

The Board of Directors of Sinopec Corp. is pleased to present their report for the year ended 31 December 2003 for review.

1 THE MEETINGS OF THE BOARD OF DIRECTORS

During the period of this report, ten Board meetings were held (whereas five were held by way of written resolutions), details of which are as follows:

- (1) The twenty-seventh meeting of the first session of the Board of Directors was held on 20 January 2003 by way of written resolutions. At the meeting, the Board reviewed and passed the Rules on the Use of Funds of Sinopec Corp., approved the resolutions on lease of some petrol stations from the parent company and conditionally approved the "Feasibility Study Report of Qingdao Large-Scale Refining Project" for submission to the State Development Planning Commission.
- (2) The twenty-eighth meeting of the first session of the Board of Directors was held on 21 January 2003 at the headquarters of Sinopec Corp., whereby the Board of Directors reviewed and passed "the Report of the First Session of the Board of Directors", "the Report of the First President", the newly amended Articles of Association and its appendices, "Service Contract of Directors and Supervisors", the candidate list for the directors of the second session of the Board of Directors, the candidate list for the supervisors being representatives of shareholders of the second session of Supervisory Committee; authorized the secretary to the Board of Directors to disclose the aforementioned documents and issued the notice of the first Extraordinary Shareholders' Meeting of 2003.
- (3) The twenty-ninth meeting of the first session of the Board of Directors was held on 12 March 2003 by way of written resolutions, whereby the date of the first Extraordinary Shareholders' Meeting of 2003 was changed from the proposed date of 21 March 2003 to 22 April 2003.
- (4) The thirtieth meeting of the first session of the Board of Directors was held on 26 March 2003 by way of written resolutions,

whereby resolution on capital operation were considered and approved.

- (5) The thirty-first meeting of the first session of the Board of Directors was held on 28 March 2003 at the headquarters of Sinopec Corp. At the meeting, the Board of Directors reviewed and approved "the Report of the Board of Directors for 2002", and submitted the Report of the 2002 Annual General Meeting of Shareholders for approval, "the Report of 2002 Operation Performance and 2003 Operation Plan", the resolutions on provision for assets in 2002, the resolutions on connected transactions in 2002, the resolution on audit expenditure in 2002, the resolutions on profit appropriation in 2002, and submitted the resolutions of the 2002 Annual General Meeting of shareholders for approval, the 2002 Financial Statements of Sinopec Corp. audited by KPMG Huazhen and KPMG, and submitted the 2002 Annual General Meeting of Shareholders for approval, the 2002 Annual Report, the summary of the Annual Report and Form 20-F.
- (6) The first meeting of the second session of the Board of Directors was held on 22 April 2003 at the headquarters of Sinopec Corp., whereby Mr. Chen Tonghai was elected as the chairman and Mr. Wang Jiming was elected as the vice chairman. Upon nomination of the chairman, Mr. Wang Jiming was appointed as the president. Upon nomination of the president, Mr. Mou Shuling, Mr. Zhang Jiaren, Mr. Cao Xianghong and Mr. Wang Tianpu were appointed as senior vice president, Mr. Wang Zhigang, Mr. Zhang Jianhua, Mr. Cai Xiyou and Mr. Li Chunguang were appointed as vice presidents; Mr. Zhang Jiaren was also appointed as the chief financial officer. Upon nomination of the chairman, Mr. Chen Ge was appointed as the secretary to the Board of Directors. Upon nomination of the chairman, Mr. Wang Jiming and Mr. Chen Ge were appointed by the Board of Directors as authorized representatives to deal with the Hong Kong Stock Exchange and they were also appointed as authorized representatives of Sinopec Corp. pursuant to Hong Kong Company Regulation. Mr Shao Jingyang was appointed as authorized securities representative of Sinopec Corp. to deal with the Shanghai Stock Exchange. The secretary to the Board of Directors was authorized to handle the aforementioned matters and to execute the relevant papers. Resolutions on convening the 2002 Annual General Meeting on 10 June 2003 and issuance of notification of meeting to the shareholders, and nomination by the Board of Directors of Mr. Liu Genyuan and Liu Keguo as candidates for directors of the second session of the Board of Directors and submission of the 2002 Annual General Meeting for approval were considered and approved.
- (7) The second meeting of the second session of the Board of Directors was held on 28 April 2003 by way of written resolutions, whereby the First Quarterly Report of 2003 was considered and approved.
- (8) The third meeting of the second session of the Board of Directors was held on 22 August 2003 at the headquarters of Sinopec Corp. At the meeting, the Board considered and approved "the Report of Operations in the First Half of 2003 and Operations Plans for the Second Half of the Year"; "the Report on Operating Performance and Financial Situation in the First Half of 2003"; the Profit Distribution Plan for the First Half of 2003; the Financial Statements of Sinopec Corp. for the First Half of 2003 audited by KPMG Huazhen and KPMG; the 2003 Interim Report of Sinopec Corp. and the summary of the 2003 Interim Report; the resolutions on lease of additional land use rights from Sinopec Group Company; the resolutions on issuance of corporate bond of Sinopec Corp. and the relevant announcements and circular to shareholders and the submission of aforesaid documents to the second Extraordinary General Meeting of 2003 for approval, approval of holding the Second Extraordinary General Meeting of 2003 and issuance of relevant notification and circular to shareholders; determination of the candidate list of the members of the three professional committees under the second session of Board of Directors;

Rules on the Work of the President (Tentative); and approval on substitution by Mr. Huang Wensheng of Mr. Shao Jingyang as Sinopec Corp.'s securities representative to deal with the Shanghai Stock Exchange.

(9) The fourth meeting of the second session of the Board of Directors was held on 28 October 2003 at the headquarters of Sinopec Corp., whereby the resolution on ongoing connected transactions and authorization to the Board of Directors of Sinopec Corp. to take any actions and sign any papers relating to ongoing connected transactions, when considered to be necessary; resolution on the convening of the third Extraordinary General Meeting of Year 2003 on 18 December 2003 and the dispatch of relevant notification; resolution on acquiring Maoming Ethylene, resolution on adjusted investment plan for Year 2003 as well as resolution on the third quarterly report of Year 2003 were reviewed and approved.

(10) The fifth meeting of the second session of the Board of Directors was held on 29 December 2003 by way of written resolutions, whereby the resolutions for acquiring operating assets from Sinopec Group Company; "Rules on Corporate Information Disclosure"; and "Rules on Investor Relation" were reviewed and approved.

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. have carried out their duties in accordance with the relevant laws and regulations and the Articles of Association diligently and responsibly, duly implemented the resolutions passed at the shareholders' general meeting, proceeded with such matters positively, and accomplished the various matters entrusted to them at shareholders' meeting well.

3 MEETING OF PROFESSIONAL COMMITTEES

During the period of this report, the Audit Committee under the first session of the Board of Directors held one meeting at the headquarters of Sinopec Corp. on 27 March 2003, whereby the "Explanation on the Operating Business and Financial Position of Year 2002" and the "Explanation on Audit Adjustment by KPMG's for Year 2002" were reviewed and the "Opinions on the Reviewing of the Financial Statements for the Year 2002" was issued.

4 DISCLOSURE OF OTHER SIGNIFICANT EVENTS

(1) Statement in relation to the use of funds by the controlling shareholder and other related parties.

Pursuant to the requirements of the Zheng Jian Fa [2003] No.56 "Notice on listed companies' issues relating to regulating the funding transactions with related parties and the guarantees provided to third parties" issued by the China Securities Regulatory Commission ("CSRC") and the State-owned Assets Supervision and Administration Commission of the State Council, KPMG Huazhen has issued a Statement in relation to the Use of Funds of China Petroleum & Chemical Corporation by the Controlling Shareholder and other Related Parties for the Year 2003" as shown below:

To the Board of Directors of China Petroleum & Chemical Corporation:

We have accepted the appointment and audited the Company's consolidated balance sheet and balance sheet as at 31 December 2003, and the consolidated income statement and profit appropriation statement, income statement and profit appropriation statement, consolidated cash flow statement and cash flow statement for the year then ended (the "financial statements") in accordance with the China's Independent Auditing Standards of the Certified Public Accountants. We issued an auditors' report with an unqualified audit opinion on these financial statements on 26 March 2004.

Pursuant to the requirements of the "Notice on listed companies' issues relating to regulating the funding transactions with related parties and the guarantees provided to third parties" issued by the China Securities Regulatory Commission and the State-owned Assets Supervision and Administration Commission of the State Council, the Company has prepared the "Summary of the use of funds of China Petroleum & Chemical Corporation by the controlling shareholder and Other Related Parties for the year 2003" (the "Summary"), which is attached in the appendix to this statement.

The Company is responsible for preparing and disclosing the Summary and ensuring its truthfulness, legitimacy and completeness. We are not aware of any inconsistency, in all material respects, when comparing the information contained in the Summary with the financial information verified in the course of our audit and the related contents in the audited financial statements of the Company and its subsidiaries (the "Group") for the Year 2003. Except for the audit procedures performed in the course of our audit of the financial statements for the Year 2003 on the Group's related party transactions, we have not performed any additional audit and other procedures on the information contained in the Summary.

In order to have a better understanding on the use of funds by the Company's controlling shareholder and other related parties for the Year 2003, the Summary should be read together with the audited financial statements.

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REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

Appendix: Summary of the Use of Funds of China Petroleum & Chemical Corporation by the Controlling Shareholder and Other Related Parties for the Year 2003

Unit: RMB millions

Nature of the Use of Funds	Name of related parties	Relationship	Account name	Beginning	Increase during the year	Decrease during the year	Ending balance of the year	Remark
				balance of the year				
Borrowings	—	—	—	—	—	—	—	
Entrusted loans	—	—	—	—	—	—	—	
Entrusted investments	—	—	—	—	—	—	—	
Issuing commercial bills without genuine business transactions	—	—	—	—	—	—	—	
Settlement of liabilities on behalf of related parties	—	—	—	—	—	—	—	
Accounts receivable and other receivables aged over one year as at 31 December 2003	China Petrochemical Corporation	Controlling shareholder	Other receivables / accounts receivable	—	3,509	398	3,111	Note
	Fellow subsidiaries controlled by China Petrochemical Corporation	Other related parties	Other receivables / accounts receivable	3,988	262	544	3,706	
Total				3,988	3,771	942	6,817	

Note:

Addition during this year represents the offsetting arrangement between the receivables and payables with China National Petroleum Corporation according to the notice of Cai Qi [2002] No.625 "Approval of Adjusting the State-owned Capital of China Petrochemical Corporation and China National Petroleum Corporation" issued by the Ministry of Finance. The title of the net receivables amounting at RMB 3,509 billion, arising from the receivables of RMB 4,014 billion and payables of RMB 505 billion respectively, was transferred to China Petrochemical Corporation. The resultant receivables from China Petrochemical Corporation will be primarily settled by cash.

The summary was approved by the Board of Directors on 26 March 2004.

(2) The independent directors presented special explanations and independent opinions on the Company's accumulated and current external guarantees for the Year 2003:

According to the Zheng Jian Fa [2003] No. 56 "Notice on listed companies' issues relating to regulating the funding transactions with related parties and the guarantees provided to third parties" ("Notice No. 56"), jointly issued by CSRC and the State-owned Assets Supervision and Administration Commission, "The independent directors shall issue special explanation and independent opinions on the accumulated and current external guarantees of the listed companies as well as execution of the above stipulations in the Annual Report." As independent directors of Sinopec Corp., we have

carefully reviewed the external guarantees of Sinopec Corp. Now, Sinopec Corp.'s accumulative and current external guarantees for the Year 2003 are described below:

By 31 December 2003, the accumulated amount of external guarantees provided by Sinopec Corp. was approximately RMB12.407 billion, and the total amount of external guarantees provided by Sinopec Corp. in 2003 was approximately RMB 5.24 billion. Guarantees by Sinopec Corp. were generally provided to connected enterprises: prior to 2003, Sinopec Corp. provided a guarantee of about RMB 6.992 billion for SECCO projects of Shanghai-SECCO Petrochemical Co., Ltd, of which 50% of the shareholding is held by Sinopec Corp.; and a guarantee of RMB 25.40 million for Shanghai Hairun Additive

Co., Ltd, of which 50% of the shareholding is held by Sinopec Corp. In 2003, Sinopec Corp. a guarantee of about RMB 4.68 billion for BASF-YPC Co., Ltd; a guarantee of about RMB 377 million for Yueyang Sinopec Shell Coal Gasification Co., Ltd. of which 50% of the shareholding is held by Sinopec Corp.; a guarantee of about RMB 173 million for Shijiazhuang Chemical Fibre Co., Ltd, the subsidiary of Sinopec Corp's Controlling Company. The Sinopec Fujian Petroleum Co., Ltd. provided a guarantee of about RMB 10.5 million for Fujian Zhangzhao Expressway Service Co., Ltd, of which the asset to debt ratio of Shijiazhuang Chemical Fibre Co., Ltd and Fujian Zhangzhao Expressway Service Co., Ltd are 107.3% and 92.5% respectively, both are higher than 70%.

We present our independent opinions as follows:

- (1) Sinopec Corp. has carefully carried out self-inspection with respect to the external guarantees pursuant to the Notice.
- (2) After the issuance of the Notice, the Company formulated “Management Methods of Guarantees (Provisional)” in December 2003, whereby it stipulated in detail the procedures for examination and approval of guarantees and the credit rating standard of guaranteed entities, then amended the Articles of Association and its appendices on discussing procedure in accordance with the provisions of the Notice, thereby playing an active role in strengthening the management of guarantees and avoiding and controlling the relevant risks.
- (3) Sinopec Corp. shall, pursuant to the relevant provisions of the Notice, straighten out previous guarantees that have existed before, but did not comply with the Notice, so as to safeguard the legitimate interests of the shareholders.

5 PERFORMANCE

The results of the Company for the year ended 31 December 2003 and its financial position as at that date and its analysis are set out from page 127 to page 158 in this Annual Report.

6 DIVIDEND

At the seventh 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 0.09 per share (including tax). After deducting the interim cash dividend, the final cash dividend/share for distribution would be RMB 0.06, and the total cash dividend for the full year would amount to RMB 7.803 billion. The distribution proposal will be effective after it is submitted and approved at the 2003 Annual General Meeting of Sinopec Corp. The proposed final dividend will be distributed on or before

Monday, 28 June 2004 to those shareholders whose names appear on the register of members of Sinopec Corp. at the close of business on Friday, 4 June 2004. The register of members of Sinopec Corp.'s H shares will be closed from 31 May 2004 (Monday) to 4 June 2004 (Friday) (both dates are inclusive). In order to qualify for the year end dividend for H shares, the shareholders must lodge all share certificates accompanied by the transfer materials with Hong Kong Registrars Limited, at Shops 1712 to 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:00 pm on Friday, 28 May 2004 for registration.

Dividend will be denominated and declared in Renminbi. The dividend for holders of domestic shares will be paid in Renminbi and the dividend for holders of foreign 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 a holder of American Depository Receipts (ADRs) who is resident and domiciled in the UK will be liable to UK income tax on the dividend received from Sinopec Corp. Where a shareholder of H shares receives 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 appropriate 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 will be given 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 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 10% of the gross dividend.

For individual holders of H Shares who are UK resident but are not domiciled in the UK or holders of ADRs, they will only be liable to income tax on any dividend received from Sinopec Corp. to the extent that it is remitted to the UK.

Generally, a shareholder of H shares or a holder of ADRs which is a UK tax resident will be liable to UK corporation tax 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 ADRs 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 five largest suppliers represented 19% of the total amount of purchase of the Company, of which the purchase from the largest supplier represented 6% of the total purchase of the Company. The total amount of sales to the five largest customers of the Company represented 15% of the total annual sales of the Company.

During this reporting period, except for the connected transactions with the controlling shareholder, Sinopec Group Company, as disclosed in Section IX 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 abovementioned major suppliers and customers.

8 BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company as of 31 December 2003 are set out in Note 28 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 Shareholders' Equity in the Financial Statements prepared in accordance with IFRS in this Annual Report.

11 DONATIONS

During this reporting period, donations made for charitable purposes amounted to approximately RMB 134 million (including Maoming Ethylene, Xi'an Petrochemicals and Tahe Petrochemicals).

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

During this reporting period, the Company has not re-purchased, sold or redeemed any securities of Sinopec Corp.

14 COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Board of Directors believes that, during this reporting period, Sinopec Corp. complied with the “Code of Best Practice” as set out in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange.

By Order of the Board

Chen Tonghai
Chairman

Beijing, PRC, 26 March 2004