

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of Sinopec Corp. is pleased to present their report for the year ended 31 December 2004 for review.

1 THE MEETINGS OF THE BOARD OF DIRECTORS

During the period of this report, nine Board meetings were held, details of which are as follows:

- (1) The sixth meeting of the Second Session of the Board of Directors was held on 23 February 2004 by way of written resolutions. The Board passed the resolution on Debenture Issuance Regulations of China Petroleum & Chemical Corporation for 2004.
- (2) The seventh meeting of the Second Session of the Board of Directors was held on 26 March 2004 at the headquarters of Sinopec Corp. At the meeting, the Board of Directors considered and approved the Report of the Board of Directors for 2003, the Report of 2003 Operation Performance and the 2004 Operation Plan, the resolution on eight provisions for assets impairment losses in 2003 and the resolution on ongoing connected transactions in 2003 and the resolution on audit expenditure paid to KPMG Huazhen and KPMG in 2003. The Board also approved the re-appointment of KPMG Huazhen and KPMG respectively as the domestic and overseas auditors of Sinopec Corp. for the year 2004 and submitted to the Annual General Meeting for the year 2003 the proposal that the Board of Directors be authorized to determine their remunerations. In addition, the Board approved the Financial Statements for the year 2003 audited by KPMG Huazhen and KPMG, the profit appropriation solution of 2003, the 2003 Annual Report, the summary of the Annual Report and Form 20-F, it also submitted to the 2003 Annual General Meeting the proposal to unconditionally mandate the Board of Directors to decide on allotment and issuance of new foreign shares listed overseas, the resolution on amending the Articles of Association and its appendices,

the resolution on acquiring shares issued by Tianjin Lubricant & Grease Company Limited from the Sinopec Group Company and the resolution on convening the 2003 Annual General Meeting.

- (3) The eighth meeting of the Second Session of the Board of Directors was held on 29 April 2004 by way of written resolutions. The Board of Directors approved the First Quarterly Report of 2004, accepted the resignation of Mr. Liu Kegou from the director position with Sinopec Corp. and approved the submission to the 2003 Annual General Meeting the proposal made by China Development Bank (holding 10.12% shares of Sinopec Corp. at that time) to nominate Mr. Gao Jian as a candidate for directorship of Sinopec Corp.
- (4) The ninth meeting of the Second Session of the Board of Directors was held on 6 July 2004 by way of written resolutions, whereby the proposal for the transfer of the state-owned legal person shares in China Phoenix by Sinopec Corp. to Qingjiang Investment and Guodian Group and acquire petrochemical core business assets.
- (5) The tenth meeting of the Second Session of the Board of Directors was held on 27 August 2004 at the headquarters of Sinopec Corp. At the meeting, the Board considered and approved the Report of Operations for the First Half of 2004 and Operations Plans for the Second Half of 2004, the 2004 Interim Profit Distribution Plan, the Financial Statements of Sinopec Corp. for the First Half of 2004 audited by KPMG Huazhen and KPMG, the 2004 Interim Report of Sinopec Corp. and the resolution on adjusting the investment plan in 2004.
- (6) The eleventh meeting of the Second Session of the Board of Directors held on 28 October 2004 by way of written resolutions. The Board of Directors approved the Third Quarterly Report of 2004.
- (7) The twelfth meeting of the Second Session of the Board of Directors was held at Sinopec headquarters on 31 October 2004, whereby the following resolutions were considered and approved:
 - a. Acquiring chemicals assets from Sinopec Group Company.
 - b. Acquiring catalyst assets from Sinopec Group Company.
 - c. Acquiring petrol station assets from Sinopec Group Company.
 - d. Disposing of downhole operation assets to Sinopec Group Company.
 - e. The submission of the above proposals for approval at the extraordinary general meeting and the resolution for authorizing the Board to do all actions relating to the above four resolutions.
 - f. Adjusting connected transactions with Sinopec Group Company.
 - g. Adjusting the cap amount of the annual rent for leasing of land use rights with Sinopec Group Company.
 - h. Determining 2004 audit fees for KPMG Huazhen and KPMG.
 - i. Amending the internal control system of Sinopec Corp.
 - j. Adjusting 2004 capital expenditure plan.
 - k. Convening 2004 Extraordinary General Meeting of Shareholders.
- (8) The thirteenth meeting of the Second Session of the Board of Directors held on 8 December 2004 by way of written resolutions. The Board approved the resolution approving Sinopec to provide T/T payment credit line guarantee for its subsidiary China International United Petroleum & Chemicals Company Limited (Unionpec).

(9) The fourteenth meeting of the Second Session of the Board of Directors held on 29 December 2004 by way of written resolutions. The Board approved the resolution of privatizing Beijing Yanhua by way of merger by absorption.

2 IMPLEMENTATION OF RESOLUTIONS PASSED AT SHAREHOLDERS' MEETING BY THE BOARD OF DIRECTORS

During the period of this report, all members of the Board of Directors of Sinopec Corp. carried out their duties diligently and responsibly in accordance with the relevant laws and regulations and the Articles of Association, duly implemented the resolutions passed at the shareholders' meetings, and accomplished the various tasks entrusted to them at the shareholders' meetings.

3 MEETINGS OF PROFESSIONAL COMMITTEES

During the period of this report, the Audit Committee under the Second Session of the Board of Directors held two meetings.

(1) The first meeting of the Second Session of the Audit Committee was held on 25 March 2004 by way of written resolutions, whereby the Explanation on the Operating Business and Financial Position of Year 2003 and the Explanation on Audit by KPMG for Year 2003 were reviewed and the Opinions on the Reviewing of the Financial Statements for the Year 2003 was issued.

(2) The second meeting of the Second Session of the Audit Committee was held on 26 August 2004 by way of written resolutions, whereby the Explanation on the Operating Business and Financial Position of the First Half of Year 2004 and

the Explanation on Audit by KPMG for the First Half of Year 2004 were reviewed and the 2004 Interim Opinions on the Reviewing of the Financial Statements was issued.

4 OTHER DISCLOSEABLE EVENTS

(1) Statement in relation to the use of funds by the controlling shareholder and other related parties

Pursuant to the provisions in the Notice on Certain Issues Relating to Regulating Fund Transfers between a Listed Company and Connected Parties and the External Guarantees of Listed Company (Zheng Jian Fa [2003] No.56) issued by CSRC and SASAC, KPMG Huazhen has issued the Statement in relation to the Use of Funds of China Petroleum & Chemical Corporation by the Controlling Shareholder and Other Related Parties for Year 2004, the details of which are set out below:

To the Board of Directors of China Petroleum & Chemical Corporation:

We have accepted the appointment and audited the Company's consolidated balance sheet and balance sheet as at 31 December 2004, and the consolidated income statement and profit appropriation statement, income statement and profit appropriation statement, consolidated cash flow statement and cash flow statement for the year then ended (the "financial statements") in accordance with the China's Independent Auditing Standards of the Certified Public Accountants. We issued an auditors' report with an unqualified audit opinion on these financial statements on 25 March 2005.

Pursuant to Document Zheng Jian Fa [2003] No. 56, the Company has prepared the Summary of the Use of Funds of China Petroleum & Chemical Corporation by the Controlling Shareholder and Other Related Parties for year 2004 (the "Summary"), which is attached in the appendix to this statement.

The Company is responsible for preparing and disclosing the Summary and ensuring its truthfulness, legitimacy and completeness. We are not aware of any inconsistency, in all material respects, when comparing the information contained in the Summary with the financial information verified in the course of our audit and the related contents in the audited financial statements of the Company and its subsidiaries (the "Group") for the year 2004. Except for the audit procedures performed in the course of our audit of the financial statements for the year 2004 on the Group's related party transactions, we have not performed any additional audit and other procedures on the information contained in the Summary.

In order to have a better understanding on the use of funds by the Company's controlling shareholder and other related parties for the year 2004, the summary should be read together with the audited financial statements.

KPMG Huazhen	Certified Public Accountants Registered in the People's Republic of China
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	25 March 2005

Appendix: Summary of the Use of Funds of China Petroleum & Chemical Corporation by the Controlling Shareholder and Other Related Parties for the year 2004

Unit: RMB millions

Nature of the use of funds	Name of the related party	Relationship	Account name	Beginning balance of the year	Increase during the year	Decrease during the year	Ending balance of the year
Borrowings	—	—	—	—	—	—	—
Entrusted loans	BASF-YPC Ethylene Company Limited	Other related party	Long-term investment	—	60	—	60
Entrusted investments	—	—	—	—	—	—	—
Issuing commercial bills without genuine business transactions							
Business bills	—	—	—	—	—	—	—
Settlement of liabilities on behalf of related parties	—	—	—	—	—	—	—
Accounts receivable and other receivables aged over one year as at 31 December 2004	China Petrochemical Corporation	Controlling shareholder	Other receivables	3,111	—	609	2,502
	Fellow subsidiaries controlled by China Petrochemical Corporation	Other related parties	Other receivables/ accounts receivable	3,706	1,517	3,527	1,696
Total				6,817	1,577	4,136	4,258

The summary was approved by the Board of Directors on 25 March 2005.

(2) The independent directors presented itemised explanations and independent opinions on the Company's accumulated and current external guarantees for the year 2004:

Pursuant to Document Zheng Jian Fa [2003] No. 56, as independent directors of Sinopec Corp., we have carefully reviewed the accumulative and current external guarantees provided by Sinopec Corp. in current year, which are described as below:

By 31 December 2004, the accumulated amount of external guarantees provided by Sinopec Corp. was approximately RMB 14.799 billion, and the current amount of external guarantees provided by Sinopec Corp. in 2004 was approximately RMB 2.512 billion. Among the guarantees, the T/T payment credit line guarantee offered to Unionpec whose 70% shares are owned by Sinopec Corp. accounted for a significant portion, which amounted to an

equivalent of RMB 2.483 billion. The external guarantees occurring prior of 2004 had been disclosed in detail in the 2003 Annual Report.

We present our opinions as follows:

The net guarantee amount of Sinopec Corp. in 2004 was RMB 2.392 billion compared with that in 2003, of which T/T payment credit line guarantee Sinopec Corp. provided for Unionpec accounted for a major portion. This guarantee concerned the payment mode in the course of transactions, which benefits Sinopec Corp. in cutting costs, increasing efficiency with no risks of suffering from losses. In strict compliance with Articles of Association and the internal control procedures in respect of guarantees, Sinopec Corp. performed relevant review procedures and obtained approval from the thirteenth meeting of the Second Session of the Board of Directors on 8 December 2004.

5 FINANCIAL PERFORMANCE

The financial results of the Company for the year ended 31 December 2004 prepared in accordance with IFRS and its financial position as at that date and its analysis are set out from page 127 to page 158 in this Annual Report.

6 DIVIDEND

At the fifteenth meeting of the Second Session of the Board of Directors of Sinopec Corp., the Board approved the proposal to declare a final dividend of RMB 0.12 per share (including tax) in cash. After deducting the interim cash dividend, the final cash dividend per share for distribution would be RMB 0.08, and the total cash dividend for the full year would amount to RMB 10.404 billion. The distribution proposal will be effective after it is submitted and approved at the 2004 Annual General Meeting of Sinopec Corp. The proposed final dividend will be distributed on or before Monday, 27 June 2005 to those shareholders whose names appear on the register of members of Sinopec Corp. at the

close of business on Friday, 3 June 2005. The register of members of Sinopec Corp.'s H shares will be closed from Monday, 30 May 2005 to Friday 3 June 2005 (both dates are inclusive). In order to qualify for the year end dividend for H shares, the shareholders must lodge all share certificates accompanied by the transfer materials with Hong Kong Registrars Limited, at Shops 1712 to 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:00 p.m. on Friday, 27 May 2005 for registration.

Dividend will be denominated and declared in Renminbi. The dividend for holders of domestic shares will be paid in Renminbi and the dividend for holders of foreign shares will be paid in Hong Kong dollars. The exchange rate for the dividend to be paid in Hong Kong dollars will be the mean of the exchange rates 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 dividend.

Generally, an individual shareholder of H shares or an individual holder of American Depository Receipts (ADRs) who is resident and domiciled in the UK will (subject to any available allowances or reliefs) be liable to UK income tax on the dividend received from Sinopec Corp. Where an individual shareholder of H shares receives a dividend from Sinopec Corp. without any 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 taxpayer subject to a basic rate or a lower rate, and 32.5 % in the case of a taxpayer subject to a higher rate). Where tax is withheld from the dividend, credit may be claimed (under tax self-assessments) against UK income tax for any tax withheld from the dividend up to the amount of the UK income tax liability. If such a withholding is required, Sinopec Corp. will assume responsibility for withholding that tax regarding the income with a source within the PRC. The current Chinese-UK Double Taxation Agreement provides that the maximum

withholding tax on dividend payable by a Chinese-domiciled company to UK residents is generally limited to 10% of the gross dividend.

For individual holders of H Shares or holders of ADRs who are UK resident but are not domiciled in the UK (and have submitted a claim to that effect to the UK Inland Revenue, they will generally only be liable to income tax on any dividend received from Sinopec Corp. to the extent that it is received in the UK.

Generally, a shareholder of H shares or a holder of ADRs which is a UK tax resident and UK domiciled will be liable to UK income tax or corporation tax (as appropriate and at the rates of tax applicable to the shareholder or holder) on any dividend 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 may be entitled to relief for "underlying" tax paid by Sinopec Corp. or its subsidiaries.

7 MAJOR SUPPLIERS AND CUSTOMERS

During this reporting period, the total amount of purchase from five largest suppliers represented 37.82% of the total amount of purchase of the Company, of which the purchase from the largest supplier represented 14.39% of the total purchase of the Company. The total amount of sales to the five largest customers of the Company represented 9.94% of the total annual sales of the Company.

During this reporting period, except for the connected transactions with the controlling shareholder Sinopec Group Company and its subsidiaries, as disclosed in Connected Transaction Section of this Annual Report, none of the directors, supervisors of Sinopec Corp. and their associates or any shareholders holding over 5% in Sinopec Corp. had any interest in any of the abovementioned major suppliers and customers.

8 BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company as of 31 December 2004 are set out in Note 28 of the Financial Statements prepared in accordance with IFRS in this Annual Report.

9 FIXED ASSETS

During this reporting period, changes to the fixed assets of the Company are set out in Note 17 of the Financial Statements prepared in accordance with IFRS in this Annual Report.

10 RESERVES

During this reporting period, changes to the reserves of the Company are set out in the Consolidated Statement of Changes in Shareholders' Equity in the Financial Statements prepared in accordance with IFRS in this Annual Report.

11 DONATIONS

During this reporting period, donations made for charitable purposes amounted to approximately RMB 290 million (including Tianjin Ethylene, Zhongyuan Ethylene, Guangzhou Ethylene and Luoyang Chemical Fibre and Catalyst Company).

12 PRE-EMPTIVE RIGHTS

Pursuant to the 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 of its shares to its existing shareholders in proportion to their shareholdings.

13 PURCHASE, SALES AND REDEMPTION OF SHARES

Refer to Disclosure of Significant Events 25.

14 COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Board of Directors of Sinopec Corp. is not aware of any information reasonably showing that Sinopec Corp. has breached the Code of Best Practice of the Hong Kong Stock Exchange at any time during the reporting period.

By Order of the Board

Chen Tonghai
Chairman

Beijing, PRC, 25 March 2005