



Mr. Chen Tonghai, Chairman

Dear shareholders,

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

In 2005, the Company was confronted with soaring international crude oil prices, regulated domestic refined oil products prices and relatively large fluctuations in petrochemical

market, compounded by various pressures and difficulties such as maintaining refined oil products supply and overcoming transportation capacity constraints. Nevertheless, the Company fared well and achieved good operational results through leveraging on its overall strengths, optimising resource allocation and improving management in adherence to the guidelines of "reform, restructuring, innovation and development". The exploration & production

segment witnessed increases in both reserve and production, delivering remarkable earnings growth. The refining segment and marketing & distribution segment managed to mitigate impacts from the government's tight control over prices of refined oil products, and effectively ensured market supply through multiple sourcing of refined oil products. The chemicals segment achieved safe, stable, sustained, full load, optimal operations and maintained relatively sound profitability. Over the year, in addition to achieving relatively good operating results, the Company tried to lay a solid foundation for its organic growth and made significant contribution to the society.

According to the PRC Accounting Rules and Regulations, the Company's net profit was RMB 39.558 billion in 2005, up by 22.6% over 2004. According to the International Financial Reporting Standards (IFRS), the profit attributable to equity shareholders of the Company was RMB 40.92 billion, up by 13.6% over 2004. In consideration of the Company's earnings in 2005 and its long-term sustainable growth, the Board of Directors proposed a dividend of RMB 0.13 per share for the full year of 2005. After deducting the interim dividend of RMB 0.04 that has been paid, the year-end dividend for 2005 is RMB 0.09 per share.

Looking back over the second session of the Board of Directors, the Company has progressively improved corporate governance and aggressively initiated reforms on its management and operational mechanism. Based on achievements of the previous Board, and following its the guidelines of "reform, restructuring, innovation and development", the Board of Directors took the opportunities and made advisable decisions in light of market dynamics in conjunction with the Company's specific features in its course of development. Since 2002, the Company has been persistently implementing its strategies of "expanding resources, exploring markets, cost saving and prudent investment", and achieved significant growth from 2002 in all key areas: significant growth in the Company's scale of operations,

with operating revenue growing to RMB 823.1 billion from RMB 340 billion; remarkable profit increase, with profits attributable to equity shareholders of the Company rising from RMB 16.1 billion to RMB 40.9 billion; notable improvement in asset structure and quality, with core competitive strengths generating more advantages, and return on capital employed (ROCE) rising from 7% to 12%. As of the end of 2005, enterprise value of the Company has grown significantly and the aggregate dividend distribution over the three years would likely reach RMB 29.5 billion, showing a good return to our shareholders.

During the tenure of the current Board, the Company has gradually improved its corporate governance mechanism characterised with effective checks and balances, informed decision making and orchestrated operations. The Company reinforced efficacy of the Board of Directors, giving full play to the roles of the Strategic Committee, Audit Committee and Remuneration & Examination Committee, as well as independent directors. Particularly, in order to meet regulatory requirements and the need for improving management, the Company has established and implemented its internal control system on trial basis since 2003, and formally adopted the system on 1 January 2005. Moreover, at the end of 2005, the Company conducted a full-scale review and examination on the efficacy of internal control system and further revised the system based on the findings, thus laying a solid foundation for the Company to make informed management decisions and effectively prevent operational risks.

Acknowledging the new requirements posed by reform and development efforts over the corporate system and mechanism, the Company has actively and progressively streamlined its organisation, reduced workforce, and flattened managerial hierarchies with a view to improving efficiency. In this regard, the Company has reduced the workforce by approximately 54,000 employees and cut approximately 1,263 mid-level management positions through various measures during the tenure of the current

Board. In the meantime, considering capital market situation and its own development needs, the Company has timely privatised Beijing Yanshan Petrochemical Company Ltd. and Zhenhai Refining and Chemical Co., Ltd. Presently, the Company is privatising four A share-listed subsidiaries in an effort to remove impediments in the management structure. Furthermore, the Company has undergone massive consolidation of its businesses and branding. Based on the experience from its centralised management of lubricant business, the Company has set up Chemical Sales Company in May 2005, which transformed the former long-existent separate sales practices and eliminated internal rivalry. Consolidation of international trading operations under the refining and chemical subsidiaries has been consummated. China International United Petroleum & Chemicals Co., Ltd. ("Unipecc") has been changed from a controlled subsidiary into a wholly owned subsidiary. In response to fierce competition, the Company has developed strategic alliances with major clients, service providers and suppliers, with the aim of expanding the markets and securing supply.

In accordance with the characteristics of the Company's own industrial structure and layout, the current Board pursued asset restructuring as the focus of development, giving priority to its core businesses. With regard to investment, the Company adhered to the principle of "giving priority to core businesses, taking on investment based on cash flow, and being attentive to returns", and incurred total capital expenditure of RMB 168.5 billion over the past three years. As a result, the Company managed to adjust its assets structure, rationalised its strategic layout and regional integration. In addition, the Company's two ethylene production joint ventures at Shanghai SECCO and BASE-YBC have been put to stream on schedule. Meanwhile, through shedding non-core business and establishing effective exit mechanism, the Company endeavored to strengthen its core competitiveness. The Company has acquired assets such as petrol stations, ethylene and aromatics plants from China Petrochemical Corporation and sold off some of its non-core

businesses such as down-hole operations. Low efficiency assets were either shut down, suspended production or disposed. The total value of disposed assets amounted to RMB 12.7 billion during the past three years. As a result, the size, quality and profitability of the Company assets all improved significantly. At the end of 2005, the Company's total assets reached RMB 537.3 billion, up by 42.9% over the tenure of the current Board. In the past three years, the upstream reserve sequence was improved, achieving over 100 percent of reserve to production ratio. Crude oil and natural gas production rose by 3.3% and 24.1%, respectively. Refining capacity increased by 19.1%, with refining throughput rising by 33.3%. The quality of refined oil products has been upgraded. Sales volume of refined oil products rose by 49.2%, with the percentage of sales volume to end-users reaching 80.24%. Ethylene production rose by 95.8% in the past three years, with production of higher value added chemicals rose accordingly.

During the tenure of the current Board, with the focus on value accretion on capital, the Company effectively utilised the technological advancements in increasing reserves and productions, asset restructuring, quality upgrading and cost saving, hence provided strong technical support for its core businesses development. Over the three years, the Company has applied for 2,450 patents, of which 1,871 patents have been granted. At the end of 2005, the Company held 5,466 valid patents. In the upstream business, through major breakthroughs in marine facies exploration theory and technology, the Company discovered the largest and most abundant domestic marine gas field. According to the Ministry of Land and Resources, the gas reserves of the field are estimated at 251.1 billion cubic meters, which would provide a solid resource base for the future development of the Company's natural gas business. In the refining business, the Company upgraded refined oil product quality to GB2 standard (equivalent to Euro II) nationwide, and JB standard (equivalent to Euro III) in Beijing at low cost through development of proprietary technology. In the chemical business, the Company has introduced and absorbed

internationally advanced technologies, and has gradually improved its manufacturing standards. In particular, the Company pioneered the industrial application of non-crystal alloy catalyst with the stable magnetic bed reactor, which has won the only grand prize in the National Technology Invention Prizes in 2005, thereby laying a solid foundation for the development of new chemical reaction engineering technologies. Moreover, the Company attaches great importance to upgrading traditional industries by employing information technologies. Application of ERP and other information technologies have strongly underpinned the Company's reform, development, operations and management activities.

The Company places great emphasis on nurturing and developing human resources. During the tenure of the current Board, the Company strengthened the training of its managers in the different areas of its operation and has completed the succession to its senior management of young executives. Attentive to launching training programs for senior management, sophisticated professionals and experts engaged in international businesses, the Company has trained more than five thousand personnel in total. Meanwhile, more training programs have been provided to a range of skilled workers. With the establishment of human resource development and management systems, which is composed of three formations of talents, namely managerial experts, professionals and skilled workers, a rich talent pool has been formed for long term development. Additionally, the Company has continued to reform its internal remuneration system. Pegged to labor market prices, the Company has established a long term incentive system, and formulated a reasonable internal remuneration framework, which is conducive in stimulating and retaining various talents. Through human resource management, the Company has created a favorable environment for personal advancement and career development. This has resulted in the Company becoming more attractive as an employer and has contributed to the integrity and creativity of the Company, and to the continuing growth of our employees' loyalty with the Company.

As a major integrated energy and chemicals company, the Company has consciously fulfilled its social responsibilities with initiatives aimed at resource conservation and environmental protection, and has strenuously promoted HSE and implemented its sustainable growth strategies. Over the years, the Company has improved the living environment for its field working force and improved labor protection standards. Meanwhile, it has reinforced safety awareness and management, hence realised safe, stable, sustained, full load and optimal operations. In addition, the Company has been providing cleaner fuels with higher product standard and better product quality to the public. Notwithstanding significant growth in its total production and sales volume, COD emission decreased by 15.6%, consumption of fresh water decreased by 8.2%, recycling rate of water for industrial use risen by 3.55 percentage points and the unit energy consumption has gradually declined during the tenure of the current Board. The Company has also actively supported and participated in the causes of public welfare in various ways, making contributions to the harmonious development of the society.

Through reform and development over the years, the Company has established an organisational framework for its managerial system and mechanism necessitated by market economy and corporate governance. The Company now stands at a new starting point which will lead to a higher destination. These achievements are brought by our adherence to existing strategies and aggressive reform efforts. The Board of Directors is drawing near to the end of its current term in the second half of May 2006. Throughout the tenure of the Board, each director has performed his duties consciously and diligently. Because of age, change of position and regulatory requirements, Vice-chairman Mr. Wang Jiming, director Mr. Mou Shuling, Mr. Zhang Jiaren, Mr. Cao Xianghong

and Mr. Liu Genyuan, external director Mr. Gaojian, independent director Mr. Chen Qingtai, Mr. Ho Tsu Kwok, Charles and Mr. Zhang Youcai, employee representative director Mr. Cao Yaofeng will not be nominated for the next session of the Board of Directors. During their tenure, they have made significant contributions to the Company. I would like to extend my appreciation to these directors and other members of the Board, as well as to our supervisors, executive officers and employees.

Looking forward, we enjoy a favorable domestic market that have shown steady increase in fundamental demand for energy and chemicals. Yet, the future is also fraught with various uncertainties, such as market fluctuations and increasing competition, both overseas and domestically. All other members of the Board and I believe that, under the leadership of the next session of the Board, and in pursuit of building up an integrated energy and chemical company with strong competitive edges in the international market, Sinopec Corp. will continue to grow with the strategy of "expanding resources, exploring markets, increasing competitiveness" that are centered around corporate reforms, and strive for a balanced and sustainable development, which are the common interests of our shareholders, customers, employees, society and the Company.



Chen Tonghai
Chairman

Beijing, China
31 March 2006



