 2004, the Company held a board meeting, at which "Internal Control Handbook" was considered and approved. The handbook came into force on 1 January 2005, with the aim of enhancing the regulation of corporate management conduct.

13. Code of Best Practice

The Directors were not aware of any information which reasonably indicated that the Company had not complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules during 2004. The code was replaced by the Code on Corporate Governance Practices, which took effect from 1 January 2005. The Company will, in compliance with the Code on Corporate Governance Practices pursuant to the relevant regulatory requirements, make timely disclosure.