

## 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 2005 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 fifteenth meeting of the Second Session of the Board of Directors was held at Sinopec Corp. head office on 25th March 2005.

For details of this meeting, please refer to relevant announcements of Sinopec Corp. published in China Securities Journal, Shanghai Securities News and Securities Times in mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 28th March 2005.

- (2) The sixteenth meeting of the Second Session of the Board of Directors was held at Sinopec Corp. head office on 25th March 2005.

For details of this meeting, please refer to relevant announcements of Sinopec Corp. published in China Securities Journal, Shanghai Securities News and Securities Times in mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 28th March 2005.

- (3) The seventeenth meeting of the Second Session of the Board of Directors was held on 28th April 2005 by way of written resolution, at which the First Quarterly Report of 2005 was approved.

- (4) The eighteenth meeting of the Second Session of the Board of Directors was held on 29th July 2005 by way of written resolution.

For details of this meeting, please refer to relevant announcements of Sinopec Corp. published in China Securities Journal, Shanghai Securities News and Securities Times in mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 1st August 2005.

- (5) The nineteenth meeting of the Second Session of the Board of Directors was held at Sinopec Corp. head office on 26th August 2005.

For details of this meeting, please refer to relevant announcements of Sinopec Corp. published in China Securities Journal, Shanghai Securities News and Securities Times in mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 29th August 2005.

- (6) The twentieth meeting of the Second Session of the Board of Directors was held on 27th October 2005 by way of written resolution, at which the Third Quarterly Report of 2005 was approved.

- (7) The twenty-first meeting of the Second Session of the Board of Directors was held on 12th November 2005 by way of written resolution.

For details of this meeting, please refer to relevant announcements of Sinopec Corp. published in China Securities Journal, Shanghai Securities News and Securities Times in mainland China and

Hong Kong Economic Times and South China Morning Post in Hong Kong on 14th November 2005.

- (8) The twenty-second meeting of the Second Session of the Board of Directors was held on 25th November 2005 by way of written resolution.

For details of this meeting, please refer to relevant announcements of Sinopec Corp. published in China Securities Journal, Shanghai Securities News and Securities Times in mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 28th November 2005.

- (9) The twenty-third meeting of the Second Session of the Board of Directors was held on 28th December 2005 by way of written resolution, at which the amended Internal Control Manual was approved for due implementation starting from 1st January 2006.

### 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 ATTENDANCE OF DIRECTORS AT THE BOARD OF DIRECTORS MEETINGS

During this reporting period, the Board held nine meetings. The attendance of directors describes as follows:

Name	Counts of attendance by himself (times)	Counts of commissioned attendance (times)
Chen Tonghai	9	0
Wang Jiming	9	0
Mou Shuling	6	3
Zhang Jiaren	9	0
Cao Xianghong	9	0
Liu Genyuan	9	0
Gao Jian	6	3
Fan Yifei	6	3
Chen Qingtai (Independent Director)	9	0
Ho Tsu Kwok, Charles (Independent Director)	7	2
Shi Wanpeng (Independent Director)	8	1
Zhang Youcai (Independent Director)	6	3
Cao Yaofeng	9	0

### 4 MEETINGS OF PROFESSIONAL COMMITTEES

#### (1) Meetings of the Audit Committee

During the reporting period, the Audit Committee under the Second Session of the Board of Directors held three meetings, and also held a meeting with auditors, details of which are as follows:

- a. The third meeting of the Second Session of the Audit Committee was held on 24th March 2005 by way of written resolutions, whereby the Explanation on the Operating Business and Financial Positions of Year 2004, Explanation on Audit for Year 2004, Explanation on Amending the Audit Committee Rules, as well as the Financial Statements for Year 2004 as audited by KPMG Huazhen and KPMG respectively in accordance with PRC accounting rules and regulations and IFRS were reviewed and the Opinions on the Reviewing of the Financial Statements for the Year 2004 was issued.
- b. The fourth meeting of the Second Session of the Audit Committee was held on 25th August 2005 by way of written resolutions, whereby the

Explanation on the Operating Business and Financial Positions of the First Half of 2005, Explanation on Audit for the First Half of Year 2005, and the Financial Statements for the first half of Year 2005 as audited by KPMG Huazhen and KPMG respectively in accordance with PRC accounting rules and regulations and IFRS, were reviewed and the Opinions on the Reviewing of the Financial Statements for the First Half of Year 2005 was issued.

- c. The fifth meeting of the Second Session of the Audit Committee was held on 27th October 2005 by way of written resolutions, whereby the Third Quarterly Report of 2005 was reviewed and the Opinions on the Reviewing of the Financial Statements for the Third Quarter of Year 2005 was issued.
- d. The meeting between the Second Session of the Audit Committee and auditors of the Company was held at the headquarters of Sinopec Corp. on 31st March 2006, whereby auditors of the Company was consulted in detail about audit of Sinopec Corp. for 2005.

#### (2) Meetings of the Strategies and Development Committee

During the reporting period, the second session of the Strategies and Development Committee under the Second Session of the Board of Directors held one meeting on 24th March 2005 by way of written resolutions, whereby the Explanation on Tianjin 1 million tonnes per annum ethylene and auxiliary facilities project, the Explanation on Zhenhai 1 million tonnes per annum ethylene and auxiliary facilities project were reviewed. The Opinions on the Reviewing of the Tianjin 1 million tonnes per annum ethylene and auxiliary facilities project and the Opinions on the Reviewing of the Zhenhai 1 million tonnes per annum ethylene and auxiliary facilities project were issued.

### 5 THE INDEPENDENT DIRECTORS PRESENTED ITEMISED EXPLANATIONS AND INDEPENDENT OPINIONS ON THE COMPANY'S ACCUMULATED AND CURRENT EXTERNAL GUARANTEES FOR THE YEAR 2005:

In accordance with the requirements by the Shanghai Stock Exchange, we, as the independent directors of Sinopec Corp., have carefully reviewed the accumulated and current external guarantees by Sinopec Corp. for 2005, and would describe as follows:

The outstanding aggregate external guarantees by Sinopec Corp. in 2005 totaled approximately 14.607 billion, accounting for around 6.7% of the Company's net assets and decreased by approximately RMB 192 million compared with that of 2004. The external guarantees occurring prior to 2005 had been disclosed in detail in the 2004 Annual Report.

We present our opinions as follows:

No external guarantees were issued in 2005. External guarantees occurring before 2005 had been subjected to review and approvals in accordance with relevant laws and regulations and various internal documents including the Articles of Association. The disclosures about such external guarantees was authentic and complete and the potential risks under these guarantees were revealed. For any external guarantees in the future, Sinopec Corp. shall continue to strictly observe relevant provisions regarding guarantees, in order to protect the interests of Sinopec Corp. and of the shareholders in general.

## 6 FINANCIAL PERFORMANCE

The financial results of the Company for the year ended 31 December 2005 prepared in accordance with IFRS and its financial position as at that date and its analysis are set out from page 123 to page 163 in this Annual Report.

## 7 DIVIDEND

At the 25th 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 0.13 per share (including tax) in cash and thus the dividends in cash declared for 2005 totaled RMB 11,271 billion. After deducting the interim cash dividend, the final cash dividend per share for distribution would be RMB 0.09. The distribution proposal will be implemented upon approval by the Annual General Meeting of Shareholders for 2005. The final dividends will be distributed on or before 30th June 2006 (Friday) to those shareholders whose names appear on the register of members of Sinopec Corp. at the close of business on 16th June 2006 (Friday). The register of members of Sinopec Corp.'s H shares will be closed from 12th June 2006 (Monday) to 16th June 2006 (Friday) (both dates are inclusive). In order to qualify for the final dividend for H shares, the shareholders must lodge all share certificates accompanied by the transfer documents with HKSCC Nominees Limited, at Shops 1712 to 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong

before 4:00 p.m. on 9th June 2006 (Friday) for registration.

The dividend for holders of domestic shares will be denominated, declared and paid in Renminbi and the dividend for holders of foreign shares will be denominated, declared and 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 Shares (ADSs) who is resident and domiciled in the UK will be liable to UK income tax on the dividend received from Sinopec Corp. (after deducting relevant pre-tax deductions and tax credit). 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 applicable 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 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.

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

Generally, a shareholder of H shares or a holder of ADSs 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 ADSs which is a UK tax resident may be entitled to relief for "underlying" tax paid by Sinopec Corp. or its subsidiaries.

## 8 MAJOR SUPPLIERS AND CUSTOMERS

During this reporting period, the total amount of purchase from the five largest suppliers of the Company represented 37.68% of the total amount of purchase made by the Company, of which purchases from the largest supplier represented 15.87% of the total purchases made by the Company. The total amount of sales to the five largest customers of the Company represented 8% 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 above-mentioned major suppliers and customers.

## 9 BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company as of 31 December 2005 are set out in Note 29 of the Financial Statements prepared in accordance with IFRS in this Annual Report.

## 10 FIXED ASSETS

During this reporting period, changes to the fixed assets of the Company are set out in Note 18 of the Financial Statements prepared in accordance with IFRS in this Annual Report.

## 11 RESERVES

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

## 12 DONATIONS

During the reporting period, the amount of donations made by the Company totaled around RMB 203 million, which was primarily used for education and development of poor areas.

## 13 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.

## 14 PURCHASE, SALES AND REDEMPTION OF SHARES

Refer to "Significant Events" of this Annual Report.

## 15 RISK FACTORS

In the course of its production and operations, Sinopec Corp. will actively take various measures to mitigate operational risks. However, in practice, it may not be possible to prevent all risks and uncertainties.

(1) *Fluctuation of Crude Oil Prices:* a significant amount of the Company's demand for crude oil is satisfied from external purchases. In recent years, the international crude oil prices continued to be volatile and remained at a high level and are subject to wild fluctuations. Although the Company has taken flexible measures to cope with the high prices, it

may not be fully shielded from risks associated with any wild fluctuation of the international crude oil prices.

(2) *Cyclic Effects:* as an integrated energy and chemicals company, the Company is also subject to cyclic effects which characterise to the chemicals industry. Affected by the fast growth of new production capacities worldwide and oil price fluctuation, the gross profit margin in the chemicals industry may fall, and the operational performance of the Chemicals Segment may be affected by cyclic factors.

(3) *Government Regulation:* although the government is gradually liberalising the petroleum and petrochemicals sector, the petroleum and petrochemical industry in China are still subject to some form of regulation, which include: issuing petroleum production License, setting of guidance prices for retail of gasoline and diesel, provision and pricing of certain resources and services, determination of taxes and fees, formulation of import & export quotas and procedures, formulation of safety, quality and environmental protection standards. Such regulation may have material effect over the operations and economic returns of the Company.

(4) *Full market access:* under China's commitments for access into the WTO, the refined oil products market will be fully opened soon and market competition will grow fiercer. Although the Company has actively taken various measures and optimised its sales network for refined oil products, it may still experience some of the impact from full market access.

(5) *Uncertainties with Oil & Gas Reserves:* various data disclosed in this annual report, including the oil and gas reserves, are only estimates derived by adoption of certain appraisal methods. The reliability of such estimates depends on many factors including techniques used and involves various uncertainties,

and there is a risk that the actual data may differ substantially from such estimates.

(6) *Operational Risks and Natural Disasters:* the process of chemical production is exposed to the risk of inflammation, explosion and environmental pollution and is vulnerable to natural disasters. Such contingencies may cause serious impact to the society, grievous injuries to people and major financial losses to the Company. The Company has formulated and is implementing a strict HSE management system, in an effort to avoid such risks as much as possible. The Company also subscribed to the SPI Fund. However, it may happen that the claimed proceeds under the SPI fund is not enough to cover actual financial losses suffered by the Company.

(7) *Exchange Rate and Interest Rate:* according to the existing rules of foreign exchange, the government has lifted the control over foreign exchange transactions under current accounts, but foreign exchange transactions under capital accounts still need approval from the State Administration of Foreign Exchange. These restrictions may influence the Company's ability to get foreign currencies through financing activities or the ability to get foreign currencies for capital expenditure. On 21st July 2005, China began to adopt an administered floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Exchange rate fluctuation may also have certain impact on the operations of the Company.

By Order of the Board  
**Chen Tonghai**  
Chairman

Beijing China  
31 March 2006