

The Board of Directors of Sinopec Corp. has pleasure in presenting their report for the year ended 31st December 2001.

1. SHAREHOLDERS' GENERAL MEETING

During the reporting period, Sinopec Corp. strictly complied with the relevant laws and regulations, and with the notice requirements pursuant to the Memorandum and Articles of Association in convening shareholders' general meetings. Following the domestic listing, lawyers from Haiwen & Partners attended the First and Second Extraordinary General Meetings of Sinopec Corp., and presented their legal opinions stating that the convening procedures, voting procedures and qualifications for attending the two extraordinary general meetings were in compliance with the requirements of the relevant laws and regulations and the Memorandum and Articles of Association. During the period, one Annual General Meeting and two Extraordinary General Meetings were held, details of which are as follows :

(1) On 5th June 2001, Sinopec Corp. held the Annual General Meeting for the year 2000 at Hotel of China in Beijing, at which the following resolutions were considered and passed :

- a. Working report of the Board of Directors of Sinopec Corp. for the year 2000.
- b. Working report of the Supervisory Committee of Sinopec Corp. for the year 2000.
- c. Audited financial statements and consolidated financial statements of Sinopec Corp. for the year 2000.
- d. Profit distribution plan of Sinopec Corp. for the year 2000.
- e. Approval of the reappointment of KPMG Peat Marwick Huazhen and KPMG respectively as the domestic and overseas auditors of Sinopec Corp. for the year 2001, and the resolution authorizing the Board of Directors to determine their remunerations.
- f. Report on the application of the proceeds of the issue of H shares of Sinopec Corp.

- g. Approval of the proposal on the amendments to Article 94 of the Articles of Association.
- h. Resolution for the issue of A shares of Sinopec Corp.
- i. Special resolution regarding investment of the proceeds from the issue of A shares.
- j. Special resolution regarding amendments to Articles 20, 21 and 24 of the Articles of Association.
- k. Special resolution regarding sharing by new and original shareholders of the profits brought forward, and the relevant authorization to the Board of Directors.

Details of the Annual General Meeting of Sinopec Corp. for the year 2000 were set out in the announcement published in the China Securities News, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post (in English) on 22nd June 2001.

(2) The first Extraordinary General Meeting of Sinopec Corp. for the year 2001 was held at the headquarters of Sinopec Corp. on 24th August 2001, at which the following resolutions were considered and passed :

Approval for the acquisition of the interests in Sinopec National Star, including the acquisition agreement, the connected transaction adjustment agreement, the on-going connected transactions and the granting absolute discretion to the Board of Directors for implementing all the relevant procedures as and when they are deemed appropriate.

Details of the first Extraordinary General Meeting of Sinopec Corp. for the year 2001 were set out in the announcement published in the China Securities News, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post (in English) on 27th August 2001.

(3) The second Extraordinary General Meeting of Sinopec Corp. for the year 2001 was held at the headquarters of Sinopec Corp. on 24th August 2001, at which the following resolutions were considered and passed :

- a. Election of Mr. Wang Yi as Director of Sinopec Corp.
- b. Election of Mr. Zhang Enzhao as Director of Sinopec Corp.

Details of the second Extraordinary General Meeting of Sinopec Corp. for the year 2001 were set out in the announcement published in the China Securities News, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post (in English) on 27th August 2001.

2. THE BOARD OF DIRECTORS

All the members of the Board of Directors of Sinopec Corp. have carried out their duties in accordance with the relevant laws, regulations and the Memorandum and Articles of Association of Sinopec Corp. and have faithfully implemented the resolutions passed at the shareholders' general meetings and proceeded with such matters proactively.

During the period, twelve Board meetings were held, of which seven meetings were held by way of written resolutions, details of which are as follows :

(1) Board meetings

- a. The fifth meeting of the First Board was held at the headquarters of Sinopec Corp. on 2nd March 2001. Resolutions for the approval of the 600,000 tonnes per annum ethylene plant in respect of the Nanjing Yangzi-BASF project and the 900,000 tonnes per annum ethylene plant in Shanghai were considered and passed, and resolutions on the establishment of a crude oil (branch) office and Directors' service contracts (including salary provisions) were passed in the meeting.
- b. The sixth meeting of the First Board was held at the headquarters of Sinopec Corp. on 12th April 2001. Resolution regarding Connected Transactions of Sinopec Corp. for the

year 2000 was considered and passed and that such connected transactions, being in compliance with the waiver conditions imposed by the Hong Kong Stock Exchange were confirmed. The profit distribution plan of Sinopec Corp. for the year 2000, the audited financial balance sheet report of Sinopec for the year 2000, the report of the Board of Directors of Sinopec Corp. for the year 2000, the Annual Report, draft of the notice of the annual results of Sinopec Corp. for the year 2000 and the Form 20-F filing with the Securities Regulatory Commission of USA were approved; resolutions on the issue of A shares of Sinopec Corp. and the investments on the proceeds from the issue of A shares were considered and passed; report on the application of the proceeds from the issue of H shares was considered and passed; resolutions on amendments to the Articles of Association were considered and passed.

- c. The seventh meeting of the First Board was held by way of written resolutions on 5th June 2001, whereby the profit forecast of Sinopec Corp. for the year ended 31st December 2001 prepared on the basis of the PRC Rules and Regulations and IAS were considered and passed; the Directors' undertakings to achieve the profit forecast objective for the year of 2001 were considered and passed.
- d. The eighth meeting of the First Board was held at the headquarters of Sinopec Corp. on 11th June 2001. Resolution in relation to the issue of Public A Shares was considered and passed and resolution regarding the acquisition of Sinopec National Star was considered and passed.
- e. The ninth meeting of the First Board was held by way of written resolutions on 5th July 2001, whereby resolutions for the election of Mr. Wang Yi and Mr. Zhang Enzhao as directors of Sinopec Corp. were considered and passed.

- f. The tenth meeting of the First Board was held at the headquarters of Sinopec Corp. on 24th August 2001. Arrangements for production operations in the first half year and the second half year were considered and passed at the meeting; the interim financial report and interim report were approved; resolution confirming and ratifying the scope of investment for the year 2001 was considered and passed; resolutions on the various acquisitions, including Huangdao Oil Tanks were passed; resolution on a Sino-foreign joint venture investment in the integrate refinery ethylene project in Fujian was passed; resolution for the appointment of Mr. Wang Tianpu as the Vice President of Sinopec Corp. was approved.
- g. The eleventh meeting of the First Board was held by way of written resolutions on 5th July 2001, whereby the Rules of the Strategic Development Committee of China Petroleum & Chemical Corporation, the Rules of the Audit Committee of China Petroleum & Chemical Corporation, and the Rules of the Salary Administration Committee of China Petroleum & Chemical Corporation were considered and passed.
- h. The twelfth meeting of the First Board was held by way of written resolutions on 17th September 2001, whereby the resolution nominating candidates for the office of chairman and directors of Shanghai Saike by Sinopec Corp. was passed; nominating candidates for the office of chairman and directors of Yueyan-Shell Gas Company Ltd. by Sinopec Corp.
- i. The thirteenth meeting of the First Board was held by way of written resolutions on 23rd October 2001, whereby the agreement for Sinopec Shijiazhuang Refining Chemical Company Limited, subsidiary of Sinopec Corp., to transfer its 25% capital contribution in Chemical Fibre Company to Sinopec Group Company (basing on the agreed contribution amount) were considered and passed, and the waiver of the pre-emptive rights by Sinopec Corp. to acquire such capital was passed; the simultaneous shareholdings in Chemical Fibre Company by Sinopec Corp. and Sinopec Group Company will not cause industrial competition was confirmed, and it was further agreed that the restriction on Sinopec Group Company under clause 2.1 of "Agreement to avoid business competition" entered into by Sinopec Corp. and Sinopec Group Company was waived.
- j. The fourteenth meeting of the First Board was held by way of written resolutions on 3rd December 2001, whereby the amended Internal Accounting System of China Petroleum & Chemical Corporation was considered and passed; on the basis of the provision of guarantee by bp East-China Chemical Investment Company Limited, the provision of a guarantee in both RMB and foreign currencies equal to the loan in respect of the Shanghai-bp ethylene joint venture project (which is equivalent to RMB 6.999 billion) was approved; the provision of a construction completion guarantee in the amount of RMB 3.6561 billion in respect of the loan on the BASF project was approved, subject to the provision by BASF the construction completion guarantee for the project, and at the same time, the provision of a construction completion guarantee for Sinopec Yangzi Petrochemical Company Limited in the amount of RMB 1.2187 billion in respect of the loan for the Yangzi BASF project was approved; resolution for the personnel adjustments in some of the subsidiaries was passed; conversion of the Sinopec Sales Company Limited (previously stated as a wholly-owned subsidiary of Sinopec Corp.) to be the sales and distribution department of Sinopec Corp. with its management functions unchanged was approved.

- k. The fifteenth meeting of the First Board was held at the headquarters of Sinopec Corp. on 13th December 2001, whereby the anticipated completion of the production operations of the Company for the year 2001 and the report on the production operation arrangements plan for the year 2002 was considered and passed; the anticipated completion of the investment plan of the Company for the year 2001 and the report on the investment plan for the year 2002 was passed; resolution for the self-supervision of standardisation of operations of Sinopec Corp. was passed.
- l. The sixteenth meeting of the First Board was held by way of written resolutions on 30th December 2001, whereby report regarding the Enhancement of the Collection of Receivables from Controlling Shareholders and their Related Parties was considered and passed, and announcements requested by the PRC Securities Regulatory Commission were made.
- c. The third meeting of the First Strategic Development Committee was held at the headquarters of Sinopec Corp. on 29th November 2001, whereby the implementation of the investment plan in fixed assets of the Company for the year 2001 and the plan for 2002 were considered. Briefings on the progress of research in respect of measures to be adopted after the accession of PRC to WTO were received.

August 2001, whereby the proposal for a Sino-foreign joint venture investment in the combined refinery ethylene project in Fujian was considered; the plans for the acquisition of Huangdao Oil Depots, acquisition of the ten petrol stations and sales and distribution companies in the southern market and the capital investment in the share capital of Zhongjiaochangjiang Fuel Company were considered; the feasibility report on phase II reconstruction of Qilu Petrochemical Company Limited, and the substitution of coal for oil project in Anqing, Jinling, Zhenhai Chemical Fertilizer were considered.

3. MEETINGS OF PROFESSIONAL COMMITTEES

During the report period, the Strategic Development Committee, the Salary Administration Committee and the Audit Committee under the Board of Directors held three meetings, one meeting and two meetings respectively.

(1) Meeting of the Strategic Development Committee

- a. The first meeting of the First Strategic Development Committee for the year 2001 was held at the headquarters of Sinopec Corp. on 1st March 2001, whereby the feasibility report of the Shanghai Petrochemical 900,000 tonnes per annum ethylene project was considered; the proposal for the investment in the 600,000 tonnes per annum Yangzi-BASF ethylene project was considered and confirmed.
- b. The second meeting of the First Strategic Development Committee for the year 2001 was held at the headquarters of Sinopec Corp. on 21st

(2) Meeting of the Salary Administration Committee

The First Salary Administration Committee held one meeting in 2001 at the headquarters of Sinopec Corp. on 1st March 2001, whereby the Methods for Implementing the Salary of Senior Management of China Petroleum & Chemical Corporation (trial), the Temporary Personal Salary Account Administration for Senior Management of China Petroleum & Chemical Corporation, the Salary for the Year 2000 of Directors, Supervisors and the Secretary to the Board and the Report on the Salary Implementation and Budget for the Year 2001, and the Resolution and Explanations on the Salaries of Senior Management were considered.

(3) Meeting of the Audit Committee

- a. The first meeting of the First Audit Committee was held by way of written resolutions on 14th August 2001, whereby the Rules for procedure the Audit Committee was considered and passed.

- b. The second meeting of the First Audit Committee was held at the headquarters of Sinopec Corp. on 22nd August 2001, whereby the preparation of the 2001 interim financial reports and the report of the interim results of KPMG were considered.

4. CORPORATE GOVERNANCE

Since its overseas listing in October 2000, Sinopec Corp. has strictly complied with the relevant laws and regulations of the securities regulatory authorities of Hong Kong, the United States and the United Kingdom, and has been continuously improving its corporate governance. Since its domestic listing in August 2001, Sinopec Corp. has placed more emphasis on corporate governance and has been strictly complying with domestic regulatory rules, limiting connected transactions in order to avoid industrial competitions, paying due attention to information disclosure and in respect of communication with investors. In doing so, it has further enhanced the level of corporate governance.

- (1) In respect of shareholders and shareholders' general meetings : Sinopec Corp. strictly adheres to the convening and voting procedures under the Memorandum and Articles of Association in respect of convening and holding shareholders' general meetings. Following its domestic listing, lawyers have been invited to attend every shareholders' general meeting and to present legal opinions. Sinopec Corp. strictly adheres to the provisions regarding connected transaction when entering into connected transactions, and enhanced protection of shareholders' interests through independent directors, the Audit Committee and internal control of the Supervisory Committee. During the report period, Sinopec Group Company, the controlling shareholder of Sinopec Corp., being a connected shareholder, abstained from voting as required in the voting on the connected transaction in respect of the acquisition of Sinopec National Star. The diversified shareholdings structure of Sinopec Corp. is favorable to refinement of corporate governance. Certain domestic and overseas institutional investors and

strategic investors participated in all the shareholders' general meetings this year, and actively expressed their opinions thereat. The controlling shareholder of Sinopec Corp. exercised its rights as capital contributor strictly in accordance with the law. Sinopec Corp. and its controlling shareholder implemented independence between their staff, assets and finance, as well as organisation and operations, whereby they are audited independently and they undertake their own liabilities and risks.

- (2) In respect of Directors and the Board of Directors: During the reporting period, Messers. Wang Yi and Zhang Enzhao were elected as new directors of Sinopec Corp. The number of board members increased to 12 and the number of external Directors increased to 6, comprising 3 independent Directors. The professional composition and the general standard of board of directors was improved. During the report period, all independent Directors participated in the twelve Board meetings convened by Sinopec Corp. Independent Directors have fulfilled their duties in accordance with the requirements of the relevant laws and regulations, participated in the decision making of Sinopec Corp. diligently and responsibly, and they expressed independent opinions on the major issues of Sinopec Corp. and safeguarded the interests of Sinopec Corp. and all its shareholders; three Professional Committees, namely the Strategic Development Committee, the Salary Administration Committee and the Audit Committee have been set up under the Board of Directors of Sinopec Corp., and have been operational; Directors of Sinopec Corp. have been faithfully fulfilled their duties in accordance with the provisions in the Memorandum and Articles of Association and Appendix 14 of the Code of Best Practice for Board of Directors.
- (3) In respect of Supervisors and the Supervisory Committee : of the eight members of the Supervisory Committee of Sinopec Corp., two are qualified financial expertise. The Supervisory Committee of Sinopec Corp. have fulfilled their duties in

their best efforts in accordance with the Rules of Procedure of the Supervisory Committee, and have supervised the Directors, managers and other senior management in compliance with the laws and regulations and have accordingly fulfilled their duties.

- (4) In respect of its system for appraisal, incentive and check and balance : Sinopec Corp. has established a system for appraisal, incentive and check and balance in respect of its senior management, which is fair and transparent. Efforts have been made to improve the system from time to time. It has also drawn up and implemented incentive policies such as the Performance Evaluation and Remunerations Incentive Scheme for the Senior Management Compensation System of Sinopec Corp., the Share Appreciation Rights Scheme of Sinopec Corp., and the Conditions for the Implementation of the Initial Granting of Share Appreciation Rights Scheme of Sinopec Corp.
- (5) In respect of interested parties : Sinopec Corp. has paid full respect to and safeguard the lawful interests of other interested parties such as consumers, creditors and staff. It also emphasises on environmental protection and public welfare, and aims at advancing the continuous and healthy development of the Company in its joint efforts with the interested parties.
- (6) In respect of information disclosure and enhancement of transparency : the Secretary to the Board of Sinopec Corp. is responsible for the disclosure of information, the reception of visits by shareholders and handling enquiries. The Secretary to the Board carried out information disclosure truly, accurately, completely and timely in strict compliance with the laws and regulations and the Memorandum and Articles of Association. Sinopec Corp. has set up investor liaison offices in Hong Kong and in New York, USA, it has drawn up and implemented a series of investor service plans aiming at improving corporate transparency. At the

same time, care has also been taken in searching and analysing reports prepared by securities analysts on the Company and the opinions of investors to the Company, thereby giving feed-backs to the management of Sinopec Corp. in respect of investors' opinions regularly every month. They were selectively adopted in the Company's operation. During the report period, Sinopec Corp. held large-scaled presentations and press conferences in respect of its interim results for the years 2000 and 2001, as well as individual meetings with both domestic and overseas fund managers. In June 2001, Sinopec Corp. was accredited with the PRC Company having the Best Investor Relationship award by Asian Finance, and the 2000 Annual Report of Sinopec Corp. was accredited as the Best Annual Report in Asia by CFO Asia.

In 2003, as the term of office of the first Board of Sinopec Corp. will come to an end, it will prepare for the change of members of the Board and nomination of directors. At present, Sinopec Corp. will make further improvements in respect of the requirements by the Memorandum Articles of Association, Rules of the Shareholders General Meeting, Rules of Procedure of the Board of Directors, Rules of Procedure of the Supervisory Committee, Manual for the President and Management of Information Disclosure by taking into account of the Governance Standards for Listed Companies, Guiding Notes on Articles of Association of Listed Companies, Guiding Opinions in respect of Promoting Independent Directors' System by Listed Companies, and Requisite Terms of Overseas Listed Companies issued by CSRC, Consultation Paper on Proposed Amendments to the Listing Rules Relating to Corporate Governance Issues issued by the Hong Kong Exchange and Clearing Limited, which will be presented to an extraordinary shareholders' meeting to be considered and approved upon the change of First Board in 2003, in order to formulate and implement the policies at the same time and thereby seeking to further enhance its corporate governance.

5. RESULTS

Results of the Company for the year ended 31st December 2001 prepared under IAS and its financial position as at that date and its analysis are set out on page 111 to page 143 in this Annual Report.

6. DIVIDEND

The Board of Directors of Sinopec Corp. proposes to declare a final dividend for the year ended 31st December 2001 of RMB 0.08 per share, with a total of RMB 6.936 billion. The allocation proposal shall be submitted for consideration at the 2001 Annual General Meeting. Details of the dividend allocation of Sinopec Corp. are set out on Disclosure of Significant Events No. 6 in this Annual Report. Dividends will be denominated and declared in Renminbi. Dividends on domestic shares will be paid in Renminbi and dividends on foreign shares will be paid in Hong Kong dollars. The exchange rate for dividends to be paid in Hong Kong dollars is the mean of the average rate of Hong Kong dollars to Renminbi as announced by the People's Bank of China during the week prior to the date of declaration of dividends.

Generally, an individual shareholder of H shares or holder of American Depository Receipts (ADR) who is resident and domiciled in the UK, will be liable to UK income tax on dividends received from Sinopec Corp. Where a shareholder of H shares receives dividends from Sinopec Corp. without deduction of tax, the amount included as income for the purposes of computing his or her UK tax liability is the gross amount of the dividend and this is taxed at the appropriate rate (currently 10 % in the case of a basic rate of a taxpayer of lower rate, and 32.5 % in the case of a taxpayer of higher rate). Where tax is withheld from the dividend, credit will be given against UK income tax for any tax withheld from the dividend up to the amount of the UK income tax liability. Sinopec Corp. would assume responsibility for withholding tax at source within the PRC if such a withholding is required. The current UK-Chinese Double Taxation Agreement provides that the maximum withholding tax on dividends from a Chinese resident companies paid to UK residents is 10 % of the gross dividend.

UK resident shareholders of H shares or holders of ADR who are individuals not domiciled in the UK will only be liable to income tax on any dividend from Sinopec Corp. to the extent that it is remitted to the UK.

Generally, a shareholder or a holder of ADRs which is a UK tax resident company will be liable to UK corporation tax on dividends received from Sinopec Corp., with double tax relief available for withholding tax imposed. In certain cases (not to be discussed here), a shareholder of H shares or a holder of ADRs which is a UK tax resident company may be entitled to relief for "underlying" tax paid by Sinopec Corp. or its subsidiaries.

7. MAJOR SUPPLIERS AND CUSTOMERS

The total purchase of the five largest suppliers represented 36.5% of the total purchase of the Company. Sales to the five largest customers of the Company represented 17% of the total annual sales of the Company.

During the report period, none of the Directors, Supervisors of Sinopec Corp. and their associates or any shareholders holding over 5% in Sinopec Corp. have any interest in any of the above major suppliers and customers.

8. BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company as at 31st December 2001 are set out in note 26 on the accounts prepared under IAS in this Annual Report.

9. FIXED ASSETS

During the report period, changes to the fixed assets of the Company are set out in note 17 on the accounts prepared under IAS in this Annual Report.

10. RESERVES

During the report period, changes to the reserves of the Company are set out in note 30 on the accounts prepared under IAS in this Annual Report.

11. DONATIONS

During the report period, donations made for charitable purposes amounted to approximately RMB62 million.

12. PREEMPTIVE RIGHTS

Pursuant to the Memorandum and Articles of Association of Sinopec Corp. and the laws of the PRC, Sinopec Corp. is not subject to any pre-emptive rights requiring it to offer new issue to its existing shareholders in proportion to their shareholdings.

13. PURCHASE, SALE AND REDEMPTION OF SHARES

During the report period, the Company has not purchased, sold or redeemed any securities of Sinopec Corp.

By Order of the Board
Li Yizhong
Chairman

Beijing, the PRC, 28th March, 2002