

## 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 2006 for review.

### 1 THE MEETINGS OF THE BOARD OF DIRECTORS

During this reporting period, ten Board meetings were held, details of which are as follows:

- (1) The twenty-fourth meeting of the Second Session of the Board of Directors was held on February 15, 2006 by way of written resolutions.  
  
For details of this meeting, please refer to relevant announcements 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 February 16, 2006.
- (2) The twenty-fifth meeting of the Second Session of the Board of Directors was held at Sinopec Corp.'s head office on March 31, 2006.  
  
For details of this meeting, please refer to relevant announcements 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 April 3, 2006.
- (3) The twenty-sixth meeting of the Second Session of the Board of Directors was held on April 27, 2006 by way of written resolutions, at which the First Quarterly Report of 2006 was approved.
- (4) The first meeting of the Third Session of the Board of Directors was held at Sinopec Corp.'s head office on May 24, 2006.  
  
For details of this meeting, please refer to relevant announcements 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 May 25, 2006.
- (5) The second meeting of the Third Session of the Board of Directors was held on July 10, 2006 by way of written resolutions. At the meeting, two proposals were considered and approved: Sinopec Corp.'s holding subsidiary Sinopec Kantons Holdings Limited, through its wholly owned subsidiary Kantons International Investment Company, purchased 30% equity interests of Huizhou City Daya Bay Huade Petrochemical Co., Ltd from SINOPEC Guangzhou Company; and Sinopec Corp. purchased 100% equity interests of Guangzhou Bonded Zone Kantons Petrol Station Investment & Management Co., Ltd from Huade Petrochemical and Guangzhou Zhongguan Antai Petrochemical Co., Ltd.
- (6) The third meeting of the Third Session of the Board of Directors was held at Huairou, Beijing on August 24 and 25, 2006.  
  
For details of this meeting, please refer to relevant announcements 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 August 28, 2006.
- (7) The fourth meeting of the Third Session of the Board of Directors was held on October 10, 2006 by way of written resolutions.  
  
For details of this meeting, please refer to relevant announcements 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 October 11, 2006.
- (8) The fifth meeting of the Third Session of the Board of Directors was held on October 27, 2006 by way of written resolutions.  
  
For details of this meeting, please refer to relevant resolution announcements 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 October 30, 2006.
- (9) The sixth meeting of the Third Session of the Board of Directors was held on December 6, 2006 by way of written resolutions.  
  
For details of this meeting, please refer to relevant resolution announcements 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 December 7, 2006.
- (10) The seventh meeting of the Third Session of the Board of Directors was held on December 27, 2006 by way of written resolution. At the meeting, the Internal Control Handbook (2007 Edition), the proposal on the modified Internal Accounting System, proposal on Unipeccrude oil Purchasing Credit Line Arrangement, Preliminary Plan of 2007 Investment and Preliminary Plan of 2007 Budget were considered and approved.

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

During the reporting period, 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.

## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

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

During this reporting period, Sinopec Corp. held ten Board meetings, three of which were of the Second Session and seven were of the Third Session.

The attendance of directors at meetings of the Second Session describes as follows

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

The attendance of directors at meetings of the Third Session describes as follows

Name	Counts of attendance by himself (times)	Counts of commissioned attendance (times)
Chen Tonghai	7	0
Zhou Yuan	7	0
Wang Tianpu	7	0
Zhang Jianhua	7	0
Wang Zhigang	7	0
Dai Houliang	7	0
Liu Zhongli (Independent Non-executive Director)	7	0
Shi Wanpeng (Independent Non-executive Director)	7	0
Li Deshui (Independent Non-executive Director)	7	0
Yao Zhongmin	6	1
Fan Yifei	6	1

### 4 MEETINGS OF PROFESSIONAL COMMITTEES

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

During the reporting period, the Audit Committee under the Second Session and the Third Session of the Board of Directors held four meetings, details of which are as follows:

- a. The sixth meeting of the Second Session of the Audit Committee was held on March 30, 2006 by way of written resolutions, whereby the Explanation on the Operating Business and Financial Positions of Year 2005, Explanation on Audit for Year 2005, as well as the
- b. The seventh meeting of the Second Session of the Audit Committee was held on April 26, 2006 by way of written resolutions, whereby the First Quarterly Report of 2006, the Opinions on the Reviewing of the Financial Statements for the First Quarter of Year 2006 was issued.
- c. The first meeting of the Third Session of the Audit Committee was held on August 24, 2006 by way of written resolutions, whereby the Explanation on the Operating Business and Financial Positions of the First Half of Year 2006, Explanation on Audit for the First Half of Year 2006, and the Financial Statements for the first half of Year 2006 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 2006 was issued.

d. The second meeting of the Third Session of the Audit Committee was held on October 27, 2006 by way of written resolutions, whereby the Third Quarterly Report of 2006 was considered and approved and the Opinions on the Reviewing of the Financial Statements for the Third Quarter of Year 2006 was issued.

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

During the reporting period, the first meeting of the Strategies and Development Committee under the Third Session of the Board of Directors was held on August 24, 2006, whereby the Sinopec Corp.'s Three Year (2006-2008) Rolling Development Plan and Feasibility Study of Sichuan-to-East China Gas Project were reviewed, and Opinions on Reviewing Sinopec Corp.'s Three Year (2006-2008) Rolling Development Plan and Feasibility Study of Sichuan-to-East China Gas Project was issued.

### (3) Meetings of the Remuneration and Performance Evaluation Committee

During this reporting period, the Remuneration and Performance Evaluation Committee under the Third Session of the Board of Directors held the first meeting on August 24, 2006. At this meeting, the Working Rules (Revised Edition) of the Remuneration and Performance Evaluation Committee of the Board of Directors of Sinopec Corp. were reviewed and the Opinions on Reviewing of the Working Rules (Revised Edition) of the Remuneration and Performance Evaluation Committee of the Board of Directors of Sinopec Corp was issued.

During the reporting period, all the members of the Audit Committee, the Strategies and Development Committee and the Remuneration and Performance Evaluation Committee attended the above-mentioned meetings of the above professional committees.

## 5 FINANCIAL PERFORMANCE

The financial results of the Company for the year ended 31 December 2006 prepared in accordance with IFRS and its financial position as at that date and its analysis are set out from page 116 to page 160 in this Annual Report.

## 6 DIVIDEND

At the ninth meeting of the Third Session of the Board of Directors of Sinopec Corp., the Board approved the proposal to declare a final dividend of RMB 0.15 per share (including tax) in cash and thus the dividends in cash declared for 2006 totaled RMB 13.005 billion. After deducting the interim cash dividend, the final cash dividend per share for distribution would be RMB 0.11. The distribution proposal will be implemented upon approval by the Annual General Meeting of Shareholders for 2006. The final dividend will be distributed on or before June 29, 2007 (Friday) to those shareholders whose names appear on the register of members of Sinopec Corp. at the close of business on June 15, 2007 (Friday). The register of members of Sinopec Corp.'s H shares will be closed from June 11, 2007 (Monday) to June 15, 2007 (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 4:30 p.m. on June 8, 2007 (Friday) for registration.

The dividend will be denominated and declared in Renminbi, the holders of domestic shares will be paid in Renminbi and the holders of overseas 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 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.

## 7 MAJOR SUPPLIERS AND CUSTOMERS

During this reporting period, the total amount of purchase from the five largest suppliers of the Company represented 51.4% of the total amount of purchase made by the Company, of which purchases from the largest supplier represented 19.08% 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.

**8 BANK LOANS AND OTHER BORROWINGS**

Details of bank loans and other borrowings of the Company as of December 31, 2006 are set out in Note 30 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 18 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 Equity in the Financial Statements prepared in accordance with IFRS in this Annual Report.

**11 DONATIONS**

During the reporting period, the amount of charity donations made by the Company totaled around RMB 98 million.

**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 "Significant Events" of this Annual Report.

**14 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.

**Macroeconomic Policies and Government Regulation:**

although the government is gradually liberalising the petroleum and petrochemicals sector, the petroleum and petrochemical industries in China are still subject to some form of regulation and new macrocontrol measures adopted by the State from time to time according to actual needs, which include: issuing crude oil production license, setting of guidance retail prices of gasoline, diesel and jet fuel, provision and pricing of certain resources and services, modification of taxes and

standard fees, formulation of import & export quotas and procedures, formulation of safety, quality and environmental protection standards. Such regulations may have material effect over the operations and profitability of the Company.

**External Purchase of Crude Oil:** a significant amount of the Company's demand for crude oil is satisfied from external purchases. In recent years, affected by various factors, the international crude oil prices continued to be volatile, remained at a high level and subject to wild fluctuations. In addition, the supply of crude oil may even be interrupted due to major incidents.

Although the Company has taken flexible measures to cope with the above-mentioned circumstances, it may not be fully shielded from risks associated with any wild fluctuation of the international crude oil prices and disruption of supply of crude oil.

**Industry Cycles:** as an integrated energy and chemicals company, the Company is also subject to cyclic effects which characterise the chemicals industry. Affected by the new production capacities worldwide and oil price fluctuation, the gross profit margin in the chemicals industry may experience wild fluctuation, and the operational performance of the Chemicals Segment may be affected by cyclic factors.

**Open Market:** in December 2006, the State promulgated the Administrative Measures on Crude Oil Market, and the Administrative Measures on Refined Oil Products Market, thus intensifying the market competition. Although the Company has actively adopted measures in this regard, it may still experience some impact from full market access.

**Investment Risk:** Petroleum and chemical sector is a capital intensive industry. Although the Company has adopted a prudent investment strategy and conducted stringent feasibility study on each investment project, certain investment risks still exist as the expected profitability may not be achieved due to major changes in factors such as market environment.

**Uncertainties with Oil & Gas Reserves:** The oil and gas reserves disclosed in this annual report 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 reserves may differ substantially from such estimates.

**Operational Risks and Natural Disasters:**

the process of petroleum and 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 implemented a strict HSE management system and used its best endeavor to prevent the occurrence of various accidents as much as possible. However, the Company cannot completely avoid potential financial losses caused by such contingent incidents.

**Exchange Rate and Interest Rate:** at present, in relation to the exchange rate of RMB, the PRC government implements 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. In addition, according to the macro-economic trend in domestic market, People's Bank of China lifted RMB deposit interest rate on March 18, 2007, and it is possible for another lift. The rise of interest rate will directly increase the financial costs of the Company.

**15 POSSIBLE CHANGES OF ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND THEIR IMPACTS ON THE FINANCIAL CONDITIONS AND OPERATING RESULTS OF THE COMPANY, UPON ADOPTION OF THE NEW PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES ("NEW PRC ACCOUNTING STANDARDS")**

(1) Analysis of the impact on the shareholders' funds of the Company upon first adoption of the New PRC Accounting Standards on January 1, 2007:

The Company has adopted the New PRC Accounting Standards as of January 1, 2007. The impact on the shareholders of the Company of first adoption of the New PRC Accounting Standards on January 1, 2007 and the existing accounting standards are summarised as follows:

(a) Under the Accounting Standards for Business Enterprises No.17 Borrowing Cost, where funds are borrowed generally and used for acquiring a fixed asset that is qualified for capitalisation, their

- borrowing cost is capitalised as part of the asset's cost. The Company increased retained earnings upon its first adoption of the New Accounting Standards on 1 January 2007.
- (b) Under the Accounting Standards for Business Enterprises No.2 Long Term Equity Investment, where there is an excess of the long term equity investment's initial investment cost over the investor's interest in the net fair value of the investee's identifiable assets, equity investment differences are not recognised, nor are they amortised. The Company has, upon its first adoption of the New Accounting Standards on 1 January 2007, reversed the equity investment differences amortised in prior years, and raised retained earnings.
- (c) Under the Accounting Standards for Business Enterprises No.27 Production of Oil and Gas, gains and losses on the retirement or disposal of an individual item of proved oil and gas properties are not recognised unless the retirement or disposal encompasses an entire property. The Company increased retained earnings upon its first adoption of the New Accounting Standards on 1 January 2007.
- (d) Given that the fair value of available-for-sale financial assets is determined in accordance with the Accounting Standards for Business Enterprises No.22 Recognition and Measurement of Financial Instruments, the Company has determined the available-for-sale securities' fair value as at 1 January 2007 based on open, quoted prices in active markets. The Company raised shareholders' funds.
- (e) Under the New Accounting Standards, expenditures on start-up activities are recognised as an expense when they are incurred. The Company lowered retained earnings upon its first adoption of the New Accounting Standards on 1 January 2007.
- (f) Under the Accounting Standards for Business Enterprises No.16 Government Grants, the asset-related government grants received in prior years are recognised as deferred income and carried evenly in the income statement over the assets' useful lives. The Company reduced shareholders' funds upon its first adoption of the New Accounting Standards on 1 January 2007.
- (g) In accordance with the new accounting standards, the Company has changed its accounting policy relating to presentation of minority interests and minority interests are presented within consolidated shareholders' funds separately, leading to the increase in consolidated shareholders' funds.
- (2) Impact on the Company's financial position due to the changes of accounting policies upon adoption of the New PRC Accounting Standards are mainly reflected in the following aspects:
- (a) Under the regulations in Accounting Standards for Business Enterprises No.2 Long Term Equity Investment, investment in subsidiaries accounted for under equity method previously will be accounted for under cost method, which will reduce the impact of subsidiaries' operating result on the investment income of current period of the parent company, to some extent.
- (b) Under the regulations in Accounting Standards for Business Enterprises No.33 Consolidated Financial Statements, minority interests, which were presented in the consolidated balance sheet separately under existing accounting standards, are presented in the consolidated balance sheet within equity. This change on accounting policy will affect the consolidated shareholders' funds of the Company.
- (c) Under the regulations in Accounting Standards for Business Enterprises No.27 Production of Oil and Gas, if the obligation for disposal of abandoned oil and gas properties assumed by the Company satisfies the recognition condition of provision, it should be recognised and the carrying amount of related assets will increase accordingly.
- This change will increase the assets and liabilities of the Company, and affect the profits and losses of future periods by way of depreciation charge.
- (d) Under the regulations in Accounting Standards for Business Enterprises No.33 Consolidated Financial Statements, the jointly controlled entities are accounted for under equity method, while it is no longer accounted for in the consolidated financial statements on a proportionate basis.
- Due to the above change of consolidation scope, no impact is expected on consolidated shareholders' funds and consolidated net profit. However, it may cause certain effects on total assets, total liabilities, operating income and so on.
- (e) Under the regulations in Accounting Standards for Business Enterprises No. 33 Consolidated Financial Statements, unless stipulated in the Articles of Association or Agreements that minority shareholders are obliged to and have the ability to afford the losses exceeding shareholders' funds, such losses incurred by subsidiaries in insolvency should be afforded by the parent company.
- Due to the change mentioned above, it is likely to reduce shareholders' funds of the parent company and have an impact on the consolidated net profit and the net profit of the parent company for respective periods.

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

Beijing China  
 6 April, 2007