Mr. Li Yizhong, Chairman

To all shareholders:

The year 2001 saw the Company emerging with good results in capital market activities as well as production operations by intensifying its reforms in an unfavorable business environment. In respect of its capital market activities, following the listing of H shares of Sinopec Corp. in three overseas stock exchanges in October, 2000, it successfully issued 2.8 billion A shares in the capital market of the PRC. The A shares were subsequently listed on the Shanghai Stock Exchange on 8 August 2001. Thereafter, Sinopec Corp. became the first PRC company with its shares listed on four different domestic and overseas stock exchanges, and, as a result, its shareholding structure and finance channels were further diversified. The Company used the proceeds from the issue of A shares to fund the acquisition of Sinopec National Star Petroleum Company ("Sinopec National Star"), and thereby enlarged its resources and enhanced its capability of sustained development. In respect of its business operations, the Company upheld its business strategy of "expanding resources, expanding markets, reducing costs and disciplining investments", and worked hard to strengthen its competitiveness amid the difficult market conditions in 2001. Although the operating results fell short of the targets set at the beginning of the year, they nonetheless represented a good performance.

In 2001, the turnover and other operating revenues of the Company prepared under the International Accounting Standards ("IAS") amounted to RMB 318.5 billion, representing a decrease of RMB 13.1 billion (the financial data prepared under IAS for the financial year of 2000 includes Sinopec National Star, whereas those prepared under the PRC Accounting Rules and Regulations do not include Sinopec National Star). Under the PRC Accounting Rules and Regulations, profit attributable to shareholders amounted to RMB 14.018 billion, representing a decrease of RMB 2.136 billion over 2000. Based on the number of shares outstanding at the year end, earnings per share were RMB 0.162. Under IAS, profit attributable to shareholders amounted to

RMB 16.025 billion, representing a decrease of RMB 3.559 billion over 2000. Based on the number of shares outstanding at the year end, earnings per share amounted to RMB 0.185.

The Board of Directors now proposes a final dividend of RMB 0.08 per share for the year ended 31 December 2001, which is equivalent to RMB 8 per ADS.

Looking back over the year 2001, the Company's performance amid such severe market conditions was mainly reflected in the following areas: Firstly, with the global economic downturn, the fall in the international prices of crude oil was larger than expected, in particular after "9.11" incident; Secondly, a serious distortion of prices occurred in the market of refined oil products in Singapore; from June to August in 2001, the prices of crude oil abnormally exceeded the prices of gasoline in the Singapore market. With the prices of domestic refined oil products directly linked to Singapore's market prices for similar grade of refined oil products, the Company suffered a significant reduction in refining margin in the second half of the year. Thirdly, as the pricing mechanism for refined oil products in China has not been well developed and the market was not mature, supply of refined oil products in certain areas of the PRC exceeded demand; in addition, disorderly competition arose in the refined products market, particularly in the wholesale sector. Fourthly, with the slowdown in the global economy market and the sluggishness in the change of cycle for chemical products, prices of these products remained in a slump and continued to slip. Domestic prices of chemical products fell accordingly, and compared with 2000, the average prices for principal chemical products fell by as much as 18.5%, which greatly exceeded the fall in prices of feedstocks. Under such severe market conditions, immense pressure was exerted on the Company in achieving its profit target.

Facing these difficulties, the Company spared no efforts in taking steps to tackle the situation. The Company was proactive in approaching the State regulators to improve the external market environment. At the same time, the Company was flexible in adjustment of its business operations and actively coordinated among the various parties involved in an effort to balance the supply and demand in the domestic market. By reducing internal costs and expanding the market externally on one hand, and restructuring its organization and intensifying the reforms on the other, the Company firmly carried out its long-term development strategy.

In 2001, Sinopec Corp. raised a part of the fund it needed for development by the offering of A shares in the PRC. Through such offering, it continued to achieve diversification of its shareholder base. Furthermore, it brought in more direct and in-depth scrutiny of the Company by domestic shareholders. It also strengthened the Board of Directors and three special committees established thereunder by electing two specialists in the field of economics in China, being Mr. Wang Yi and Mr. Zhang Enzhao, as directors of Sinopec Corp. Through these means, decision making of the Board of Directors will be more scientific and rational, thereby strengthening the corporate governance of Sinopec Corp. The Company had also taken steps to improve decision making processes in respect of major business strategies, major investments and significant capital spending as well as appointment or removal of any key personnel.

In 2001, the operating environment of the Company improved. With a view to correcting the drawbacks in the pricing mechanism for refined oil products, the Company made good efforts to draw the attention of the relevant governmental authorities to the matter, whilst it also helped the government put forward proposals and reach solutions. With the support of the relevant governmental authorities, a new pricing mechanism for refined oil products came into force on 17 October 2001. The new pricing mechanism brought the domestic refined oil products more closely linked to the international markets and further enhanced corporate autonomy, thus the Company was better enabled to respond to market changes.

In 2001, the Company continued to implement its four major strategies, being "expanding resources, expanding markets, reducing costs and disciplining investments", and satisfactory results were achieved:

- Expanding resources: In 2001, the Company paid RMB 6.446 billion for the acquisition of Sinopec National Star, thereby increasing its upstream exploration strength and overall risk resistance ability. Production of crude oil and natural gas in 2001 was 296.34 mmBOE, representing an increase of 13.64% over the previous year, and 367.5 mmBOE of crude oil and natural gas were added to the Company's proved reserves, achieving a larger than 100% replacement ratio on the Company's reserves for five consecutive years.

- Expanding markets: With a view to expanding the markets for refined oil products, the Company continued to acquire, construct and renovate petrol stations, resulting in 3,803 additional petrol stations in 2001. It optimized the allocation of refined oil products resources and improved its business operation. The total sales volume of refined oil products in the PRC in 2001 was 67.74 million tonnes, of which the retail volume was 30.43 million tonnes, and the direct sales volume was 11.64 million tonnes. The direct sales volume and the retail volume comprised 62.1% of the total sales volume. The Company had a market share of 65% in respect of the retail sales volume in its principal market. The throughput of crude oil was set at an appropriate level based on market conditions. In 2001, the Company's throughput of crude oil was 101.42 million tonnes. With a view to expanding the chemical products market, the chemical products structure was further adjusted to increase the proportion of higher value-added products.

- Reducing costs: In 2001, the Company achieved its targets to reduce costs, as it had committed to. Costs for the year were reduced by RMB 2.281 billion, which exceeded the original target of RMB 2.19 billion. Moreover, the Company reduced the number of its employees by 68,000 in 2001 and paid an amount of approximately RMB 2.546 billion as expenses for employee reduction. The Company estimates that approximately RMB 1.57 billion in labour costs could be saved each year hereafter.

- Disciplining investments: In 2001, the Company implemented reforms in respect of its investment system, namely, "centralized decision-making, control on investments, adjustments to the investment structure and optimizing projects". When appraising its investments, it continued to adhere to the principle of "four have" (being having a market, having profit, having the necessary capital and having competitiveness), "four promoting" (being promoting debottleneck practice, high tech content, more localization, and more internal capital), and the principle of "four-in-one" (being "technological innovations, technological improvements, technological upgrading and industrial upgrading") for the decision-making on investments. Investments continued to be better optimized in terms of both quality and structure. The capital expenditure for the year was RMB 58.829 billion, resulting in expanded resources, strengthened market position and enhanced competitiveness, thereby laying down a sound foundation for the Company's development in future. In 2001, the Company had achieved some pleasant results in partnership with others. The Company established a joint venture with BASF of Germany ("BASF") in Nanjing for an ethylene project, a joint venture with bp Fareast Ltd ("bp") in Shanghai for an ethylene project, and a joint venture with Shell in Hunan on coal gasification project. The joint ventures pave the way for the Company to introduce and learn the state-of-the-art technology and management experiences from leading international companies, which will further enhance the competitiveness of the Company.

Looking forward to the year 2002, the global economy will, despite it has begun to recover, continue to face many uncertainties. Meanwhile, the PRC will continue to see a promising upward trend in economic development. As for the Company, challenges will come and so will opportunities. In respect of the international market, it is estimated that the international average prices for crude oil will lag behind those in 2001; as there is an excess in refining capacity in the region and in view of the uncertainties in global economic development, demand for refined oil products and refining margins will also be uncertain in the future. It is estimated that the chemical industry will remain in a trough of the cycle in 2002; however, recovery is likely to gradually gain momentum. In respect of the domestic market, 2002 is the first year after China's accession to the World Trade Organization, and tariffs will be reduced and markets will be opened up. These measures will definitely have an impact on the Company's operations. While the Company is contemplating the severity of the situation, it has also noted the bright side which will help the Company in its increased efforts in reforms and in the speeding up of development. Firstly, the national economic growth of China is on the fast track of rising. In 2002, China will continue with its policy to stimulate the domestic demand, and implement proactive financial policies and prudent monetary policies, whilst growth in GDP is expected to reach approximately 7%. As such, there will be room for growth in demand for domestic refined oil products and chemical products, and hence it is possible that the Company's total production will be expanded. Secondly, as the government continues to press for setting an orderly market for refined oil products, it will create a favourable environment in which the Company could compete in a regulated and orderly manner. Thirdly, the Company will be further benefited from the results from its reforms and development. With the Company's experience gained from its operations under market forces, the results arising from the reduction of employees, the newly added capacity through investment and achievements in technological advancement, new areas of growth will arise to help revenues grow and lower expenses as costs will be reduced and efficiency will be enhanced. Fourthly, China's accession to the WTO not only brings forth challenges for the Company, but also new opportunities. After joining the WTO, consumption of motor vehicles in China is expected to rise, together with the expected expected growth of the textile industry, further impetus to the demand is expected in chemical products and refined oil products, particularly in the retail market. They present opportunities for the Company's expansion. At the same time, a more liberal market environment will help the Company access foreign capital, state-of-the-art technologies and management skills, which in turn will enhance the Company's competitiveness.

To overcome the difficulties presented in the upcoming operating environment and to turn any challenge presented by China's entry to WTO into opportunity and to turn opportunities into the Company's advantages and profits, the Company will continue to carry out the followings aspects of work under the principle of maximizing return on capital employed (ROCE):

- Endeavoring to improve external environment. The Company will work closely with and propose to the relevant PRC authorities policies in line with China's obligations under the WTO protocols; also, the Company will work in conjunction with the PRC governments in setting the order of the markets for refined oil products and petrol stations, and will continue to work closely with PetroChina Company Limited to uphold an orderly PRC market for refined oil products;

- Strengthening corporate governance. The Company will further pursue its internal reforms in corporate governance to optimize the corporate governing functions. Three special committees established under the Board of Directors will play a more critical role in the corporate decision making process, in particular, those members who are independent non-executive directors will have more discretion to check and balance the Company's management. In addition, the Company will continue to implement its professional management strategy and intends to form specialized companies for the sales of lubricants and principal chemical products;

- Continuing with the implementation of its operating strategies in "expanding resources, expanding markets, reducing costs and disciplining investments". It intends to increase the percentage of self-supplied crude oil, its market share and its competitiveness;

- Continued adoption of a flexible operating strategy. While the Company actively expands its market share of refined oil products in the Company's principal markets, it will also actively explore the retail market for refined oil products beyond its principal markets, so as to strengthen its ability to respond to changes;

- Internal restructuring of assets and optimizing the allocation of internal resources. In 2002, the Company will continue to carry out restructuring of assets and capital activities, so as to move towards a more rationalized organizational structure, whereby management will be streamlined and management costs will be reduced. Application of modern management will be adopted in order to achieve effective deployment of resources and to optimize the supply chain of the Company, so that costs can be reduced and efficiency can be enhanced;

- Promoting technological innovations. In 2002, the Company will be concentrating in core technologies having strategic implications. Also, it will effect the introduction, promotion and transfer of technologies, thereby enabling the Company to start its technological development from an advanced starting point. In doing so, it will be able to achieve breakthroughs in key technologies sooner, thereby giving technological support to its structural adjustments. In strengthening research and development and production, together with sales and applying the results of the research on its products, technology will be turned into productivity more rapidly.

Since its IPO, the Company has created a new corporate culture which the Company has been pressing forward with. Having been put into practice, the Company has enriched the new corporate culture in respect of managment philosophy, operation goal, business strategies, operation mechanism, operation principles and incentive system. In essence, it can be summarized in the words of "competition, openness, standardisation and integrity". Competition represents the source of corporate dynamics; openness is the driving force for corporate development; standardisation represents the requirements for modern enterprises to operate under the market norms and to meet the internationally accepted rules; integrity refers to the basis of market economy and the fundamental corporate ethical standards. Through promotion across the Company, Sinopec Corp's corporate culture has successfully become the motivation for all of its employees.

Looking forward to the year 2002, the Company is confident that, with the joint efforts of its employees, it will overcome any difficulty that may arise in the rigorous business environment, and will continue to improve its competitiveness.

Finally, on behalf of the Board of Directors and all of the employees of the Company, I would like to express my sincere appreciation to all the shareholders for their support in 2001.

Li Yizhong
Chairman

Beijing, the PRC, 28th March, 2002