

## CHAIRMAN'S STATEMENT



Mr. Chen Tonghai, Chairman

### **To all shareholders,**

On behalf of the Board of Directors of Sinopec Corp., I would like to extend my sincere gratitude for your continued support to the Company.

In 2003, in response to the complex and changing market situations, the Company adjusted its operating strategy with flexibility, reinforced its corporate governance, and carried forward its internal reform. As a result, the Company managed to achieve relatively good operating results, notwithstanding the losses incurred for disposal of certain low efficiency assets and incurring certain costs in connection with the reform. According to the Company's accounts prepared under the PRC Accounting Rules and Regulations, the Company's net profit was RMB 19.01 billion, up by 34.63% compared with 2002. According to the Company's accounts prepared under the International Financial Reporting Standards (IFRS), the profit attributable to shareholders was RMB 21.59 billion, representing an increase of 32.35% compared with 2002. Looking at the Company's integrated operations, the Exploration and Production Segment kept posting a good profit growth. The Refining Segment increased its profit as utilization rate improved. The Chemicals Segment recorded a significant growth in profit as both of its production and sales volume increased partly as a result of the recovery in the industry. Particularly worth mentioning, the Marketing and Distribution Segment managed to reinforce the Company's position as a leading player in the Chinese market, thanks to its efforts over the years in establishing the marketing and distribution network across the country. The Marketing and Distribution Segment also continued to maintain a stable growth in profit, and the competitive advantage of the Company's integrated operation gradually emerged. Development achieved by the Company over the past years has been gradually recognized by the capital market. As a result, shareholders' returns increased significantly, and the enterprise value of the Company greatly went up as well.

All these achievements benefited from the rapid growth of Chinese economy. In addition, they were also a result of the Company's continued reinforcement on corporate governance, further intensified corporate reform, continued focus on scientific and technological advancement as well as further optimized asset structure. On top of that, our thanks shall also be extended to the employees for their continuing efforts. The achievements of the Company also evidenced that the Company's ongoing strategy, which features "expanding resources and market, reducing cost and prudent investment", is practical and works. These achievements strengthened the Board's determination to continue to implement and develop the strategy in a more comprehensive and thoughtful manner.

Since its IPO in 2000, the Company has maintained a fairly stable dividend pay-out level. According to the Company's earnings in 2003 and the needs for sustainable development in the future, the Board of Directors proposed a dividend distribution of RMB 0.09 per share for the full year of 2003. After considering the interim dividend of RMB 0.03 per share that had been paid, final dividend for year 2003 is RMB 0.06 per share, which is equivalent to RMB 6.00 per ADS.

In 2003, the Company's corporate governance was further improved. The second session of the Board of Directors and the Supervisory Committee were both elected through the general meeting of shareholders. Pursuant to the regulatory requirements of equity authorities on which it is listed, Sinopec Corp. revised and improved its corporate governance documents including its Articles of Association to reinforce the role of the independent directors, and enhanced the level of its scientific decision-making. In addition, the Company improved its internal control rules and its internal management practices to minimize operating risks.

In 2003, the Company made important progresses in the area of corporate reforms. With regard to employee incentive program, the Company took an important step forward by introducing a market-rate based compensation system to rationalize the internal compensation mechanism and stabilize its work force. With the implementation of reform measures such as flattening the management levels and enhancing the management efficiency, the Company continued to reduce its number of employees in order to enhance its operating efficiency. During the year, the Company reduced its staff size by 21,000 persons, thus further improved its productivity and managerial efficiency. Regarding the managerial system, the Company kept strengthening the managerial functions of each business segment, and further specialised its product marketing system with the formation of Acrylic Fiber Sales Company, hence taking its first step in reforming the chemicals marketing system. Regarding asset optimization, the Company optimized further its investment structure to keep in line with the market situation, increased its capital expenditure to accord with the market demands, and further enhanced the Company's competitive strengths. In addition, to seize market opportunities, the Company acquired some of the business operations from its parent company including Maoming ethylene assets, Tahe Petrochemicals and Xi'an Petrochemicals, businesses of which competed with the Company before the acquisitions. These acquisitions further strengthened the core businesses of its Refining and Chemicals Segments, reduced the connected transactions and competitions within the industry, and enhanced its market position in South and North Western China. Meanwhile, upholding a principle of "only do what ought to be done", the Company disposed of certain less-competitive and low efficient assets. These measures have improved the Company's portfolio and quality of assets, and laid a foundation for the sustainable development of the Company in the future.

Looking into the future and facing the sweeping tide of economic globalization, we are fully aware of the opportunities and challenges ahead. The greatest opportunity presented to us is that China's economy is experiencing a precious period of strategic growth, and domestic demands for petroleum and petrochemical products are strong and growing, which offered the Company an opportunity for faster expansion. The biggest challenge we face is that the marketplace is to be further opened to the overseas competitors, and market competitions will be fiercer than ever. As a backbone enterprise in the pillar industry for China's economy, and as one of the largest integrated energy and petrochemical companies in Asia, we will firmly uphold the vision of "Vision of Reform governs business activities to achieve effective growth". Aiming to maximize the overall profitability, the Company will closely follow the market trends, take the internal reform and technological advancement as driven force, and continuously rationalise its business and asset portfolio. The Company will implement its existing corporate strategy, streamline assets structure while coordinate the overall development to deliver the development of the Company in harmony with the healthy development of the environment and society, and make efforts to enhance the competitiveness and sustainable profitability of the Company. In this way, we could achieve long-term and sustainable corporate development with an aim to reward our shareholders, employees, customers and the society.



**Chen Tonghai**  
Chairman

Beijing China, 26 March 2004