CHAIRMAN'S STATEMENT

To all shareholders:

Year 2000 was of historic significance to both China Petroleum & Chemical Corporation ("Sinopec Corp.") and the petroleum and petrochemical industry in China. On February 25, 2000, Sinopec Corp. was established with the core business assets injected by China Petrochemical Corporation. As a result, Sinopec Corp. became an integrated energy and chemical company with upstream and downstream operations that were particularly distinguished in the refining and chemical businesses. On October 18 and 19, 2000, Sinopec Corp. successfully simultaneously listed its H shares on the Hong Kong Stock Exchange and its ADRs on the New York Stock Exchange and the London Stock Exchange in an initial public offering, being the first Chinese company ever to do so. Since Sinopec Corp.'s IPO, Sinopec Corp. has been more focused than ever on improving shareholders' value and is determined to discipline its capital expenditure and pursue higher returns on capital employed ("ROCE", defined as after tax operating profit divided by the amount of capital employed). In particular, Sinopec Corp. and its subsidiaries (collectively, the "Company") introduced a modern management information system, improved operating efficiency and centralised investment decisions in order to establish a modern enterprise system. Thanks to the great efforts of all of the Company's employees, the Company achieved impressive growth in all its principal businesses in 2000, with significantly improved operating results that meet all the targets set by the Company to maximise shareholders' value.

In 2000, turnover and other operating revenues of the Company amounted to RMB 328.901 billion, up by 37.04% from 1999; and the earnings of the Company reached RMB 19.004 billion, up by 306.8% or RMB 14.332 billion from 1999. The basic and diluted earnings per share were RMB 0.26 (based on the weighted average of 71,936,025,585 shares), and the earnings per share based on the number of issued shares as at the year end, being 83,902,439,000 shares, were RMB 0.226. The return on capital employed

Mr Li Yizhong, Chairman

(ROCE) rose from 5.12% in 1999 to 10.03% in 2000.

The Board of Directors hereby proposes a final dividend of RMB 0.08 per share for the year 2000, totalling RMB 6,712 million.

Year 2000 was full of challenges as well as opportunities for the Company. World crude oil and refined products prices fluctuated in an unprecedented wide range. Under the circumstances, the pricing system prior to June 2000 in China for refined products exerted immense pressure upon the Company's earnings. Partly as a result of the Company's lobbying efforts, the State Development and Planning Commission, having linked the domestic crude price to the international market in 1998, started in June 2000 to stipulate and publish on a monthly basis retail guidance prices for gasoline and diesel with reference to the FOB prices in the Singapore market. As a result, since then, refined product prices have more closely reflected current international market prices, relieving to a great extent the pressure upon the Company's earnings caused by the relatively low domestic product prices that had lagged behind the escalating international crude prices.

In 2000, the Company processed a total of 105.48 million tonnes of crude oil, up by 19.6% over 1999. The Company intensified its exploration initiatives in an effort to improve its reserve replacement and to balance reserves and production. At the same time, by sticking to its principle of purchasing multiple types of crude oil from various sources through diversified channels, the Company managed to mitigate the impact of crude price fluctuation upon its earnings.

The Company focused on the fast growth of its ROCE as its primary goal in 2000. The Company seized the opportunities of market expansion by increasing capital expenditure in the marketing and distribution segment. The Company acquired a great number of well-positioned storage facilities and petrol stations to expand its retail volume, which further enhanced its market position. At the same time, to seize the opportunity presented by the high international crude oil price, the Company selectively expanded its exploration and production operations. The Company increased its sour crude processing capacities to reduce crude cost, and intensified its internal management to reduce cash operating expenses. In addition, the Company centralised the decision making process for its capital expenditure plans. Every project, including the timing of the project, was to be scrutinised before approval to maximise return on investment.

As a result of the Company's efforts in products marketing, resources expansion, cost cutting, and its disciplined approach to investment, the Company achieved very satisfactory results in its businesses in 2000.

- With respect to exploration and production, the Company captured the opportunity presented by the high crude oil prices by increasing its capital expenditure to RMB 14,550 million (accounting for 34.2% of the total capital expenditure) to develop reserves that had been difficult to exploit but which offered good potential. As a result, oil production in 2000 reached 247.35 million barrels, up by 0.78% over 1999; natural gas production reached 80.3 billion cubic feet, up by 2.16% over 1999; proved reserves of crude oil reached 2,952 million barrels, up by 2.5% over 1999; and proved reserves of nature gas reached 999 billion cubic feet, up by 28% over 1999.

- With respect to refining, the Company invested RMB 5,511 million (accounting for 12.94% of the Company's total capital expenditure) mainly to expand its sour crude processing capacity by 6 million tonnes per year. Both refinery throughput and refined product output reached record highs, and the refining capacity utilisation rate rose from 67.7% in 1999 to 81% in 2000. In order to better meet domestic market demand, the Company further increased its diesel to gasoline production ratio, and increased the production of cleaner burning gasoline.

- With respect to the marketing of refined products, the Company expanded its retail market share through increased acquisitions of petrol stations. Oil storage facilities and petrol stations with the "Sinopec" logo were present in all major cities and along important roads in the Company's principal market. In 2000, capital expenditure on the construction and acquisition of petrol stations and storage facilities reached RMB 16,080 million, accounting for 37.8% of the Company's total capital expenditures. With retail sales volume doubled, the percentage of retail sales in the Company's total sales volume of refined products increased from 19.4% in 1999 to 35.7% in 2000. At the end of 2000, the Company had approximately 25,493 petrol stations that sell under the Sinopec brand, among which approximately 20,259 stations were operated by the Company, representing an increase of 78.1% over 1999, and approximately 5,234 stations were franchised by the Company.

- With respect to chemicals, the Company invested RMB 6,205 million (14.6% of the total capital expenditure) in revamping and expanding a number of chemical facilities. Through increased utilisation of facilities, the Company increased its production of synthetic resins by 12%, monomers and polymers for synthetic fibers by 10% and synthetic fibers by 10%. In addition, the Company increased its production of higher value-added products. Compared to 1999, production of performance compounds for synthetic resins increased by 47%, and production of differential fiber increased by 46%. The production ratio for performance compounds for synthetic resins increased by 9.4 percentage points from 30.3% in 1999 to 39.7% in 2000, and the production ratio for differential fiber increased by 6.5 percentage points from 20% in 1999 to 26.5% in 2000. Sales to production ratio for petrochemical products was almost 100%.

In 2000, the Company continued to strengthen and expand its foreign cooperation. The Company developed further strategic alliances and partnerships with multinational companies, including Royal Dutch Shell, Exxon Mobile, bp and ABB. The Company established a joint venture company with BASF in Nanjing (BASF Yangzi Petrochemical Company Limited) to build a world-class integrated ethylene facility. A number of other major joint venture projects are also in preparation. Such cooperation will help the Company bring in state of the art technologies and managerial expertise from foreign companies to further enhance the Company's competitive strength.

In 2001, maximisation of ROCE will remain the Company's primary goal. The Company intends to make further breakthroughs in expanding resources and markets, reducing cost and disciplining capital spending.

- Expanding resources: The Company fully recognises the ever-growing importance of stable and reliable domestic and international crude oil supplies in a competitive market. The Company will, in accordance with the principle of "pursuing well-coordinated production, economic results and reserves", apply enhanced recovery technologies in existing fields to stabilize and optimise production, increase its investment in oilfields in eastern China and selectively choose new exploration areas for replacement of reserves. The Company will also maintain long-term supply contracts with overseas crude oil producers in line with the principle of "importing multiple types of crude oil from various regions through diversified channels". In addition, the Company intends to acquire Sinopec National Star Petroleum Company ("Sinopec Star Petroleum"), a wholly-owned subsidiary of Sinopec Group, within this year to further reinforce its upstream strength.
- Expanding market: In respect of refined products marketing, the Company will accelerate its construction and improvement of storage facilities, pipelines and retail networks, increase the site throughput of its petrol stations; the Company will also further improve its marketing information management system and reinforce the analysis of market dynamics to improve economic results. In respect of the marketing of chemicals, the Company will set up more effective direct sale and distribution networks, raise the percentage of direct sales, and develop the market for higher-value added products such as performance compounds for synthetic resins and differential fibers. In addition, the Company will promote e-commerce and take advantage of the scale of its business and unique strengths to create business opportunities and further reduce transaction costs.
- Reducing cost: The Company will devise feasible cost-reduction plans. Apart from reducing the costs of its principal raw materials such as crude oil, the Company will focus on specific measures such as reducing material and energy consumption, increasing utilisation of its facilities, and cutting sales expenses, general and administrative expenses. Overall the Company expects to reduce costs by as much as RMB 2,190 million in 2001. Detailed plans have been defined for each business segment and

subsidiary, requiring each level of business operation unit to be accountable for earnings improvement. In addition, the Company will implement an employee reduction plan. The Company intends to cut 100,000 employees from its payroll between 2001 and 2005, including 27,000 employees in 2001.

- Disciplining capital spending: Targeting to increase return on investment, the Company will centralise its decision making processes, optimise investments, and adjust its capital structure to improve overall competitive strength. The current capital expenditure plan for 2001 is RMB 40.76 billion. The corporate headquarter will devise the overall development program, and will work out a corporate five-year plan during 2001. The Company will further standardise its investment decision processes, avoid redundant constructions and investments that are not carefully planned, and invest in business segments and projects that will generate high growth and high returns for the Company.

Since Sinopec Corp.'s IPO, in an effort to adhere to the best practice of an internationally listed company, the Company has been promoting a completely new corporate culture which can be highlighted as follows:

- a management philosophy of "competition and openness", where competition is the driver of and openness is the fuel to the Company's growth;

- a business strategy of "expanding markets and resources, reducing costs to maximise profitability", where the Company shall work for the market, wisely locate the resources and constantly pursue cost-saving and better profitability;

- an operating goal of "maximising return on investment (ROI) and shareholders' return" where maximising ROI is the Company's target, and maximising shareholders' return is the shareholders' hope and the Company's intention;

- an operating mechanism of "market-oriented external operation, and synergetic internal operation";

- an operating principle of "standardisation, discipline and integrity," which calls for both the employees' professional ethics and the Company's credibility;

- an incentive system of "encouraging self-motivation through proper reward", where the Company intends to create equal opportunities for its employees in an employee friendly environment.

In 2001, the Company is confident that, with the continuing efforts from its employees, the Company will be able to meet its operating targets. Well-positioned in a market with fast growth potential, the Company strives to become a world-class integrated energy and chemical company with prominent core business, quality assets, state of the art technologies, professional management and disciplined financial practice, and bring stable and sustained growth in returns to its shareholders.

Finally, on behalf of the Board of Directors, I extend my sincere appreciation to all of the employees of the Company, and to all of the shareholders, for their support to the Company.

Li Yizhong
Chairman

Beijing, the PRC 12th April, 2001