Corporate Governance

Corporate Governance Fact Sheet

Overview

The China Petroleum & Chemical Company (Sinopec, the Company) bases its corporate governance on the Code of Corporate Governance for Listed Companies, as issued by the China Securities and Regulatory Commission[1] (CSRC), under the State Economic and Trade Commission; Company Law of the People's Republic of China; Mandatory Provisions for the Articles of Association of Companies to be Listed Overseas; Guidelines for the Articles of Association of Listed Companies; Standards of Corporate Governance of Listed Companies; Sinopec's Articles of Association; and other governing regulations where Sinopec is listed.

This fact sheet is prepared based on our Articles of Association and other documents, and relevant codes, regulations and laws as noted above.

In China, the regulation and enforcement of a company's corporate governance is primarily the responsibility of the Board of Directors and the Supervisory Committee.

[1] Available on the CSRC website at www.csrc.gov.cn.

A. BOARD OF DIRECTORS

Responsibilities and Liability

1. Responsibilities

The Company's board of directors is responsible for the following:

1. Convene shareholders' meetings and to report the board's work at these meetings
2. Implement resolutions as passed at shareholders' meetings
3. Determine business and investment plans
4. Formulate preliminary and final budgets
5. Formulate profit distribution and loss recovery proposals
6. Formulate proposals for the Company's credit and financial policies, changes in registered share capital, the issuance of debt instruments, and for the listing and repurchase of the Company's shares
7. Draft plans for significant asset acquisition or disposals, mergers, and the division or dissolution of the Company
8. Determine Sinopec's investment risk and security according to authority given at the shareholders' meeting
9. Determine internal management structure by establishing, removing, or changing the functions and number of departments and committees in the Company
10. Appoint or remove senior management of the Company and recommend compensation plans for shareholders' approval. Senior management includes the following positions:
    a. President
    b. Vice-Presidents and Chief Financial Officer (as recommended by the President)
    c. Secretary of the board of directors

11. Appoint and replace members of the board of directors and the supervisory committee of wholly owned subsidiaries. Appoint, replace and recommend candidates for the board of directors and supervisory committees in companies that are controlled or invested in by Sinopec
12. Determine the establishment of branch offices
13. Draft proposals for amendments to Sinopec's Article of Association
14. Formulate the Company's basic management policies through the introduction of new policies or adjusting present ones
15. Ensure accurate disclosure of Company information
16. Propose a shareholders' general meeting to engage or replace the outside audit firm
17. Listen to, and comment on, the President's quarterly, interim and annual progress reports, etc. Confirm that these are accurate and present the realistic status of the Company
18. Administer important corporate and administrative matters, which are not determined by shareholders' resolutions, law, administrative rules, government regulations, or the Company's Articles of Association
19. Sign important corporate agreements
20. Exercise other powers conferred by shareholders, law, administrative rules, government regulations, and the Company's Articles of Association

2. Liability

Directors are liable for resolutions passed by the board of directors. If a board motion violates the laws, administrative regulations, or the Company's Articles of Association, the directors who participated in the passing of such motions are liable to compensate the Company for related damages. Board member(s), who expressly objected to the motion, when voted on and recorded in the board minutes, may be relieved from this liability. Directors who abstained from voting, or failed to attend or appoint a proxy to attend the board meeting, shall not be exempted from the liability; and directors who are opposed to the motion but failed to cast a dissenting vote shall not be exempted from the liability either.

Composition

1. Leadership

The board has thirteen directors, including four independent directors. The board has one chairman and one vice-chairman. The chairman and vice-chairman are directors of the Company and are elected and removed by a majority vote by members of the board of directors. The term for all directors is for three years, renewable upon re-election.

The chairman of the board has the following powers:

1. To preside over the shareholders' general meeting and to convene and preside over meetings of the board of directors
2. To co-ordinate and perform the responsibilities of the board of directors and ensure that resolutions passed by the board are implemented
3. To sign certificates of securities issued by the Company, and to sign important board and other documents that need to be signed by a legal representative of the Company
4. To exercise other powers as granted by the board of directors

The vice-chairman will assume the powers of the chairman when he is unfit to perform these powers.

2. Terms, Nominations, Election, and Removal

Directors are elected at the shareholders' general meeting for three-year terms. Terms are renewable upon re-election. Independent directors are restricted to a maximum of six-years.

Candidates for non-independent directors are nominated by Sinopec's board of directors, the supervisory committee, or shareholders who hold 5% or more of the Company's voting shares.

In addition to the above groups, shareholders who individually or jointly own 1% or more of the Company's voting shares can nominate candidates for independent directors.

Sinopec uses cumulative voting to elect its board members.

Board members may be removed before the expiration of their term of office by an ordinary resolution passed at a shareholders' meeting. If a director misses two consecutive board meetings (three for independent directors) without appointing a proxy to attend on his behalf, the board will propose in a shareholders' general meeting that the director be removed and replaced.

Except for the above, and in circumstances outlined in PRC Company Law, no independent director may be removed before his term expires. In the case of early removal, the Company will disclose this fact and the independent director can make an open declaration if he/she believes the removal was improper.

Directors are not required to hold shares in the Company.

The opinions of independent non-executive directors shall be clearly listed in the resolutions of the board.

3. Independent Directors

Directors will be classified as independent as long as they are not:

1. Employed, or related to a family member[2] employed by Sinopec or its subsidiaries
2. Direct or indirect holders of 1% or more of Sinopec's issued shares, or, with their family members, are not among the top ten shareholders
3. Employed by a shareholder company which directly or indirectly holds 5% or more of the Company's issued shares, or along with immediate family members amongst the top five shareholders
4. Members of 1-3 above for the past one year
5. Providing financial or legal advice to the Company or its subsidiaries
6. Already a director of five listed companies
7. Other persons as determined by the securities regulatory authority of the State Counsel as deemed incapable as serving as an independent director

Independent directors have special functions and powers as listed below. Sinopec will disclose when these powers are not adequately exercised. Except were noted, a simple majority of independent directors is needed for the following:

1. Approve and sign any resolution regarding material connected transactions made by the board. Independent directors can determine if an independent financial report is necessary, and engage an intermediary, before making a judgment.
2. To propose to the board of directors to engage or remove an accounting firm.
3. Propose the board of directors convene an EGM (two or more independent directors needed)
4. Propose the calling of a board meeting
5. To independently engage an external auditor or advisor

[2] Includes immediate and distant family members such as siblings, parents-in-law, sons/daughters-in-law, spouse of siblings, etc.

6. Collect voting rights from shareholders prior to convening a general shareholders meeting
7. Directly report to shareholders' general meetings, securities regulatory organizations under the State Council and other relevant departments.

Meetings of the Board of Directors

1. Scheduling

Board meetings will be convened at least four times per year and include an annual and interim results meeting, and two quarterly results meetings. The board also meets in December for a year-end review meeting.

Regular and extraordinary board meetings may be held by telephone, video-telephone, and by way of written resolutions. Meetings in which all directors must be physically present are held at least every six months.

Notice of a board meeting will be given to directors at least ten days in advance to ensure all directors have time to prepare for the meeting.

The chairman of the board issues a notice convening the provisional board meeting within seven days upon the request of:

1. the chairman of the board
2. more than one-third of the directors
3. more than one-half of the independent directors
4. the supervisory committee
5. the Company's president

Meetings generally take place at Sinopec's headquarters.

2. Selection of Agenda Items

The secretary of the board of directors is responsible for collecting draft motions and submitting them to the board's chairman. The chairman and the secretary set out the time, place and agenda of the meeting.

Agenda items (motions) can be submitted by directors, the supervisory committee, the president, special committees of the board, and the Company's subsidiaries (as considered by their respective shareholders in their AGMs).

3. Materials Distributed in Advance

Information and data that is important to the board's understanding of the Company's business will be distributed in a timely manner before a board meeting. Should more than one-forth of the directors deem that the materials are insufficient or unclear, they can make a joint proposal to postpone a board meeting, or postpone a discussion of certain issues put forward by the board. The board will accept this proposal.

4. Meeting Attendance

Board meetings will only be held if more than half of the directors are present.

Directors unable to attend meetings may, by written power of attorney, appoint another director to attend the meeting on their behalf.

5. Voting

A director will have deemed to waive his/her voting rights if he/she is not present at a board meeting and fails to appoint a proxy to act on his/her behalf. The directors who are acting as proxies of other directors, shall vote as authorized by the appointing director.

Except for resolutions pertaining to the below, all board resolutions are passed by a simple majority vote. A board resolution must be passed by at least half of all directors. The resolutions of the board of directors may be decided by way of a poll or a show of hands. Each director has one (1) vote. The chairman of the board has an extra vote when there are an equal number of votes cast for a resolution.

The following board resolutions require an affirmative vote of more than two-thirds of all directors:

1. Proposals regarding the credit and financial policies of the Company, the increase or reduction the Company's registered capital, the issuance of debentures and for the listing and repurchase of the Company's shares
2. The drawing of plans for significant acquisition or disposal proposals; or the merger, division, or dissolution of the Company
3. Proposals for any amendment to the Company's Articles of Association

In voting on the Company's connected transactions by the board of directors, the connected directors who have interests in the transactions shall abstain from voting. Where resolutions cannot be reached due to the abstention from voting of the connected directors, the relevant motions shall be submitted directly to the shareholders' general meeting for examination.

Board Committees

The board of directors has three committees; Strategic Planning, Audit, and Remuneration and Evaluation. Each committee is composed of members of the board of directors.

1. Strategic Planning Committee

Role - The strategic development committee is responsible for proposing long-term strategy and major corporate investments.

Composition – There are 13 members of the strategic development committee.

2. Audit Committee

Role – The audit committee has the following responsibilities:

1. To propose the appointment or replacement of the external auditor
2. To oversee the Company's internal audit system and its implementation
3. To facilitate communication between the Company's internal auditing department and the external auditor
4. To examine and approve the Company's financial information and its disclosure
5. To examine the Company's internal control system

Composition – There are 7 members of the audit committee. The chair and the majority of its members must be independent directors. At least one independent director must be a trained accountant.

3. Remuneration and Evaluation Committee

Role – The remuneration and evaluation committee has the following responsibilities:

1. To research the criteria for evaluating directors and the president, and to conduct an evaluation of them and make suggestions as appropriate
2. To research and review the policies and proposals of the remuneration of directors, supervisors, president, vice-president, CFO, and secretary of the board of directors.

Composition – There are 9 members of the salary administration committee. The salary administration committee has a majority of independent directors and is chaired by an independent director.

B. SUPERVISORY COMMITTEE

Role and Responsibilities

1. Role

The supervisory committee is responsible for supervising the financial affairs of the Company and the lawfulness of the directors and key management, in particularly the president, vice-president, Chief Financial Officer and secretary of the board of directors, so as to safeguard the legitimate interests of the Company and its shareholders. The Company's supervisory committee is accountable to the shareholders' general meeting.

The Company is responsible for providing the supervisors with the necessary information and materials to effectively supervise, inspect, and evaluate the management and financial status of the Company. For instance, Sinopec's president must report entering into material contracts, the use of capital, and the profitability of the Company, as requested by the supervisory committee. The president shall ensure the truthfulness of such report.

In performing its duties, the supervisory committee can directly report to the board of directors, the shareholders' general meeting, and/or the securities regulatory authorities of the State Council or other relevant councils in relation to the breach of laws and rules relating to the Company's financial affairs. They can also directly report the acts of the directors, president, vice-president, Chief Financial Officer and secretary of the board of directors of the Company which are in violation of laws, regulations or the Articles of Association.

2. Responsibilities

1. Review the Company's financial position. If necessary, appoint an additional accounting firm to carry out an independent audit
2. Supervise directors and senior management, to ensure they act within the law, regulations and the Company's Articles of Association
3. Ensure that directors and senior management are disciplined should they act in a way that is harmful to the Company
4. Check and inspect the Company's financial and business reports before their submission to the shareholders' general meeting; and to authorize, in the Company's name, public accountants to assist in the review of such information should any doubt arise in respect to the accuracy of the reports
5. Provide opinions on the appointment of an outside auditor
6. Propose extraordinary general meetings of shareholders and initiate provisional motions
7. Propose provisional board meetings
8. Represent the Company in negotiations with, or bringing actions against, a director
9. Attend meetings of the board of directors
10. Other duties as specified in the Company's Articles of Association

Composition

1. Leadership

The supervisory committee has twelve supervisors. Eight are shareholder representatives and four are representatives of Sinopec's workers and staff. One member of the supervisory committee will act as chairman who will coordinate and be responsible to carry out the duties of the committee.

The chairman of the supervisory committee is elected or removed by a two-thirds majority vote of its members.

The chairman of the supervisory committee has the following functions and powers:

1. Convene and preside over meetings of the supervisory committee
2. Organize and carry out the duties of the supervisory committee
3. Review, approve and sign reports of the supervisory committee and other important documents
4. Represent the supervisory committee in the shareholders' general meeting
5. Exercise other powers as granted in accordance to law or the Company's Articles of Association

2. Terms, Nomination, Election, and Removal

Supervisors' term of office is three years. Supervisors representing shareholders are elected and removed at the shareholders' general meeting. Supervisors representing Sinopec's workers and staff are elected and removed democratically by the workers and staff of the Company. Terms are renewable upon re-election. There are no term limits for members of the supervisory committee.

Directors, the president, vice-presidents and financial controller cannot serve concurrently as supervisors.

Candidates for the supervisory committee are nominated by Sinopec's board of directors, the supervisory committee, or shareholders who hold 5% or more of the Company's voting shares.

In addition to the above groups, shareholders who individually or jointly own 1% or more of the Company's voting shares can nominate candidates for the supervisory committee.

The list of candidates for supervisors who are shareholder representatives shall be submitted to the shareholders' general meeting in the form of motion for approval.

Meetings

1. Scheduling

The supervisory committee meets at least four times per year and includes an annual and interim results meeting, a year-end review and coming year planning meeting, and a financial management meeting.

Additional meetings are convened by the chairman of the supervisory committee upon the following:

1. A request of the chairman of the supervisory committee
2. A request of more than two-thirds of the supervisors
3. When the Company has suffered, or is suffering, a substantial loss of assets to the detriment of shareholders' interests
4. When senior management or directors act against the law, or the Company's Articles of Association, causing the Company to be seriously damaged

Regular and extraordinary meetings of the supervisory committee may be held by telephone, video-telephone, and by way of written resolution. Notice of a supervisory committee meeting will be given to supervisors at least ten days in advance to ensure supervisors have time to prepare.

2. Selection of Agenda Items

The administrative office of the supervisory committee is responsible for gathering items to be examined from the board of directors and supervisors, and submitting these to the chairman of the supervisory committee. The chairman determines which items to submit to the supervisory committee for review.

3. Meeting Attendance

At least two-thirds of the supervisors are needed for a valid supervisory committee meeting to commence.

Supervisors unable to attend meetings may, by written authorization, appoint another supervisor to act as his/her proxy.

4. Voting

Each supervisor has one (1) vote.

All supervisory committee resolutions need a vote of more than two-thirds of all members to pass.

A supervisor will have deemed to waive his/her voting rights if he/she is not present at the board meeting and fails to appoint a proxy to act on his/her behalf.

If more than one-fourth of the supervisors believe that there is not sufficient information available to render a judgment on a specific item, or the motion is not convincing, the supervisory committee will postpone the examination of the specific item.

C. EXECUTIVE COMPENSATION

Sinopec's executive compensation plan was drafted by an independent consulting company, recommended by the Company's board of directors and, in September 2000, adapted by shareholders. The system is designed to link senior managers' financial interests with the Company's operating results and share price performance. The plan applies to senior executives of the Company and its subsidiaries including the president, CFO, secretary of the board of directors, vice-presidents and the board of directors and supervisors.

Under this system, senior management's compensation consists of three components:

1. Basic salary
2. Performance bonus
3. Share appreciation rights (SARs)[3]

The variable components - performance bonus and SARs - account for approximately 75% of total potential compensation. As a manager's seniority rises, SARs constitute an increasingly larger proportion of total compensation.

Every year all senior managers sign individual performance evaluation agreements with Sinopec. These agreements establish key performance indexes (KPIs) that are used as an objective basis for measuring management performance. The system relies on Sinopec's management information system to ensure that management's performance evaluation is fair and transparent throughout the Company.

The three components of Sinopec's executive compensation plan are broken down as follows:

Basic salary: Annual salaries for Sinopec's senior executives are determined according to the average staff salary of the Company in the previous year multiplied by an internal point system based on each executive's respective position at Sinopec.

Performance bonus: Performance bonuses are based on an

[3] Stock appreciation rights (SARs) is a form of deferred compensation that provides Sinopec's managers with the economic benefits of stock ownership without any actual transfer of stock occurring. A SAR is a grant to an individual manager that gives him/her the right, at a future specified time, to receive a cash award equal to the appreciation in value equal to an established number of shares of company stock. While conceptually similar to stock options, SARs do not alter the total number of outstanding shares in the company, and require no cash outlay giving the employee only the appreciation in value of the stock.

executive's respective position multiplied by points awarded from Sinopec's executive performance plan.

Stock Appreciation Rights (SAR):

SARs entitle their recipients to receive cash payments, at a specific time in the future, when Sinopec's share price rises above the SAR exercise price. Each SAR is equivalent to one share of Sinopec's stock as listed on the Hong Kong Stock Exchange (I.e. commonly known as an 'H share'). The exercise price is set at the market price of Sinopec's H share at the time the SARs are granted.

Sinopec sets a limit of 2.73 to 1 on the ratio of SARs granted to the most and least compensated managers. SARs may also be adjusted by the results of the performance evaluation as measured by the KPIs.

All SARs have an exercise period of five years and are not exercisable in the first two years after their issue date. In each of the third, fourth, and fifth year after the issue date, the number of SARs exercised may not exceed 30%, 70%, and 100% respectively of the total number of SARs granted to the individual.