BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

The global economy witnessed sound growth in 2004. Stable and rapid growth was also experienced in the domestic economy. In 2004, international oil prices continued its climb, the domestic demand for petrochemical products increased significantly, the petrochemical industry was on the rising trend in a new cycle. All of these factors provided favourable conditions for the Company to increase its market shares and profitability. The controlled prices of refined oil products set by the government as a result of the macro-economy control measures, however, posed higher requirements on our efforts and abilities to enhance operating profit. Facing the complex and ever-changing market situations, the Company closely monitored the changes to the international and domestic markets, adjusted its production and operation strategies accordingly, reinforced safety in production, carefully organized and arranged for production and operation, increased production efficiency and expanded market shares. Meanwhile, the Company reinforced its internal management, pushed forward reform implementations and accelerated structural adjustments. With the joint efforts made by all the staff, the operating results once again reached a new high level.

Mr. Wang Jiming, Vice Chairman and President

1 Review of Market Environment

(1) Crude oil market

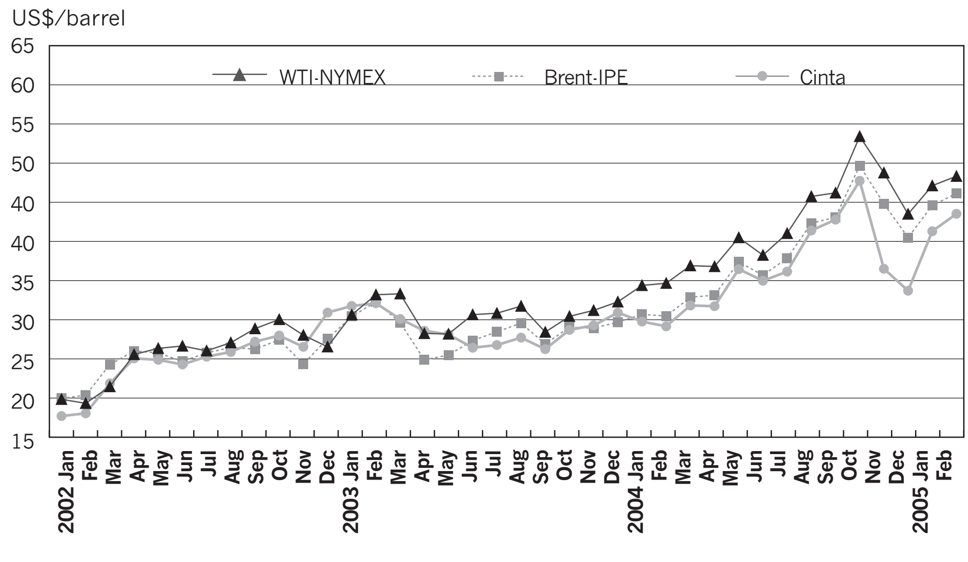
In 2004, the international crude oil prices continued its climb to a higher level, and the price spread between sweet and sour crude oil widened. The Platts Global Brent spot price averaged USD 38.27 per barrel, up by 32.73% over 2003. The trend of domestic crude oil prices basically followed the trend in the international market. However, as the increase in international benchmark prices for some of the Company's self-produced oil was not significant, in 2004, the average realized price of crude oil produced by the Company was USD 33.28 per barrel, up by 20.74% over 2003.

(2) Refined oil products market

In 2004, domestic demand for refined oil products surged dramatically as a result of China's rapid economic growth, increase in the number of automobiles and power supply shortage in certain parts of the country. According to the Company's estimation, the apparent domestic consumption of refined oil products (inclusive of gasoline, diesel and kerosene) in 2004 was 157.06 million tonnes, up by 19.0% over last year. The trend of domestic refined oil product prices in principle followed the rising trend of international refined oil product prices, however, due to the control imposed by the government over prices of refined oil products as a result of the macro-economy control measures, the increase in domestic prices was less than the international prices.

(3) Chemicals market

In 2004, China's domestic demands for chemical products continued to grow significantly. The total apparent consumption of synthetic resins, synthetic fibres and synthetic rubber was 48.24 million tonnes, representing an increase of 11% over 2003. Domestic consumption of ethylene equivalent was 16.38 million tones, up by 5.8% over 2003. With the gradual recovery of the



Price Trend of International Crude Oil

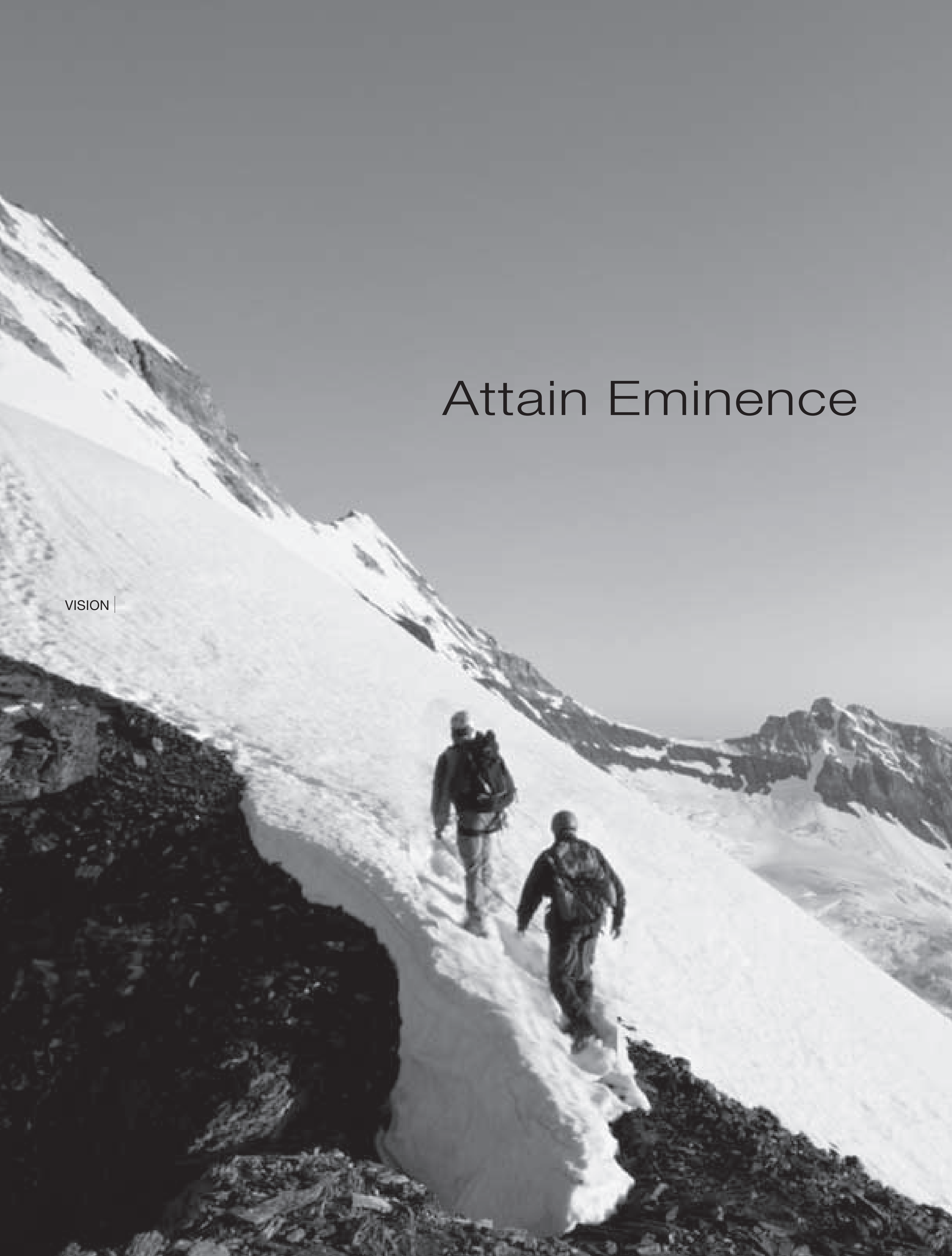
global chemical industry, the margin of chemical production increased remarkably and new price records of most chemical products were repeatedly achieved.

2 Production and Operation

(1) Exploration and Production Segment

In 2004, by seizing the opportunity of high oil prices, the Company made great efforts in exploration and achieved relatively good results in exploration, development and production of crude oil and natural gas.

In connection with exploration activities, the Company completed a two dimensional seismic study of 31,750 kilometers, a three-dimensional seismic study of 7,030 square kilometers and drilled 590 test wells with a drilling footage of 1,484 kilometers. The proved oil and gas reserves in new exploration blocks in western China increased significantly, a breakthrough was made in southern marine phase sedimentary blocks and remarkable results were attained in terms of exploration in mature blocks and new areas in eastern China. At the end of 2004, the Company's proved reserves of crude oil were 3,267 million barrels and natural gas were 3,033 billion cubic feet, up by 0.31% and 5.04%, respectively, compared with 2003. In terms of development, the Company continually reinforced the comprehensive management in mature oil fields and development in new blocks in western China. In 2004, the Company drilled 2,365 development wells, with a drilling footage of 5,125.2 kilometers and newly built crude oil and natural gas production capacity were 6.09 million tonnes per year and 1.015 billion cubic meters per year, respectively. In 2004, the Company's production of crude oil and natural gas reached 274.15 million barrels and 207.0 billion cubic feet, respectively, representing an increase of 1.18% and 10.29%, respectively, over 2003.


Attain Eminence
VISION

Creation of a brilliant future

By looking for opportunities to rationalize our business model, improve our operating efficiency, and expand our business, Sinopec Corp. hopes to bring energy, convenience and a cleaner environment to its customers and help make the world a better place for all.

Summary of Operations of the Exploration and Production Segment

	2004	2003	2002	Changes from 2003 to 2004 (%)
Crude oil production (mmbbls)	274.15	270.96	269.80	1.18
Natural gas production (bcf)	207.0	187.7	178.8	10.29
Newly added proved reserves of crude oil (mmbbls)	284	208	375	36.54
Newly added proved reserves of natural gas (bcf)	352.0	(254.3)	20.2	N/A
Year end proved reserves of crude oil (mmbbls)	3,267	3,257	3,320	0.31
Year end proved reserves of natural gas (bcf)	3,033.0	2,887.6	3,329.4	5.04
Year end proved reserves of crude oil and natural gas (mmboe)	3,773	3,738	3,875	0.94

Summary of Production and Operations of Shengli Oil Field

	2004	2003	2002	Changes from 2003 to 2004 (%)
Crude oil production (mmbbls)	189.88	189.25	189.68	0.33
Natural gas production (bcf)	31.8	28.6	26.5	11.19
Newly added proved reserves of crude oil (mmbbls)	225	196	240	14.80
Newly added proved reserves of natural gas (bcf)	79.9	70.1	(5.1)	13.98
Year end proved reserves of crude oil (mmbbls)	2,306	2,271	2,264	1.54
Year end proved reserves of natural gas (bcf)	357.1	308.9	267.4	15.60
Year end proved reserves of crude oil and natural gas (mmboe)	2,366	2,322	2,308	1.89

(2) Refining Segment

In 2004, according to the international market condition of widened price spread between sweet and sour crude oil, the Company strived to reduce crude oil procurement costs by raising sour crude processing volume and optimising crude oil mix and transportation costs. Meanwhile, the Company enhanced operational performance of its facilities and brought their production capacity into full play, thus setting a new throughput record of crude oil and production record of refined oil products and light chemical feedstock. The Company processed 132.95 million tonnes of crude oil in 2004, an increase of 14.36% over 2003. The Company actively adjusted its product mix, increased the production of diesel and high value-added products to meet market demands. The Company put emphasis on market analysis and marketing management and, as a result, both the prices and volume of refined petroleum products sold by this segment had risen. The Company made efforts to revamp its existing oil refining facilities and improve product quality so that the production of high-grade gasoline amounted to 12.39 million tonnes, up by 34.2% over 2003. In addition, with enhanced management and scientific and technological advancement, all major economic and technical indicators of the Refining Segment were improved. The light products yield reached 74.02%, up by 0.22 percentage point over 2003, and the refining yield reached 93.09%, up by 0.46 percentage point over 2003.

Sources of Crude oil **Unit: million tones**

	2004	2003	2002	Changes from 2003 to 2004 (%)
Self-supply	28.14	28.20	28.90	(0.21)
PetroChina Company Ltd.	10.31	13.08	14.57	(21.18)
CNOOC	6.69	5.57	6.22	20.11
Imported	89.03	71.14	56.68	25.15
Total	134.17	117.99	106.37	13.71

Summary of Production of the Refining Segment

Except for 2004, the following operation data for 2003 and 2002 do not include those of Xi'an Petrochemical and Tahe Petrochemical.

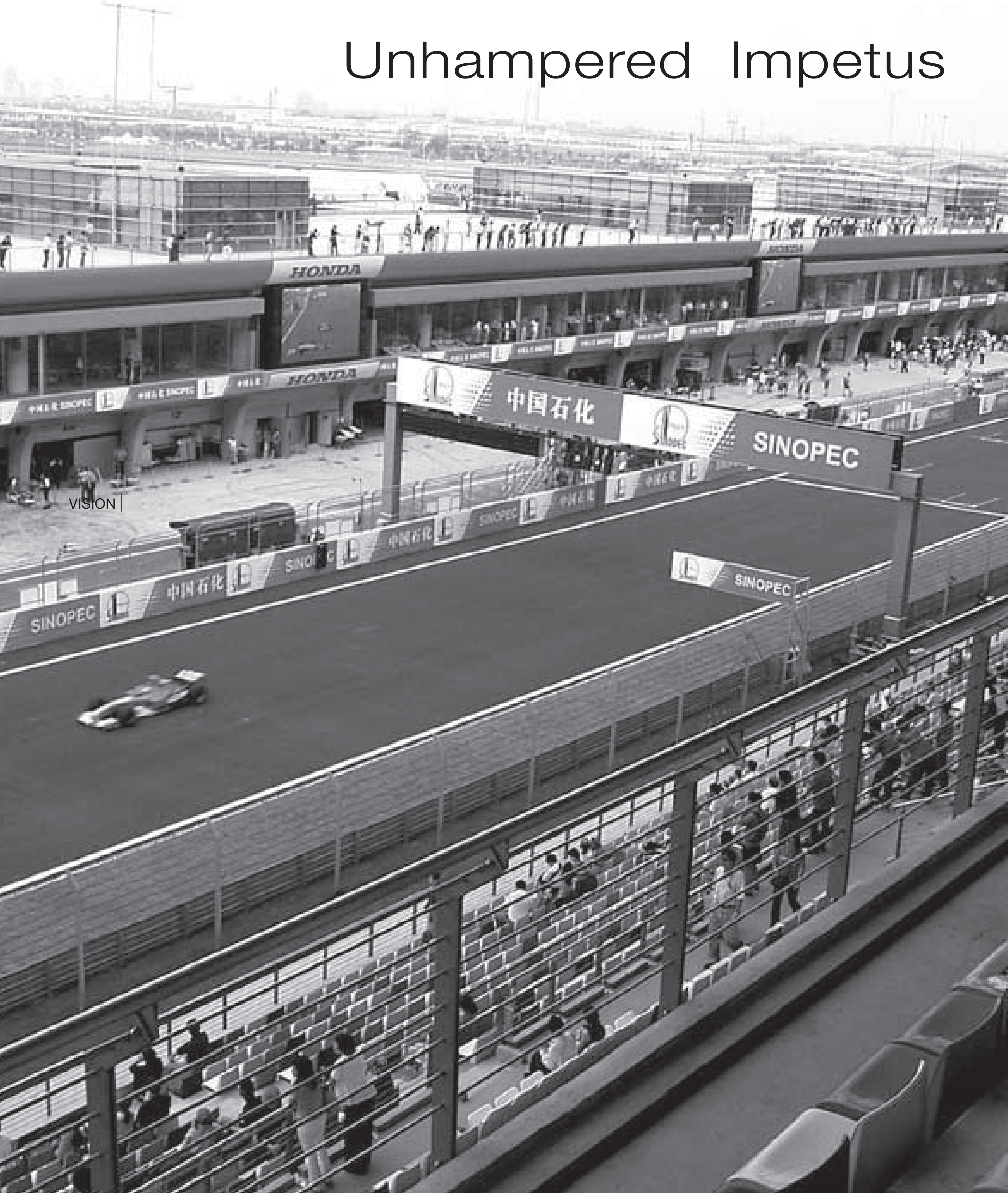
	2004	2003	2002	Changes from 2003 to 2004 (%)
Crude throughput (mbbls/day)	2,677.2	2,341.0	2,114.6	14.36
of which: sour crude throughput (mbbls/day)	551.1	478.7	402.8	15.12
Refining utilization rate (%)	93.43	87.8	79.3	5.63 percentage points
Gasoline, diesel and kerosene (million tonnes)	80.83	68.72	62.42	17.62
of which: Gasoline (million tonnes)	23.58	21.74	19.62	8.46
Diesel (million tonnes)	50.89	41.67	37.74	22.13
Kerosene including jet fuel (million tonnes)	6.36	5.31	5.06	19.77
Light chemical feedstock (million tonnes)	17.70	16.46	15.04	7.53
Light products yield (%)	74.02	73.80	73.22	0.22 percentage point
Refining yield (%)	93.09	92.63	92.50	0.46 percentage point

Except for 2002, the following operation data for 2003 and 2004 include those of Xi'an Petrochemical and Tahe Petrochemical.

	2004	2003	2002	Changes from 2003 to 2004 (%)
Crude throughput (mbbls/day)	2,677.2	2,350.0	2,114.6	13.92
of which: sour crude throughput (mbbls/day)	551.1	478.7	402.8	15.12
Refining utilization rate (%)	93.43	88.10	79.3	5.33 percentage points
Gasoline, diesel and kerosene (million tonnes)	80.83	69.01	62.42	17.13
of which: Gasoline (million tonnes)	23.58	21.79	19.62	8.21
Diesel (million tonnes)	50.89	41.91	37.74	21.43
Kerosene including jet fuel (million tonnes)	6.36	5.31	5.06	19.77
Light chemical feedstock (million tonnes)	17.70	16.46	15.04	7.53
Light products yield (%)	74.02	73.80	73.22	0.22 percentage point
Refining yield (%)	93.09	92.63	92.50	0.46 percentage point

Notes: Crude oil processing volume is converted at 1 tonne = 7.35 barrels.

Unhampered Impetus



Fostering compelling growth

China's unprecedented economic boom has created enormous market opportunities. Sinopec Corp. has capitalized on this favorable circumstance and will seek continued growth in this productive environment. As the Chinese economy further develops, the Company aims to become an integrated energy and chemical company with global competitiveness.

(3) Marketing and Distribution Segment

In 2004, the Company paid close attention to the changes of the market, balanced resources allocation, reinforced and improved construction of marketing network. The net increase in the number of company-owned and company-operated (COCO) petrol stations in 2004 was 2,075, of which, we have won the bid to establish 5 petrol stations in Hong Kong Special Administrative Region. The Company strengthened service awareness and improved service quality to expand both retail and direct sales volume, which had resulted in an increase in sales volume, and optimised structure of refined oil products. In 2004, the total domestic sales volume of refined oil products reached 94.59 million tonnes, representing an increase of 24.59% over 2003, of which the retail volume achieved an increase of 37.07% over the previous year. The efficiency of petrol stations continued to improve with the annual throughput per petrol station exceeding 2,000 tonnes, up by 18.8% compared with that in the previous year. The retail sales volume together with direct distribution volume of refined oil products accounted for 77.07% of the total domestic sales volume, up by 5.67 percentage points over 2003. In 2004, the Company reasonably adjusted its export volume to keep in line with market demand with a total export volume of 3.5156 million tonnes of refined oil products, down by 12% compared with that in 2003.

Summary of Operations of Marketing and Distribution Segment

	2004	2003	2002	Changes from 2003 to 2004 (%)
Total domestic sales of refined oil products (million tonnes)	94.59	75.92	70.09	24.59
of which:				
Retail volume (million tonnes)	53.25	38.85	34.73	37.07
Direct sales volume (million tonnes)	19.65	15.33	12.63	28.18
Wholesale volume (million tonnes)	21.69	21.74	22.73	(0.23)
Average annual throughput per petrol station (tonne/station)	2,003	1,686	1,560	18.80
Total number of petrol stations under SINOPEC brand	30,063	30,242	28,127	(0.59)
Of which:				
Number of COCO petrol stations	26,581	24,506	24,000	8.47
Number of franchised petrol stations	3,482	5,736	4,127	(39.30)
Retail volume/total domestic sales volume (%)	56.3	51.2	49.6	5.1 percentage points

(4) Chemicals Segment

In 2004, the Company strengthened the management of its chemicals operation to ensure safe, stable, sustained, full-load and optimal operations. It also optimised allocation of resources, such as chemical feedstock resources, to ensure the timely supply of raw materials and increased utilisation rate. As a result, the production of most chemical products increased significantly. In 2004, the Company produced 3.637 million tones of ethylene, up by 14.77% over 2003. The production of major chemical products, such as synthetic resins, synthetic fibres, monomers and polymers for synthetic fibres and synthetic rubbers, all increased significantly. As a result of the Company's endeavors to improve product mix and increase the production of market-adapted and high value-added products, ratio of performance compound of synthetic resin and differential fibre were increased significantly. Furthermore, the Company actively tapped the market and accomplished the targeted production and sales volumes. In addition, the Company achieved remarkable results in improving the marketing network of acrylic fibre, optimising allocation of resources and customers, improving the quality of customer services and unifying marketing mode. This enabled the Company to collect valuable experiences for the future reform of its chemical marketing system.

Production of Major Chemicals

The operation data of 2002 and 2003 listed below exclude the data of Maoming Ethylene; the operation data of 2004 include those of Maoming Ethylene but exclude those of chemical assets acquired from Sinopec Group in 2004.

Unit: 1,000 tonnes

	2004	2003	2002	Changes from 2003 to 2004 (%)
Ethylene	3,637	3,169	2,716	14.77
Synthetic resins	5,534	4,691	4,005	17.97
of which: performance compound resins	2,894	2,305	1,847	25.55
Synthetic rubbers	561	502	458	11.75
Monomers and polymers for Synthetic fibres	5,049	4,418	3,834	14.28
Synthetic fibres	1,295	1,280	1,153	1.17
of which: differential fibres	589	477	402	23.48
Urea	2,630	2,028	2,666	29.68

The operation data of 2003 and 2004 listed in the table below include the data of Maoming Ethylene and the chemical assets acquired from Sinopec Group in 2004, while those of 2002 do not.

Unit: 1,000 tonnes

	2004	2003	2002	Changes from 2003 to 2004 (%)
Ethylene	4,074	3,982	2,716	2.31
Synthetic resins	6,221	5,805	4,005	7.17
of which: performance compound resins	3,034	2,707	1,847	12.08
Synthetic rubbers	561	553	458	1.45
Monomers and polymers for Synthetic fibres	6,021	5,633	3,834	6.89
Synthetic fibres	1,654	1,659	1,153	(0.30)
of which: differential fibres	753	623	402	20.87
Urea	2,630	2,028	2,666	29.68

(5) Research and development

In 2004, the Company proactively developed core technology and proprietary technology for its principal operations and achieved fruitful results of 639 domestic patents and 48 foreign patents being authorised. Breakthrough was achieved in exploration in marine phase sedimentary structure in southern China. Additionally, the Company successfully developed technologies to improve recovery rate in oil fields with complex faultage, flexible and diversified FCC technology (FDFCC), sulfur removal and olefin content reduction technology through selective hydrofining of catalytic gasoline (RIDOS), and 150 thousand tonnes per year three-reactor PET technology.

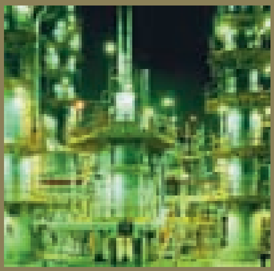
New progress was made in the construction of information system. The ERP system was deployed at 23 entities and its integrated advantage became more prominent. The comprehensive oil field management system and the Ningbo-Shanghai-Nanjing crude oil pipeline transportation and distribution management system were

Visionary Perspective

VISION

Strive for excellence

Sinopec Corp. is the largest producer of refined oil and chemical products in China. The Company owns and operates more than 30,000 retail gas stations. Sinopec Corp. is ideally situated to capitalize on the fastest growing segments of the economy, and more importantly, will play a key role in furthering China's economic development.



completed and put into operation. Moreover, the application of IC cards at petrol stations achieved remarkable progress with total number of customers exceeded 2 million. Over 10,000 COCO petrol stations have been equipped with IC card facilities and the vision of "One card in hand, fueling nationwide" becomes more accessible.

(6) Cost saving

In 2004, the Company adopted a series of measures to reduce costs: optimising the allocation of resources and logistics system to reduce the transportation costs, increasing processing volume of sour crude to reduce procurement cost of crude oil and optimising the operation of facilities to cut down material and energy consumption. In 2004, the Company's cost reduction totalled RMB 2.951 billion, which is RMB 451 million more than the original target of RMB 2.5 billion. The breakdown is as follows: RMB 660 million from the Exploration and Production Segment, RMB 660 million from the Refining Segment, RMB 731 million from the Chemicals Segment and RMB 900 million from the Marketing and Distribution Segment.

(7) Capital expenditure

In 2004, according to the prevailing market conditions and our continued focus on our development strategies and core business, the Company adjusted and improved its investment structure, strictly followed investment decision making procedures and management methods and strengthened management of key construction projects. As a result of the above efforts, projects construction was accelerated. In 2004, the Company's total capital expenditure was RMB 64.759 billion, among which the capital expenditure of the Exploration and Production Segment was RMB 21.234 billion. The Company enhanced oil reserves as well as production of crude oil and natural gas, and further improved its profile of the possible, probable and proved reserves. As a result, remarkable achievements were made in the exploration and development projects in the matured fields in eastern China, newly developed fields in western China and marine phase blocks in southern China. In addition, the Company's proved reserves of crude oil increased by 284 million barrels, and natural gas increased by 352 billion cubic feet. The capital expenditure of the Refining Segment was RMB 14.272 billion. The newly added primary refining capacity was 8.3 million tonnes/year, the newly added hydro-refining capacity was 4 million tonnes/year, and the newly added delayed coking capacity was 3.9 million tonnes/year. The upgrading projects for improving oil product quality were progressing smoothly and the Ningbo-Shanghai-Nanjing crude oil pipeline was completed and put into operation. The capital expenditure of the Marketing and Distribution Segment was RMB16.678 billion, which was principally used for the construction of pipelines for refined oil products and further optimising marketing networks for refined oil products by acquiring, building and upgrading petrol stations. As a result, in 2004, the number of COCO petrol stations was up by 2,075, securing the Company's leading position in its principal market and raising brand awareness and customer loyalty. The capital expenditure of the Chemicals Segment was RMB 11.025 billion. With the investment, our ethylene capacity was increased by 270,000 tonnes/year, synthetic resin capacity increased by 700,000 tonnes/year, and capacity of monomers and polymers for synthetic fibres increased by 360,000 tonnes/year. The coal gasification projects for chemical fertiliser facilities progressed smoothly. The capital expenditure of the Company's headquarters and others totalled RMB 1.55 billion, with which the construction of information system achieved new progress.

In addition, such joint venture projects as Shanghai Secco progressed smoothly, capital expenditure was RMB 6.5 billion in total.

(8) Cooperation with foreign partners

In 2004, the Company's major joint ventures progressed smoothly. The ethylene joint venture with BP in Shanghai has been successfully commissioned, and that with BASF in Nanjing is currently in the commissioning phase. The joint venture with Shell for coal gasification in Hunan province is under construction and estimated to be completed by the end of 2005. The joint venture with ExxonMobil and Saudi Aromco for an integrated oil refining and chemical project in Fujian is under preparation. The joint ventures for the retail of refined oil products with BP and Shell in Jiangsu and Zhejiang, respectively, were formally put into operation.

BUSINESS PROSPECT

1 Market Outlook

In 2005, it is estimated that the global economy will remain in stable growth. International crude oil prices will remain high and is expected to be at a fluctuating state, and the global chemical industry will still stay at a cyclical upturn. China's economy is expected to continue to grow rapidly, which will in turn drive the growth of the domestic demands for refined oil products and petrochemical products, creating rooms for the development of petroleum and petrochemical industries. Meanwhile, the openness of domestic retail market for refined oil products and the decrease of the import duty for chemical products will give rise to competitions in the domestic market.

2 Production and Operation

Faced with the opportunities and challenges in 2005, the Company intends to adopt a flexible operating strategy and focus on the following areas:

Exploration and Production Segment The Company will make further efforts in exploration and development and increasing types of supplemental resources to ensure the stable growth of oil and gas production. Moreover, the Company will strive hard to increase production and efficiency by enhancing the recovery rate and commodity rate of oil and gas. In 2005, the Company plans to produce 39 million tonnes of crude oil and 6.07 billion cubic meters of natural gas. The Company also intends to increase its production capacity of crude oil by 6.05 million tonnes per year and natural gas by 2.3 billion cubic meters per year.

Refining Segment The Company will reinforce management and ensure safe, stable, sustained, full-load and optimal operation of its facilities. The projected processing volume of crude oil in 2005 is 143 million tonnes. The Company will strive to increase production of refined oil products and light chemical feedstock. Optimisation of resource allocation, adjustment to structure and improvement of quality will be our main focus in 2005. The Company also proposes to raise production of LPG, propylene, aromatics and high-grade road asphalt. The Company will further increase the major techno-economic indicators of oil refining with target for light products yield at 74.1% and refining yield at 92.9%.

Marketing and Distribution Segment The Company will further improve marketing networks and optimise marketing structure. Meanwhile, the Company will adjust its marketing strategies, make efforts to expand its total sales volume based on the market demands, and optimise resource allocation and logistics network. In 2005, the Company plans to achieve a total domestic sales of refined oil products of 102 million tonnes, including retail sales of 57.50 million tones and direct distribution of 22.50 million tonnes.

Chemicals Segment Efforts will be made to ensure safe, stable, sustained, full-load and optimal operation of facilities and put the two ethylene joint venture projects into operation. The Company will speed up the reform of the chemical marketing system to improve the competitiveness of chemical products. The Company will resort to scientific and technological advancement to increase the production of high value-added products, performance compound resins and differential fibres. In 2005, the Company plans to produce 5.19 million tonnes of ethylene, 7.47 million tonnes of synthetic resins, 0.55 million tones of synthetic rubbers, 1.61 million tones of synthetic fibre and 6.69 million tones of synthetic fibre monomers and polymers.

Scientific and Technological Development The Company will accelerate the development of core technology and proprietary technology and further build up technological advantages for core businesses development. The Company will carefully arrange for the development of key technologies, involving increase in reserves and stable production in oil fields in eastern China, exploration and development of new oil fields, natural gas development in Ordors and Sichuan, upgrading of oil product quality, construction of Qingdao Refinery and the second round revamping of Maoming Ethylene. In addition, the Company will attach great importance to the development of new high value-added products and the promotion of scientific and technological research results to serve as the technological support for reduction of costs and sharpening of products competitive edge.

Cost Saving In 2005, the Company will, depending on scientific and technological advancement, reinforce management practices, deepen reforms and enhance operating efficiency. It plans to achieve a cost saving of RMB 2.5 billion, among which Exploration and Production Segment plans to achieve a cost saving by RMB 600 million, Refining Segment RMB 600 million, Chemicals Segment RMB 700 million, and Marketing and Distribution Segment RMB 600 million.

Capital Expenditure In 2005, the Company's capital expenditure is planned to be RMB 62 billion. The projected expenditure for Exploration and Production Segment is RMB 22.9 billion, Refining Segment is RMB 16.127 billion, Chemicals Segment is RMB 10.373 billion, Marketing and Distribution Segment is RMB 11 billion, Corporate and Others is RMB 1.6 billion. In 2005, capital expenditure will be engaged in the following areas: In Exploration and Production Segment, the Company will carry out the operation notion of oil reserves and strive to expand qualified resources, improve the profile of oil and gas reserves and increase production of oil and gas. In Refining Segment, the Company intends to complete the second-phase of Ningbo-Shanghai-Nanjing crude oil pipeline, construct the crude oil pipeline along the Yangtze River, and speed up the revamping of selected refining projects. In Chemicals Segment, the Company will focus on the revamping and construction of large-scale ethylene, aromatics and PTA facilities and accelerate the coal gasification projects. In Marketing and Distribution Segment, the Company will improve the marketing networks continually, build, acquire and upgrade petrol stations, optimise layout of depots, promote pipeline transportation, improve operating efficiency, and put the southwest refined oil product pipeline into operation in the first half of 2005. Moreover, the Company will speed up the application of petrol IC cards to increase marketing level based on information technologies.

Workforce downsize The company plans to reduce the number of employees by more than 15,000 in 2005 (including the downhole operation workers). By the end of 2005, the workforce size is expected to be around 370,000. In this case, the accumulative number of persons laid-off by the end of 2005 will amount to 140,000.

In addition, the Company will continue to improve foreign cooperation. The two ethylene joint ventures with BASF and BP will be put into commercial operation in the first half of 2005 and progress of Fujian integrated project will be accelerated. The Company will, according to the schedule and scale of construction determined by the board of directors of the two joint ventures and the Company's percentage of shareholdings in the joint ventures, inject investment in a timely manner. These investments will be accounted for as the Company's investment in associates as appropriate.

With the practical and down-to-earth efforts made by our employees, we are confident that, in the forthcoming year, the Company will improve its production and operating results, deepen corporate reform, strengthen structural adjustment and realize the sustained and effective development.

Protection of the environment

Contributing to a harmonious society

Sinopec Corp. is devoted to maintaining safe and stable production standards, and to provide the public with reliable and high-quality products that are friendly to the environment. Extensive strides have been made to promote environmental, health and safety issues and the Company plans to continue to build on these efforts.