

## Current Status of Corporate Governance in the Company

The Company has strictly complied with the relevant requirements of the Company Law, Securities Law, Corporate Governance Principles for Listed Companies, Guidelines for Formulating Independent Directors for Listed Companies, the Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited and the New York Stock Exchange to put forward the advancement of the Company's system and management, improve the corporate governance structure, strengthen the formulation of the Company's system in order to enhance the overall image of the Company.

In 2005, the Company has passed the resolution in respect of the amendments to the Articles of Associations and its appendices of the Company.

Two Board committees were established at the first meeting of the fifth session of the Board: the audit committee and the remuneration and appraisal committee. Rules of Procedure of the Remuneration and Appraisal Committee and Rules of Procedure of the Audit Committee were approved at the sixth meeting of the fifth session of the Board convened on 7 December 2005.

## Performance of duties by the Company's independent directors

The independent directors of the Company attended the 2005 general meetings and the 2005 meetings of the Board, and have fully fulfilled the functions of independent directors. They participated in considering and approving the resolutions in respect of the 2004 annual report, the 2005 interim report, quarterly reports, the profit appropriation plan and connected transactions. They expressed their opinions on the basis of their work experience and expertise and conscientiously performed their duties as independent directors. In addition, they gave independent opinions on major matters such as appointments of senior management and connected transactions. The independent directors have fulfilled their duties in an independent, trustworthy and diligent manner to safeguard the interests of shareholders, in particular minority shareholders, in accordance with the authority conferred on them as stipulated by the relevant laws and regulations and the Articles of Association.

### 1. Attendance at meetings of the Board by independent directors:

Name of independent director	Attendance at meetings of the Board during the year	Attendance in person (no. of times)	Attendance by proxy (no. of times)	Absence (no. of times)
Gu Chuanxun	2	2	0	0
Wang Xingyu	2	2	0	0
Wang Yongshou	2	2	0	0
Chen Xinyuan	9	9	0	0
Sun Chiping	7	7	0	0
Jiang Zhiquan	7	7	0	0
Zhou Yunnong	7	7	0	0

Note: Gu Chuanxun, Wang Xingyu, Wang Yongshou and Chen Xinyuan were independent directors of the fourth session of the Board; Chen Xinyuan, Sun Chiping, Jiang Zhiquan, Zhou Yunnong were independent directors of the fifth session of the Board.

### 2. Disagreement from independent directors on the relevant issues of the Company

During the reporting period, none of the independent directors of the Company has disagreement on any board resolutions or other issues of the year.

### **The independency of the Company's business, staff members, assets, organizations, finance as vis-a-vis the controlling shareholder**

1. Business: The listed company and the controlling shareholder are separate in respect of business. The listed company's business is independent in its entirety with autonomous operation ability.
2. Staff members: Except for the following, the listed company and the controlling shareholder are separate in respect of staff members. Both the Company and the controlling shareholder are completely independent in the management of labor, human resources and salary.

Mr. Yin Jihai has been seconded to Sinopec Chemical Sales Shanghai Branch Company as General Manager. As at 31 December 2005, Mr. Yin had not resigned from the position of Vice President of the Company, but since July 2005, Mr. Yin no longer participated in the management and decision-making in respect of the production and operation of the Company.

3. Assets: The listed company and the controlling shareholder are separate in respect of assets. The Company owns independent property rights in the entirety in respect of its intangible assets, such as the trademarks derived from the Company's production and operation.
4. Organization: The listed company and the controlling shareholder are separate in respect of organization. No workplace is shared between the listed company and the controlling shareholder.
5. Finance: The listed company and the controlling shareholder have been separate in respect of finance. The listed company owns independent bank accounts and tax registration accounts and pays tax independently.

### **Appraisal and reward mechanisms for senior management staff members**

The remuneration system for senior management of the Company was considered and approved at the fourth meeting of the fourth session of the Board on 26 March 2003 and at the 2002 Annual General Meeting on 18 June 2003. The remuneration system has since been used for appraising and rewarding senior management staff and continued to be adopted in 2005.