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CHINA PETROLEUM & CHEMICAL CORP  
Form 20-F  
June 22, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-15138

CHINA PETROLEUM & CHEMICAL CORPORATION  
(Exact name of Registrant as specified in its charter)

The People's Republic of China  
(Jurisdiction of incorporation or organization)

A6, Huixingdong Street  
Chaoyang District, Beijing, 100029  
The People's Republic of China  
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12 (b) of the Act.

Title of Each Class	Name of Each Exchange On Which Registered
American Depositary Shares, each representing 100 H Shares of par value RMB1.00 per share .....	New York Stock Exchange, Inc.
H Shares of par value RMB1.00 per share .....	New York Stock Exchange, Inc.*

\* Not for trading, but only in connection with the registration of American Depositary Shares.

Securities registered or to be registered pursuant to Section 12 (g) of the Act.

None  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15 (d) of the Act.

None

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(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

State-owned domestic shares, par value RMB 1.00 per share .....	67,121,951,000
H Shares, par value RMB 1.00 per share .....	16,780,488,000
A Shares, par value RMB 1.00 per share .....	2,800,000,000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) or the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant as required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17  Item 18

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### CERTAIN TERMS AND CONVENTIONS

#### Definitions

Unless the context otherwise requires, references in this annual report to:

- o "Sinopec Corp.", "we", "our" and "us" are to China Petroleum & Chemical Corporation, a PRC joint stock limited company, and its subsidiaries;
- o "Sinopec Group Company" are to our controlling shareholder, China Petrochemical Corporation, a PRC limited liability company;
- o "Sinopec Group" are to the Sinopec Group Company and its subsidiaries other than Sinopec Corp. and its subsidiaries;
- o "Old Sinopec" are to the ministerial level enterprise of China Petrochemical Corporation and its affiliates before the industry restructuring in March 1998;

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- o "China" or the "PRC" are to the People's Republic of China, excluding for purposes of this annual report Hong Kong, Macau and Taiwan;
- o "provinces" are to provinces and to provincial-level autonomous regions and municipalities in China which are directly under the supervision of the central PRC government;
- o "RMB" are to renminbi, the currency of the PRC; and
- o "US\$" are to US dollars, the currency of the United States of America.

### Conversion Conventions

Conversions of crude oil from tonnes to barrels are made at a rate of one tonne to 7.35 barrels for crude oil we purchase from external sources and one tonne to 7.1 barrels for crude oil we produce, representing the typical gravity of the respective source of crude oil. Conversions of natural gas from cubic meters to cubic feet are made at a rate of one cubic meter to 35.31 cubic feet.

### Glossary of Technical Terms

Unless otherwise indicated in the context, references to:

- o "billion" are to a thousand million.
- o "BOE" are to barrels-of-oil equivalent; natural gas is converted at a ratio of 6,000 cubic feet of natural gas to one BOE.
- o "primary distillation capacity" are to the crude oil throughput capacity of a refinery's basic distillation units, calculated by estimating the number of days in a year that such basic distillation units are expected to operate, including downtime for regular maintenance, and multiplying that number by the amount equal to the units' optimal daily crude oil throughput.
- o "rated capacity" are to the output capacity of a given production unit or, where appropriate, the throughput capacity, calculated by estimating the number of days in a year that such production unit is expected to operate, including downtime for regular maintenance, and multiplying that number by an amount equal to the unit's optimal daily output or throughput, as the case may be.
- o "utilization rate" are to the amount of output or throughput by a production unit per annum as a proportion of the capacity of that unit per annum at the end of a year.

### CURRENCIES AND EXCHANGE RATES

We publish our financial statements in renminbi. Unless otherwise indicated, all translations from renminbi to US dollars have been made at a rate of RMB 8.2767 to US\$1.00, the noon buying rate as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2003. We do not represent that renminbi or US dollar amounts could be converted into US dollars or renminbi, as the case may be, at any particular rate, the rates below or at all.

The following table sets forth noon buying rate for US dollars in New York City for cable transfers in renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

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Period -----	End ---	Noon Buying Rate	
		Average (1) -----	High -----
		(RMB per US\$1.00)	
1999.....	8.2795	8.2785	8.2800
2000.....	8.2774	8.2784	8.2799
2001.....	8.2766	8.2770	8.2786
2002.....	8.2800	8.2772	8.2800
2003.....	8.2767	8.2772	8.2800
December 2003.....	8.2767	_____	8.2772
January 2004.....	8.2768	_____	8.2772
February 2004.....	8.2769	_____	8.2773
March 2004 .....	8.2770	_____	8.2774
April 2004.....	8.2771	_____	8.2772
May 2004.....	8.2769	_____	8.2773
June 2004 (up to June 11, 2004).....	8.2767	_____	8.2768

(1) Determined by averaging the rates on the last business day of each month during the relevant period.

FORWARD-LOOKING STATEMENTS

This annual report includes "forward-looking statements." All statements, other than statements of historical facts, included in this annual report that address activities, events or developments which we expect or anticipate will or may occur in the future are forward-looking statements. The words believe, intend, expect, anticipate, project, estimate, predict, plan and similar expressions are also intended to identify forward-looking statements.

These forward-looking statements address, among others, such issues as:

- o amount and nature of future exploration and development,
- o future prices of and demand for our products,
- o future earnings and cash flow,
- o development projects and drilling prospects,
- o future plans and capital expenditures,
- o estimates of proved oil and gas reserves,
- o exploration prospects and reserves potential,
- o expansion and other development trends of the petroleum and petrochemical industry,
- o production forecasts of oil and gas,
- o expected production or processing capacities, including expected rated capacities and primary distillation capacities, of units or facilities not yet in operation,
- o expansion and growth of our business and operations, and
- o our prospective operational and financial information.

These statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we

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believe are appropriate in particular circumstances. However, whether actual results and developments will meet our expectations and predictions depends on a number of risks and uncertainties which could cause actual results to differ materially from our expectations, including the risks set forth in "Item 3 -- Key Information -- Risk Factors" and the following:

- o fluctuations in prices of our products,
- o failures or delays in achieving production from development projects,
- o potential acquisitions and other business opportunities,
- o general economic, market and business conditions, and
- o other risks and factors beyond our control.

Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements. We cannot assure you that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effect on us or our business or operations.

### STATEMENTS REGARDING COMPETITIVE POSITION

Certain statements made in this annual report that refer to our market share or competitive position are based on our belief, and in some cases rely on a range of sources, including government surveys, investment analysts' reports, independent market studies and our internal assessments of publicly available information about the financial results and performance of other market participants.

### PART I

#### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

#### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

#### ITEM 3. KEY INFORMATION

##### A. SELECTED FINANCIAL DATA

The selected income statement data and cash flow data for the years ended December 31, 2001, 2002 and 2003, and the selected balance sheet data as of December 31, 2002 and 2003 have been derived from, and should be read in conjunction with, the audited consolidated financial statements included elsewhere in this annual report. The selected income statement and cash flow data for the years ended December 31, 1999 and 2000 and the selected balance sheet data as of December 31, 1999, 2000 and 2001 are derived from our audited consolidated financial statements which are not included in this annual report.

This financial data reflect the reorganization and have been prepared as if our current structure had been in existence throughout the relevant periods. See "Item 4 - Information on the Company - A. History and Development." In addition, the financial data prior to December 31, 1999 also include the operations retained by Sinopec Group Company that were historically associated with Sinopec Group Company's petroleum and petrochemical operations. The results of operations, financial positions and cash flows associated with such

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businesses are not reflected in our consolidated financial statements as of December 31, 1999 or a later date, or for periods ended after December 31, 1999. Therefore, the following selected financial data for the year ended December 31, 1999 are not necessarily comparable with selected financial data for a later period. In addition, the financial data included herein may not necessarily reflect what our results of operations and cash flows would have been had we been a separate, stand-alone entity during the period presented.

Moreover, we acquired the equity interests of Sinopec National Star Petroleum Company in 2001 and the operations of Sinopec Group Maoming Petrochemical Company, Xi'an Petrochemical Main Factory and Tahe Oilfield Petrochemical Factory from Sinopec Group Company in 2003. As we and these companies are under the common control of Sinopec Group Company, our acquisitions are considered as "combination of entities under common control" which are accounted for in a manner similar to a pooling-of-interests. Accordingly, the acquired assets and related liabilities have been accounted for at historical cost and our financial statements for periods prior to the combinations have been restated to include the accounts and the results of operations of these companies on a combined basis.

Further, the selected financial data should be read in conjunction with the consolidated financial statements together with accompanying notes and "Item 5 - Operation and Financial Review and Prospects" included elsewhere in this annual report. Unless otherwise indicated, the consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards, or IFRS. IFRS vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 33 to the consolidated financial statements.

	Years Ended December 31,			
	1999	2000	2001	2002
	RMB	RMB	RMB	RMB
	(in millions, except per share and per			
Income Statement Data(1) (2):				
IFRS				
Consolidated results				
Operating revenues.....	242,031	336,386	323,629	345,145
Purchased crude oil, products and operating supplies and expenses.....	(161,398)	(227,659)	(222,462)	(237,581)
Selling, general and administrative expenses..	(18,574)	(19,939)	(17,800)	(21,461)
Depreciation, depletion and amortization.....	(18,478)	(21,722)	(23,395)	(25,286)
Exploration expenses, including dry holes.....	(2,309)	(3,030)	(3,775)	(4,363)
Personnel expenses.....	(12,724)	(13,881)	(13,655)	(14,417)
Employee reduction expenses.....	-	-	(2,546)	(244)
Taxes other than income tax.....	(9,564)	(12,290)	(11,977)	(11,956)
Other operating expenses, net.....	(3,261)	1,703	(350)	(1,158)
Operating income.....	15,723	39,568	27,669	28,679
Interest expense, net of interest income and net foreign exchange gains (losses).....	(10,295)	(5,162)	(3,293)	(4,155)
Gains from issuance of shares by subsidiaries.	607	-	-	-
Other income .....	814	252	524	561

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Income before income tax and minority interests.....	6,849	34,658	24,900	25,085
Income tax.....	(351)	(9,644)	(8,037)	(7,650)
	-----	-----	-----	-----
Income before minority interests.....	6,498	25,014	16,863	17,435
Minority interests.....	(1,577)	(1,817)	(617)	(1,120)
	-----	-----	-----	-----
Net income.....	4,921	23,197	16,246	16,315
	=====	=====	=====	=====
Basic earnings per share(3).....	0.07	0.32	0.19	0.19
Basic earnings per ADS(3).....	7.16	32.25	19.08	18.82
Cash dividends declared per share.....	-	0.01	0.08	0.10
Segment results				
Exploration and production.....	4,251	25,411	23,185	14,787
Refining.....	6,076	1,414	2,141	5,996
Marketing and distribution.....	2,550	6,358	2,443	8,401
Chemicals.....	3,677	6,764	(225)	596
Corporate and others.....	(831)	(379)	125	(1,101)
	-----	-----	-----	-----
Operating income.....	15,723	39,568	27,669	28,679
	=====	=====	=====	=====
US GAAP				
Net income.....	5,424	23,186	17,536	19,750
Basic earnings per share (3).....	0.08	0.32	0.21	0.23
Basic earnings per ADS (3).....	7.89	32.23	20.59	22.78
Cash dividends declared per share.....	-	0.01	0.08	0.10

		As of December 31,			
		1999	2000	2001	2002
		----	----	----	----
		RMB	RMB	RMB	RMB
		(in millions)			
Balance Sheet Data(2):					
IFRS					
Cash and cash equivalents.....	22,451	20,218	21,697	18,161	
Total current assets.....	92,629	138,476	112,070	103,982	
Total non-current assets(4).....	201,649	231,187	268,675	285,361	
Total assets(4).....	294,278	369,663	380,745	389,343	
Short-term debts and loans from Sinopec Group Company and its affiliates (including current portion of long-term debts).....	84,368	60,022	50,058	35,583	
Long-term debts and loans from Sinopec Group Company and its affiliates (excluding current portion of long-term debts).....	46,457	73,824	69,059	77,182	
Shareholders' equity(4).....	95,532	142,447	156,704	163,823	
Capital employed(5).....	225,922	279,303	277,683	282,436	
US GAAP					
Total assets.....	257,962	335,302	350,662	362,112	
Long-term debts and loans from Sinopec Group Company and its affiliates (excluding current portion of long-term debts).....	46,059	73,374	68,559	76,867	
Shareholders' equity.....	75,783	121,926	139,406	150,167	



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	Years Ended December 31,			
	1999	2000	2001	2002
	----- RMB	----- RMB	----- RMB	----- RMB
(in millions)				
Other Financial Data (1) (2):				
IFRS				
Net cash from operating activities.....	25,936	30,360	56,671	55,046
Net cash from/(used in) financing activities..	4,329	32,046	(16,437)	(15,813)
Net cash used in investing activities.....	(35,731)	(64,622)	(38,748)	(42,776)
Capital expenditures				
Exploration and production.....	10,531	14,813	20,276	20,228
Refining.....	6,978	5,793	9,121	6,660
Marketing and distribution.....	3,176	16,080	17,256	6,982
Chemicals.....	12,919	6,237	11,996	7,415
Corporate and others.....	1,092	398	528	816
	-----	-----	-----	-----
Total.....	34,696	43,321	59,177	42,101
	=====	=====	=====	=====
Capital expenditures of jointly controlled entities				
Exploration and production.....	-	-	-	-
Chemicals.....	-	-	-	-
	-----	-----	-----	-----
Total.....	-	-	-	-
	=====	=====	=====	=====

- (1) Data for the year ended December 31, 1999 includes the results of operations of certain petroleum and petrochemical operations that were included in the consolidated financial statements but were retained by Sinopec Group Company. These net assets were reflected as a distribution to shareholder as of December 31, 1999.
- (2) The acquisition of Sinopec National Star in 2001 and the acquisitions of Sinopec Group Maoming Petrochemical Company, Xi'an Petrochemical Main Factory and Tahe Oilfield Petrochemical Factory in 2003 are considered as "combination of entities under common control" which are accounted in a manner similar to a pooling-of-interests ("as-if pooling-of-interests accounting"). Accordingly, the assets and liabilities of these acquired companies have been accounted for at historical cost and the consolidated financial statements for periods prior to the combinations have been restated to include the accounts and results of operations of these acquired companies on a combined basis. The considerations paid were treated as an equity transaction.
- (3) Basic earnings per share and per ADS have been computed by dividing net income by the weighted average number of shares in issue.
- (4) Includes the effect of the revaluation of property, plant and equipment as of September 30, 1999. In addition, property, plant and equipment of Sinopec National Star, Sinopec Group Maoming Petrochemical Company, Xi'an Petrochemical Main Factory and Table Oilfield Petrochemical Factory were revalued as of December 31, 2000, June 30, 2003, October 31, 2003 and October 31, 2003, respectively, in connection with the acquisitions by Sinopec Corp.
- (5) Equals the sum of short-term debts, long-term debts, loans from Sinopec Group Company and its affiliates, shareholders' equity and minority interests less cash and cash equivalents.
- (6) Translated solely for the convenience of the readers into US dollars at the rate prevailing on December 31, 2003 of US\$1.00 to RMB 8.2767.

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### B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

### C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

### D. RISK FACTORS

Risks Relating to Sinopec Corp.

Our limited operating history as an integrated petroleum and petrochemical company could affect our operating efficiency.

In 1983, the PRC government formed Old Sinopec to take primary responsibility for the administration and development of the petrochemical industry in China. Old Sinopec administered 38 production enterprises and was the PRC's predominant force in petroleum refining and petrochemical production. As a result of the restructuring of the petroleum and petrochemical industry in China in March 1998, Sinopec Group Company acquired most of the businesses of Old Sinopec, some of the exploration and production of crude oil business of China National Petroleum Company, or CNPC, and a large number of businesses which were engaged in retail and wholesale sales of refined petroleum products in the PRC.

In anticipation of the October 2000 global offering of our H shares and ADSs representing H shares, we were created in our present form on February 25, 2000 with Sinopec Group Company as the sole shareholder. Therefore, we have a limited history as an integrated company and in operating our assets.

The integration of the exploration and production business with our refining, petrochemical and marketing operations will present management challenges. Our newly established management structure and management information and financial systems may also need further adjustment and development. Our future business will depend in part on our ability to successfully manage our businesses and operations as an integrated petroleum and petrochemical company and to successfully implement our vision and strategy.

Our development plans have significant capital expenditure and financing requirements, which are subject to a number of risks and uncertainties.

The petroleum and petrochemical business is a capital intensive business. Our ability to maintain and increase our revenues, net income and cash flows depends upon continued capital spending. Our current capital expenditures plan contemplates approximately RMB 50.2 billion (US\$6.1 billion) in 2004. Our actual capital expenditures may vary significantly from these planned amounts due to various factors, including, among others, our ability to generate sufficient cash flows from operations to finance our capital expenditures, general economic, market and business conditions and other factors that are beyond our control. In addition, there can be no assurance as to whether, or at what cost, our capital projects will be completed or the success of these projects if completed.

In addition, our ability to obtain external financing in the future is subject to a variety of uncertainties including:

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- o our future results of operations, financial condition and cash flows;
- o the economic condition in China and the market environment for our products;
- o the cost of financing and the condition of financial markets; and
- o the issuance of relevant government approvals and other project risks associated with the development of infrastructure in China.

Our failure to obtain sufficient funding for our operations or development plans could adversely affect our business, results of operations and financial condition.

Competition from domestic as well as international petroleum and petrochemical companies.

The industry in which we operate is highly competitive. Our principal market in eastern, southern and central regions in China has enjoyed stronger economic growth and a higher demand for refined products and petrochemicals than other regions of China. As a result, we believe that our competitors will try to expand their sales and build up their distribution networks in our principal market.

Among our competitors are PetroChina and some of the world's major integrated petroleum and petrochemical companies, many of which have recently become more significant participants in the petroleum and petrochemicals industry in China. We believe such trend will continue and probably accelerate. Increased competition may have a material adverse effect on our financial condition and results of operations.

We may not be able to pass on all increases in costs of our raw materials.

We currently consume large amounts of crude oil and other raw materials to manufacture our refined products and petrochemical products. We have been sourcing an increasing amount of crude oil from outside suppliers. In 2003, approximately 76% of the crude oil required for our refinery business was sourced from outside suppliers. While we try to match cost increases with corresponding raw material price increases, our ability to pass on cost increases to our customers is dependent on international and domestic market conditions and government regulations. Consequently, there may be periods during which increases in costs of raw materials due to either price increases or increases in the amounts we source from third parties are not fully recovered by us due to an inability to increase the sale prices of our products. This may have a material adverse effect on our financial condition, results of operations or cash flows.

Related party transactions; non-competition; conflicts of interest.

We have engaged from time to time and will continue to engage in a variety of transactions with Sinopec Group Company, which provides to us a number of services, including, but not limited to, ancillary supply, engineering, maintenance, transport, educational and community services. The nature of our transactions with Sinopec Group Company is governed by a number of service and other contracts between Sinopec Group Company and us. In addition, Sinopec Group Company has interests in businesses which compete or are likely to compete, either directly or indirectly, with our businesses. We and Sinopec Group Company have entered into a non-competition agreement whereby Sinopec Group Company has agreed to refrain from operating businesses which compete or could compete with us in any of our domestic or international markets; grant us an option to purchase Sinopec Group Company's operations that compete or could compete with our businesses; operate its sales enterprises and service stations

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in a manner uniform to our sales and service operations; and appoint us as sales agent for certain of its products which compete or could compete with our products. Notwithstanding the foregoing contractual arrangements, because Sinopec Group Company is our dominant shareholder and the interests of the Sinopec Group Company may conflict with our own interests, Sinopec Group Company may take actions that favor its interests over ours.

In addition, while we and Sinopec Group Company have entered into agreements which generally provide that these services provided by Sinopec Group Company will be priced on terms at least as favorable to us as ordinary commercial terms, we have limited or no practical alternative source of supply for some of these services, utilities, materials and equipment at reasonable cost. As a result, in the future we may have limited ability to negotiate with Sinopec Group Company over the terms of our agreements with respect to these services, utilities, materials and equipment.

Our insurance coverage may not be sufficient to cover the risks related to exploration, development and production and losses caused by natural disasters.

Due to the nature of our business, we handle many highly flammable and explosive materials and operate many facilities under high pressure and high temperatures. We have experienced accidents that have caused property damage and personal injuries, and we cannot assure that industry-related accidents will not occur in the future.

We currently maintain insurance coverage with Sinopec Group Company on our property, plant, equipment and inventory. The amount of coverage is determined on the basis of the historical value of the covered fixed assets and, with respect to inventory, twice each year on the basis of the average month-end inventory value of the most recent six months. The amount of our insurance coverage may be less than the replacement cost of the covered properties and plants and may not be sufficient to cover all our financial losses.

We do not carry any business interruption insurance or third party liability insurance to cover claims in respect of personal injury, property or environmental damage arising from accidents on our property or relating to our operations other than third party liability insurance with respect to certain transportation vehicles. Losses incurred or payments required to be made by us, which are not fully insured, may have a material adverse effect on our results of operations.

The oil and natural gas reserves data in this annual report are only estimates, and our actual production, revenues and expenditures with respect to our reserves may differ materially from these estimates.

There are numerous uncertainties inherent in estimating quantities of proved oil and natural gas reserves, and in the timing of development expenditures and the projection of future rates of production. The reserve data set forth in this annual report represent estimates only. Adverse changes in economic conditions may render it uneconomical to develop certain reserves. Our actual production, revenues, taxes and fees payable and development and operating expenditures with respect to our reserves may likely vary from these estimates.

The reliability of reserves estimates depends on:

- o the quality and quantity of technical and economic data;
- o the prevailing oil and gas prices applicable to our production;
- o the production performance of the reservoirs;

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- o extensive engineering judgments; and
- o consistency in the PRC government's oil policies.

In addition, new drilling, testing and production following the estimates may cause substantial upward or downward revisions in the estimates. Furthermore, the discounted future cash flow calculated by applying the 10% discount rate, which was included in "Consolidated Financial Statements-Supplemental Information on Oil and Gas Producing Activities (Unaudited)" following Item 19, may not represent the actual net present value of the relevant cash flow.

Our continued business success depends in part on our ability to replace reserves and develop newly discovered reserves.

Our ability to achieve our growth objectives is dependent in part on our level of success in discovering or acquiring additional oil and natural gas reserves and further exploring our current reserve base. Our exploration and development activities for additional reserves expose us to inherent risks associated with drilling, including the risk that no economically productive oil or natural gas reservoirs will be encountered. Without reserve additions through further exploration and development or acquisition activities, our reserves and production will decline over time as our reserves will be depleted. Exploring for, developing and acquiring reserves is highly capital intensive. If these activities are unsuccessful and we do not acquire properties containing proved reserves, our total proved reserves will decline, which may adversely affect our results of operations and financial condition.

Sinopec Group Company is currently being audited by the National Audit Office, and we cannot predict the timing of completion or the outcome of this audit.

The National Audit Office (the "NAO") of China periodically performs audits on large PRC state-owned companies, such as Sinopec Group Company. We have learned that Sinopec Group Company is currently being audited by the NAO, and Sinopec Group Company has been cooperating with the NAO in its efforts. We cannot predict the timing of completion or the outcome of this audit. If the NAO determines that Sinopec Group Company has engaged in any material wrongdoings which implicate us or our employees, we may be subject to fines and other administrative penalties, and the market for our ADSs may be adversely impacted.

### Risks Relating to the Petroleum and Petrochemical Industry

Our business operations may be adversely affected by present or future environmental regulations.

As an integrated petroleum and petrochemical company, we are subject to extensive environmental protection laws and regulations in China. These laws and regulations permit:

- o the imposition of fees for the discharge of waste substances;
- o the levy of fines and payments for damages for serious environmental offenses; and
- o the central government, at its discretion, to close any facility which fails to comply with orders and require it to correct or stop operations causing environmental damage.

Our production operations produce substantial amounts of waste water,

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gas and solid waste materials. In addition, our production facilities require operating permits that are subject to renewal, modification and revocation. We have established a system to treat waste materials to prevent and reduce pollution and believe that our operations substantially comply with all applicable PRC environmental laws and regulations as they have been previously interpreted and enforced. The PRC government, however, has moved, and may move further, toward more rigorous enforcement of applicable laws, and toward the adoption of more stringent environmental standards, which, in turn, would require us to incur additional expenditures on environmental matters.

Our operations may be adversely affected by the cyclical nature of the petroleum and petrochemical market and by the volatility of prices of crude oil and refined petroleum products.

Most of our revenues are attributable to sales of crude oil, refined petroleum products and petrochemical products which have historically been cyclical and sensitive to the availability and prices of feedstock and general economic conditions. Regional and global markets for many of our products are sensitive to changes in industry capacity and output levels, cyclical changes in regional and global economic conditions, prices and availability of substitute products and changes in consumer demand, which from time to time have had a significant impact on product prices in the regional and global markets. Historically, the markets for these products have experienced alternating periods of tight supply, causing prices and margins to increase, followed by periods of capacity additions, possibly resulting in oversupply and declining prices and margins. After its accession to the WTO, China further reduced the tariffs and other import restrictions and further relaxed the control of product allocation and pricing, and, as a result, the domestic markets for many of our products have become increasingly subject to the cyclicity of regional and global markets. Historically, international prices of crude oil and refined products have fluctuated widely due to many factors that are beyond our control, including global and regional economic and political developments and global and regional supply of and demand for crude oil and refined products. While our integrated upstream, midstream and downstream operations to certain extent help us reduce the effects of industry cycles, we cannot assure you that future growth in demand for these products will be sufficient to alleviate any existing or future conditions of excess industry capacity or that such condition will not be sustained or further aggravated by anticipated or unanticipated capacity additions or other events. In addition, we expect that the volatility and uncertainty of the prices of crude oil and refined products will continue. Declines in prices of refined products and petrochemical products may adversely affect our business and results of operations and financial condition.

Our business faces natural disasters and operation risks that may cause significant interruption of operations.

Exploring for, producing and transporting crude oil and natural gas and producing and transporting refined and petrochemical products involve a number of hazards. As with many other companies in the world which conduct similar businesses, we have experienced accidents that have caused property damage and personal injuries. Our safety and maintenance measures at our production facilities and for our transportation facilities may not be sufficient, and significant natural disasters may cause significant interruption of our operations and property and environmental damage that could have a material adverse impact on our financial condition.

### Risks Relating to the PRC

Government regulations may limit our activities and adversely affect our business operations.

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The central and local PRC governments continue to exercise a certain degree of control over the petroleum and petrochemical industry in China by, among others:

- o licensing the right to explore and produce crude oil and natural gas;
- o publishing from time to time retail guidance prices for gasoline and diesel based on formulas linked to relevant international market prices;
- o allocating and pricing of certain resources and services;
- o assessing taxes and fees payable;
- o setting import and export quotas and procedures; and
- o setting safety, environmental and quality standards.

In addition, we may be required from time to time to make capital expenditures to comply with PRC government policies regarding the development of the domestic petroleum and petrochemical industry. As a result, we may face significant constraints on our flexibility and ability to expand our business operations or to maximize our profitability.

Our development plans require regulatory approval.

Many of our large construction and expansion projects are subject to extensive governmental review and approval. Such projects include most exploration and production projects and construction of significant refining and petrochemical facilities, significant expansions or renovations to existing facilities, as well as the construction of significant oil and natural gas pipelines, refined product pipelines and storage facilities. The timing and cost of completion of these projects will depend on numerous factors, including approvals from relevant PRC government authorities and general economic conditions in China.

While in general we attempt to obtain governmental approval as far in advance as practicable, we may not be able to control the timing and outcome of these governmental reviews and approvals. If any of our important projects required for our future growth are not approved, or not approved on a timely basis, our results of operations and financial condition could be adversely impacted.

Entry by China into the World Trade Organization significantly increases competition from foreign companies in our lines of business.

China became a member of the World Trade Organization ("WTO") in December 2001. In entering the WTO, China has agreed to significantly reduce the trade barriers over time for imports that have historically existed and that currently exist in China such as:

- o granting foreign-owned companies the right to import into China crude oil and refined products through companies authorized by the PRC government;
- o permitting foreign companies to distribute and market refined petroleum products in both retail and wholesale markets in China;
- o significantly reducing tariffs on refined products and petrochemical products; and
- o eliminating over time quotas and other non-tariff barriers for

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imports and exports of crude oil and refined products.

As a result of China's entry to the WTO, we have faced, and will continue to face, increasing competition from foreign producers of refined petroleum products and petrochemical products. In addition, the trade agreements under the WTO are periodically renegotiated, sometimes resulting in continuing reductions in tariffs, elimination of non-tariff barriers such as import quota and opening of markets to foreign competition. Any present or future increase in foreign competition may have a material adverse effect on our results of operations.

Government control of currency conversion and future movements in exchange rates may adversely affect our operations and financial results.

We receive substantially all of our revenues in renminbi. A portion of such revenues will need to be converted into other currencies to meet our foreign currency obligations, including:

- o import of crude oil and other materials;
- o debt service on foreign currency denominated debt;
- o purchases of imported equipment; and
- o payment of any cash dividends declared in respect of the H shares.

The existing foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. We may undertake current account foreign exchange transactions without prior approval from the State Administration of Foreign Exchange by producing commercial documents evidencing such transactions, provided that they are processed through Chinese banks licensed to engage in foreign exchange transactions. The PRC government has stated publicly that it intends to make the renminbi freely convertible in the future. However, we cannot predict whether the PRC government will continue its existing foreign exchange policy and when the PRC government will allow free conversion of renminbi to foreign currency.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

Since 1994, the conversion of renminbi into Hong Kong dollars and United States dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. Although the renminbi to US dollar exchange rate has been relatively stable since 1994, we cannot predict nor give any assurance of its future stability. We do not hedge exchange rate fluctuations between the renminbi and the US dollar or other currencies and currently have no plans to do so. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends.

Enforcement of shareholder rights; mandatory arbitration.

Currently, the primary sources of shareholder rights are our articles of association, the PRC Company Law and the Listing Rules of the Hong Kong Stock Exchange, which, among other things, impose certain standards of conduct,



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fairness and disclosure on us, our directors and our controlling shareholder. In general, their provisions for protection of shareholder's rights and access to information, are different from those applicable to companies incorporated in the U.S., the U.K. and other Western countries. In addition, the mechanisms for enforcement of rights under the corporate framework to which we are subject may also be relatively undeveloped and untested. To our knowledge, there has not been any published report of judicial enforcement in the PRC by H share shareholders of their rights under constituent documents of joint stock limited companies or the PRC Company Law or in the application or interpretation of the PRC or Hong Kong regulatory provisions applicable to PRC joint stock limited companies. We cannot assume that our shareholders will enjoy protections that they may be entitled in other jurisdictions.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan or most other Western countries, and therefore recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may not be assured. Our articles of association as well as the Listing Rules of the Hong Kong Stock Exchange provide that most disputes between holders of H shares and us, our directors, supervisors, officers or holders of domestic shares, arising out of the articles of association or the PRC Company Law concerning the affairs of our company or with respect to the transfer of our shares are to be resolved through arbitration by arbitration organizations in Hong Kong or China, rather than through a court of law. On June 18, 1999, an arrangement was made between Hong Kong and the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000. So far as we are aware, no action has been brought in China by any shareholder to enforce an arbitral award, and we are uncertain as to the outcome of any action brought in China to enforce an arbitral award granted to shareholders.

A possible recurrence of a severe acute respiratory syndrome may materially and adversely affect our business and results of operations.

From March to July 2003, China, Hong Kong, Singapore, Taiwan and certain other areas of the world experienced an outbreak of a new and contagious form of atypical pneumonia now known as severe acute respiratory syndrome, or SARS. According to the World Health Organization, more than 8,000 cases of SARS resulting in more than 900 deaths had been reported in 29 countries from November 2002 to August 2003. In the event of recurrent outbreak of SARS, we may be required to quarantine the employees that have been suspected of becoming infected, as well as any others that had come into contact with them. We may also be required to disinfect the affected facilities and therefore suffer a temporary suspension of production. Any quarantine or suspension of production at any of our facilities will affect our overall operations and results of operations. Furthermore, such an outbreak would likely restrict the level of economic activity in affected areas, which would also adversely affect our business and results of operations.

### ITEM 4. INFORMATION ON THE COMPANY

#### A. HISTORY AND DEVELOPMENT

Our legal and commercial name is China Petroleum & Chemical Corporation. Our head office is located at A6, Huixindong Street, Chaoyang District, Beijing 100029, the People's Republic of China and our telephone number is (8610) 6499-0060. We have appointed SINOPEC USA Co., Ltd., 150 E. 52nd St., 28th Fl., New York, NY 10022, USA (telephone number: (212) 759-5085) as our agent for service of processes for actions brought under the U.S. securities laws.

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Sinopec Group Company was reorganized in anticipation of the October 2000 global offering of our H shares and ADSs representing H shares, and as a result, we were established as a joint stock limited company on February 25, 2000 under the Company Law of the PRC with Sinopec Group Company as the sole shareholder. To effect the reorganization, we and Sinopec Group Company entered into a reorganization agreement which had effect from December 31, 1999. As part of the reorganization, certain of Sinopec Group Company's petroleum and petrochemical operations, together with the related assets and liabilities that were transferred to us, were segregated and separately managed by us beginning December 31, 1999. Sinopec Group Company transferred to us most of its petroleum and petrochemical operations, including most of their production assets, and retained most of the social and ancillary service operations, as well as certain production assets, including certain petrochemical facilities, small capacity refineries and retail service stations. Sinopec Group Company's operations transferred to us include:

- o exploration for and development of crude oil and natural gas;
- o refining of crude oil and marketing and distribution of refined petroleum products, including transportation, storage, trading, import and export of petroleum products; and
- o production and sales of petrochemical products.

Sinopec Group Company's continuing activities consist, among other things, of:

- o operating certain petrochemical facilities, small capacity refineries and retail service stations retained by Sinopec Group Company;
- o providing well survey, logging and downhole operational services;
- o manufacturing and maintaining production equipment;
- o providing construction services;
- o providing utilities, such as electricity and water; and
- o providing social services, such as health care, education and transportation services.

Sinopec Group Company transferred the businesses to us either by transferring its equity holdings in subsidiaries or by transferring their assets and liabilities. For its subsidiaries with publicly traded shares, Sinopec Group Company transferred its entire equity interests to us. These subsidiaries include companies whose shares or depositary receipts are listed on various stock exchanges including the New York Stock Exchange, the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. For the remaining subsidiaries, Sinopec Group Company transferred operating assets and associated liabilities directly to us.

In consideration of the assets and operations transferred to us, we issued and allocated 68.8 billion of our shares to Sinopec Group Company on February 25, 2000. These shares represented our entire issued share capital before our October 2000 global offering of H shares and ADSs representing H shares.

In 2001, we acquired from Sinopec Group Company the entire equity interest of Sinopec National Star, which engaged in oil and gas exploration and production activities in China, for a consideration of RMB 6.45 billion.

In October 2003, we acquired from Sinopec Group Company the operations of

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Sinopec Group Maoming Petrochemical Company's ethylene facility with a rated capacity of 380,000 tonnes and its related downstream facilities for RMB 3.3 billion (US\$0.4 billion) in cash. In December 2003, we acquired the operations of Tahe Petrochemical and Xi'an Petrochemical, both of which are wholly-owned by Sinopec Group Company, for RMB 220.8 million (US\$26.7 million) and RMB 135.2 million (US\$16.3 million), respectively, in cash. The purchase prices were determined on the basis of independent valuation and appraisals of the acquired assets and liabilities as required applicable laws and regulations in the PRC. While our financial statements for periods prior to these acquisitions have been restated to include the accounts and the results of operations of these companies on a combined basis, the following discussion in this "Item 4 - Information on the Company" on our businesses and operations does not include data of any of these companies.

### B. BUSINESS OVERVIEW

We are an integrated petroleum and petrochemical company with upstream, midstream and downstream operations. Based on our operating revenues of RMB 443 billion (US\$53.5 billion) in 2003, we are one of the largest petroleum and petrochemical companies in China and in Asia.

We are the second largest crude oil and natural gas producer in China. Our crude oil and natural gas productions are mostly internally consumed by our refining and petrochemical operations.

As of December 31, 2003, we had proved developed and undeveloped reserves of 3,738 million barrels-of-oil equivalent, including 3,257 million barrels of crude oil and 2,888 billion cubic feet of natural gas. In 2003, we produced 271 million barrels of crude oil, which accounted for approximately 22.5% of the total crude oil production in China. In addition, we produced 188 billion cubic feet of natural gas, which accounted for approximately 15.5% of the total natural gas production in China.

We are the largest refiner of petroleum in China based on crude oil throughput. In 2003, we processed approximately 116.26 million tonnes of crude oil, representing approximately 48.3% of the total crude oil throughput in China. In 2003, we produced approximately 21.74 million tonnes of gasoline, 41.67 million tonnes of diesel and 5.31 million tonnes of kerosene including jet fuel.

We are the largest distributor and seller of refined petroleum products in China based on sales volume. In 2003, sales volume of gasoline, diesel and kerosene including jet fuel through our Sinopec branded retail and wholesale distribution networks accounted for approximately 57.6% of the total consumption of these products in China and approximately 79.9% in our principal market in the eastern and southern regions of China. Sales volume of gasoline and diesel through our service stations in 2003 accounted for approximately 69% of the total retail volume in our principal market.

We are also the largest producer and distributor of petrochemicals in China based on sales volume. Our production of ethylene, a key petrochemical building block, was over 3.17 million tonnes in 2003, representing approximately 51.8% of the total ethylene production in China. We produce a full range of petrochemical products including intermediate petrochemicals, synthetic resins, synthetic fiber monomers and their polymers, synthetic fibers, synthetic rubber and chemical fertilizers. We are the largest producer in China of all of these product categories.

Exploration and Production

Summary

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We currently explore for, develop and produce crude oil and natural gas in a number of areas across China. As of December 31, 2003, we held 195 production licenses with terms ranging from seven (7) to fifty-five (55) years, which were equal to or longer than the maximum numbers of years of the estimated life of the reserves as evaluated by us as of December 31, 2003. Our production licenses are renewable upon our application 30 days prior to expiration. During the term of our production license, we will pay an annual production right usage fee of RMB 1,000 (US\$120.8) per square kilometers. Among our oil and gas fields, the Shengli field in Shandong province is the second largest oil field in China and accounted for approximately two-thirds of our total production in 2003. In 2003, we produced an average of 828,000 barrels-of-oil equivalent per day, of which approximately 90% was crude oil and 10% was natural gas.

As of December 31, 2003, we held 366 exploration licenses for various blocks in which we engaged in exploration activities. The maximum term of our exploration licenses is seven (7) years. Our exploration licenses may be renewed twice upon our application 30 days prior to expiration of the original term with each renewal for a two-year term. We are obligated to make a progressive annual minimum exploration investment relating to the exploration blocks in respect of which the exploration licenses are issued. In addition, we are also obligated to pay an annual exploration license fee starting from RMB 100 (US\$12.1) per square kilometer up to RMB 500 (US\$60.4) per square kilometer.

### Properties

We currently operate 16 oil and gas producing fields, each of which consists of many oil and gas producing blocks and all of which are located in mainland China.

Shengli field is our most important producing oil field and the second largest producing oil field in China. It consists of 68 oil producing blocks of various sizes extending over an area of 61,000 square kilometers in northern Shandong province. In 2003, Shengli field produced 189.3 million barrels of crude oil and 28.6 billion cubic feet of natural gas, accounting for approximately 64.2% of our total annual crude oil and natural gas production for the year. As at December 31, 2003 Shengli field had estimated proved developed and undeveloped reserves of 2,322 million barrels-of-oil equivalent, including 2,271 million barrels of crude oil and 308.9 billion cubic feet of natural gas.

Our other oil and gas producing fields are located in the border area of Hebei, Shandong and Henan as well as in Xinjiang, Sichuan, Henan, Jiangsu, Yunnan, Guizhou, Guangxi and the East China Sea areas.

### Oil and Natural Gas Reserves

Oil and gas proved reserves cannot be measured precisely. Reserve estimates are based on many factors related to reservoir performance which require evaluation by engineers interpreting the available data, as well as price and other economic factors. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data, the production performance of the reservoirs as well as extensive engineering judgment. Consequently, reserve estimates are subject to revision as additional data become available during the producing life of a reservoir. When a commercial reservoir is discovered, proved reserves are initially determined based on limited data from the first well or wells. Subsequent data may better define the extent of the reservoir and additional production performance, well tests and engineering studies will often improve the reliability of the reserve estimate.

The following table sets forth our estimated proved oil and gas reserves

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and productions and the respective yearly changes for the years ended December 31, 2001, 2002 and 2003. Our estimated proved reserves do not include additional quantities recoverable beyond the term of the relevant production licenses, or that may result from extensions of currently proved areas, or from application of improved recovery processes not yet tested and determined to be economical. Our estimated proved reserves do not include any quantities that are recoverable through application of tertiary recovery techniques. Proved developed reserves are the quantities expected to be recovered through existing wells with existing equipment and operating methods. Our estimated proved reserves of crude oil and natural gas as at December 31, 2003 declined compared with the amount as December 31, 2002 primarily because our interests in Xihu area of the East China sea fields were diluted when additional parties joined the development efforts. In addition, we revised certain previous estimates relating to undeveloped reserves, which resulted in a reduction in our total estimated proved developed and undeveloped reserves.

	Years ended December	
	2001	2002
Proved developed and undeveloped reserves (crude oil) (million barrels)		
Beginning of year.....	3,168	3,215
Revisions of previous estimates.....	(23)	119
Improved recovery.....	125	126
Extensions and discoveries.....	214	130
Production.....	(269)	(270)
	3,215	3,320
	3,215	3,320
Proved developed reserves (crude oil) (million barrels)		
Beginning of year.....	2,490	2,444
	2,490	2,444
End of year.....	2,444	2,732
	2,444	2,732
Proved developed and undeveloped reserves (natural gas) (billion cubic feet)		
Beginning of year.....	3,342	3,488
Revisions of previous estimates.....	(429)	(133)
Extensions and discoveries.....	738	153
Production.....	(163)	(179)
	3,488	3,329
	3,488	3,329
Proved developed reserves (natural gas) (billion cubic feet)		
Beginning of year.....	1,164	1,183
	1,164	1,183
End of year.....	1,183	1,056
	1,183	1,056

### Oil and Natural Gas Production

The following tables sets forth the average daily production of crude oil and natural gas for the years ended December 31, 2001, 2002 and 2003.

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	For the Years Ended December 31,		
	2001 ----	2002 ----	2003 ----
	(in thousand barrels)		
Average Daily Crude Oil Production			
Shengli.....	519	520	518
Zhongyuan.....	74	74	70
Xibei.....	49	48	59
Henan.....	36	37	36
Jiangsu.....	31	31	31
Others.....	28	29	28
	--	--	--
Total Production.....	737	739	742
	===	===	===

	For the Years Ended December 31,		
	2001 ----	2002 ----	2003 ----
	(in million cubic feet)		
Average Daily Natural Gas Production			
Shengli.....	82	73	78
Zhongyuan.....	145	157	165
Xibei.....	35	53	44
Henan.....	9	11	10
Jiangsu.....	2	2	9
Others.....	173	194	208
	---	---	---
Total Production.....	446	490	514
	===	===	===

Lifting Cost Data

The following table sets forth our average lifting costs per barrel-of-oil equivalent of crude oil and natural gas produced, average sales prices per barrel of crude oil and average sales prices per thousand cubic meters of natural gas for the years ended December 31, 2001, 2002 and 2003.

	Total ----- (US\$)	Shengli ----- (US\$)	Others ----- (US\$)
For the year ended December 31, 2003			
Average petroleum lifting cost per BOE.....	6.47	6.46	6.48
Average realized sales price			
Per barrel of crude oil.....	27.56	27.87	26.83
Per thousand cubic meters of natural gas.....	71.95	70.64	72.06
For the year ended December 31, 2002			
Average petroleum lifting cost per BOE.....	6.12	5.76	6.78
Average realized sales price			
Per barrel of crude oil.....	22.42	22.59	21.97
Per thousand cubic meters of natural gas.....	69.08	55.07	70.25
For the year ended December 31, 2001			
Average petroleum lifting cost per BOE.....	6.15	6.01	6.42
Average realized sales price			

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Per barrel of crude oil.....	23.36	23.57	22.79
Per thousand cubic meters of natural gas.....	67.76	50.95	69.71

### Exploration and Development Activities

The following table sets forth the numbers of our exploratory and development wells, including a breakdown of successful or productive ones and dry ones, for the years ended December 31, 2001, 2002 and 2003. We have increased our exploration and development activities in the western regions of China, particularly in Tahe region, Tazhong region of Tarim Basin and the eastern part of Junger Basin. Therefore, we separately set forth below the relevant numbers of our exploratory and development wells in western China for 2003, which data were not available for 2001 and 2002.

	Total -----	Shengli -----	West -----
For the year ended December 31, 2003			
Exploratory			
-- Successful.....	295	151	16
-- Dry.....	265	88	21
Development			
-- Productive.....	1,880	909	99
-- Dry.....	10	4	3
For the year ended December 31, 2002			
Exploratory			
-- Successful.....	289	146	
-- Dry.....	217	80	
Development			
-- Productive.....	2,186	1,026	
-- Dry.....	14	6	
For the year ended December 31, 2001			
Exploratory			
-- Successful.....	232	116	
-- Dry.....	284	144	
Development			
-- Productive.....	2,119	990	
-- Dry.....	12	6	

For additional information on our oil and gas exploration and production activities, please see the Supplemental Information on Oil and Gas Producing Activities (Unaudited) to our consolidated financial statements included elsewhere in this annual report.

### Refining and Marketing and Distribution of Refined Petroleum Products

#### Overview

Our refining and marketing and distribution segments consist of processing crude oil into refined petroleum products, buying and selling refined petroleum products, and transporting, marketing and distributing refined petroleum products. We are the largest refiner in China, both in terms of total primary distillation capacity per annum as of December 31, 2003 and total throughput in 2003. We processed approximately 116 million tonnes of crude oil in 2003, representing approximately 48.3% of the national crude oil throughput. We also have the largest refined petroleum products marketing and distribution operations in China in terms of sales volume as well as the number of sales

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outlets. We sold 75.92 million tonnes of gasoline, diesel and kerosene including jet fuel in 2003 through our marketing and distribution network, representing approximately 79.9% of the sales volume in our principal market.

We produce a full range of refined petroleum products. The following table sets forth our production of our principal refined petroleum products for the years ended December 31, 2001, 2002 and 2003.

	Our Production for the Years Ended December		
	2001	2002	2003
	(in million tonnes)		
Gasoline.....	18.7	19.6	21.7
Diesel.....	37.9	37.7	41.7
Kerosene including jet fuel.....	4.5	5.1	5.3
Chemical feedstock.....	12.4	15.0	16.5
Lubricant.....	0.8	0.9	1.0
Liquefied petroleum gas.....	4.8	5.1	6.2
Fuel oil.....	4.6	4.5	7.3

Gasoline and diesel are our largest revenue producing products, and are sold mostly through our marketing and distribution segment through both wholesale and retail channels. We use most of our production of petrochemical feedstock as feedstock for our own petrochemical operations. Most of our production of other refined products are sold domestically to a wide variety of industrial and agricultural customers, and a small amount are exported.

### Refining Facilities

We operate 26 refineries in China, all of which are located in our principal market. As of December 31, 2003, our consolidated primary distillation capacity of 142 million tonnes per annum was the largest in China, representing approximately 50% of the total domestic capacity.

The following table sets forth our total primary distillation capacity per annum, crude oil throughputs and crude oil distillation capacity utilization rate as of and for the years ended December 31, 2001, 2002 and 2003.

	As of and for the Years		
	Ended December 31,		
	2001	2002	2003
Primary distillation capacity (million tonnes per annum)....	130.3	132.4	142.0
Crude oil throughputs (million tonnes).....	101.4	105.0	111.0
Crude oil distillation capacity utilization rate.....	77.8%	79.3%	81.0%

In 2003, our light products yield was 73.80%, up by 0.58 percentage point from that in 2002, and our refining yield was 92.63%, up by 0.13 percentage



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point from that in 2002.

The following table sets forth the primary distillation capacity per annum, crude oil throughput and utilization rate calculated based on primary distillation capacity per annum at each year-end as of and for the years ended December 31, 2001, 2002 and 2003 of each of our 13 largest refineries. These refineries represent 71.0% of our total primary distillation capacity per annum as of December 31, 2003.

Refinery	2001			2002			2003	
	Primary Distillation Capacity	Crude Oil Throughput	Utilization Rate	Primary Distillation Capacity	Crude Oil Throughput	Utilization Rate	Primary Distillation Capacity	Crude Oil Throughput
Maoming.....	13.5	10.6	78.8	13.5	10.4	77.4	13.50	11.0
Zhenhai.....	12.0	10.7	89.3	14.0	11.9	84.9	17.00	13.0
Qilu.....	10.5	7.6	72.1	8.5	7.5	87.9	10.50	7.0
Yanshan.....	8.0	6.5	81.0	8.0	7.0	86.9	8.00	7.0
Guangzhou.....	7.7	6.3	81.6	7.7	6.7	87.5	7.70	6.0
Gaoqiao.....	7.3	6.5	89.5	7.3	6.5	89.1	10.8	8.0
Jinling.....	10.5	6.3	59.6	10.5	6.3	60.3	10.50	7.0
Tianjun.....	5.0	4.7	93.2	5.0	4.1	83.0	5.00	4.0
Yangzi.....	5.5	4.3	78.5	6.0	4.9	82.3	8.00	6.0
Shanghai.....	6.3	6.6	105.2	8.8	7.4	84.4	8.80	8.0
Changling.....	5.0	3.2	63.4	5.0	3.3	65.7	5.00	3.0
Luoyang.....	5.0	4.2	84.8	5.0	4.3	86.7	5.00	4.0
Jinmen.....	5.0	2.8	56.6	5.0	2.9	58.6	5.00	3.0

In 2003, we purchased 71.1 million tonnes of imported crude oil, an increase of 14.5 million tonnes compared with that of 2002. We expect to import more crude oil from the international market as demand for petroleum products keeps on growing.

In 2003, we put on stream 6 sets of new or revamped refining units. As a result, we increased our Zhenhai refinery's reforming capacity by 1 million tonnes per annum, our Gaoqiao and Wuhan refineries, delayed coking capacity by 1.5 million tonnes per annum. In addition, we have put to use our imported crude oil pipeline project connecting Ningbo, Shanghai and Nanjing.

### Marketing, Sales and Distribution of Refined Petroleum Products

#### Overview

We operate the largest sales and distribution system for refined petroleum products in China. Our principal market encompasses 19 provinces in eastern, southern and central regions in China, which include many of the largest cities and some of the fastest growing economic regions in China.

We estimate we have a market share of approximately 57.6% in China and 79.9% in our principal market based on our sales volume of gasoline, diesel and kerosene including jet fuel in 2003.

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In 2003, we distributed and sold in China approximately 75.92 million tonnes of gasoline, diesel and kerosene including jet fuel, among which 38.85 million tonnes were sold through approximately 24,506 service stations that we owned as at the end of 2003 and 15.33 million tonnes were sold through our direct distribution network, and the remaining 21.74 million tonnes were sold through our wholesale network.

In addition to our retail and wholesale sales within the PRC, we also exported approximately 6.08 million tonnes of refined products to the overseas market in 2003.

Most of the refined products sold by us are produced internally. Specifically in 2003, approximately 87.6% of our gasoline sales volume and approximately 89.2% of our diesel sales volumes were produced internally by us.

The following table sets forth our sales volume of gasoline, diesel, kerosene including jet fuel through various distribution channels, our average throughput per service station and, the number of service stations under the Sinopec brand for the years ended or as of December 31, 2001, 2002 and 2003.

	As of and for the Years		
	Ended December 31,		
	2001	2002	2003
Domestic sales volume of gasoline, diesel and kerosene including jet fuel (in million tonnes)			
Retail .....	30.43	34.73	38.85
Direct distribution.....	11.64	12.63	15.33
Wholesale.....	25.67	22.73	21.74
Total.....	67.74	70.09	75.92
	=====	=====	=====
Average throughput per service station per annum (in tonnes)	1,473	1,560	1,610
Number of service stations under Sinopec brand			
Sinopec Corp. owned.....	24,062	24,000	24,506
Franchised.....	4,184	4,127	5,000
Total.....	28,246	28,127	30,000
	=====	=====	=====

### Retail and Direct Distribution

All of our retail sales are made through a network of service stations and petroleum shops which operate under the Sinopec brand. Through this unified network we are more able to implement consistent pricing policies, maintain both product and service quality standards and more efficiently manage retail distribution in our principal market.

In 2003, we sold approximately 38.85 million tonnes of gasoline and diesel through our retail network, representing approximately 54.4% of our total gasoline and diesel sales volume. Our retail market share in 2003 was approximately 69% in our principal market. Our retail network consists principally of our wholly-owned and operated service stations. In addition, we

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have franchised the Sinopec brand to 5,736 service stations that are operated by third parties.

Most of our wholly-owned service stations are located in central commercial districts or relatively high traffic areas. They typically have relatively long operating histories compared with other service stations and, therefore, often enjoy better brand name recognition and higher sales volume.

In 2003, we built 1,360 new service stations and renovated 981 existing stations. We also closed 854 service stations due to urban construction, road construction as well as our effort to shut down less efficient service stations.

We also make direct distribution sales of gasoline, diesel and kerosene including jet fuel to various corporate customers and other relatively large end-users at prices higher than wholesale prices but lower than retail prices. In 2003, we sold approximately 15.33 million tonnes of gasoline, diesel and kerosene including jet fuel through direct distribution to these customers.

### Wholesale

In 2003, we sold approximately 21.74 million tonnes of gasoline, diesel, kerosene including jet fuel through wholesale channels, representing approximately 28.6% of our total sales volume of gasoline, diesel, and kerosene including jet fuel. Our wholesale sales include sales to large customers and independent distributors as well as sales to certain special customers designated by the central government.

Among our wholesale sales in 2003, we sold approximately 12.1 million tonnes of gasoline, diesel and kerosene including jet fuel through wholesale centers located in the 19 provinces in our principal market and our three branch sales companies outside our principal market, representing 55.9% of our total wholesale volume of the same products. Most sales by the wholesale centers are made to large customers and independent distributors from various industries such as public transportation, tourism and agricultural industries.

In addition, we sold approximately 9.6 million tonnes of gasoline, diesel and kerosene including jet fuel to certain special customers designated by the central government, representing approximately 44.1% of our aggregate wholesale volume of these products in 2003. Among our sales to these special customer, we sold approximately 848,000 tonnes of gasoline, 4.6 million tonnes of diesel, 4.1 million tonnes of kerosene including jet fuel, representing, respectively, 3.62%, 9.65% and 90.64% of our total sales volume of the respective products. These special customers include the military, the railway, aeronautical, marine and utility industries and these sales are made at prices and in volumes directly or indirectly determined by the PRC government.

Through our wholesale centers, we operate 628 storage facilities with a total capacity of approximately 1350 million cubic meters, substantially all of which are wholly-owned by us. Our wholesale centers are connected to our refineries by railway, waterway and, in some cases, by pipelines. We also own some dedicated railways, oil wharfs, oil barges, rail tankers and oil trucks.

### Chemicals

#### Overview

We are the largest petrochemical producer in China. In 2003, we produced 3.169 million tonnes of ethylene, a major feedstock for its derivative products, representing approximately 51.8% of total ethylene production in China. Because of strong domestic demand, most of our petrochemical products are sold in the domestic market.

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We produce the full range of petrochemical products including intermediate petrochemicals, synthetic resins, synthetic fiber monomers and their polymers, synthetic fibers, synthetic rubber and chemical fertilizers. Synthetic resins, synthetic fibers, synthetic rubber, chemical fertilizers and some intermediate petrochemicals comprise a significant majority of our external sales. Synthetic fiber monomers and their polymers and intermediate petrochemicals, on the other hand, are mostly internally consumed as feedstock for the production of other products. Our petrochemical operations are integrated with our oil and gas exploration and production and refining and marketing businesses. For example, natural gas liquids and certain refined petroleum products, such as naphtha, are primarily supplied from our exploration and production and refining operations and are the feedstock we use in the extraction of olefins and aromatics as well as production of chemical fertilizers.

### Production of Major Chemical Products

The following table sets forth our production volumes of major chemical products for the years ended December 31, 2001, 2002 and 2003.

	Our Production of Major Chemical Products		
	2001	2002	2003
	(in thousand tonnes)		
Ethylene	2,153	2,716	3,204
Synthetic resins	3,204	4,005	4,005
Of which: performance compound resins	1,332	1,847	2,153
Synthetic rubbers	398	458	500
Monomers/polymers for synthetic fibers	3,598	3,834	4,005
Synthetic fibers	1,028	1,153	1,153
Of which: differential fibers	326	402	402
Urea	2,342	2,666	2,666

### Major Petrochemical Facilities

We operate 17 petrochemical plants in China, all of which are located in China's major petrochemical market. The following table sets forth our major petrochemical plants and their major production facilities.

Plant	Major Facilities
Yanhua	Ethylene, polyethylene, polypropylene, synthetic rubber.
Shanghai	Ethylene, polyethylene, polypropylene, PET, AN and synthetic fiber.
Qilu	Octanol, synthetic rubber, urea, ethylene, PVC, PE.
Yangzi	Ethylene, polyethylene, polypropylene, PTA.
Yizheng	PTA, Polyester, synthetic fiber.

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In 2003, we built or revamped a number of our petrochemical production facilities. As a result, our Guangzhou plant has increased its ethylene capacity by 70,000 tonnes per annum and its Polypropylene capacity by 30,000 tonnes per annum; our Yizheng Chemical Fiber plant increased its polyester capacity by 90,000 tonnes per annum and purified terephthalic acid capacity by 450,000 tonnes per annum; our Shanghai Petrochemical plant increased its acrylonitrile capacity by 70,000 tonnes per annum; our Zhenhai plant increased its xylene capacity by 450,000 tonnes per annum; our Shijiazhuang plant increased its caprolactam capacity by 15,000 tonnes per annum and our Yanhua plant increased its phenol/acetone capacity by 80,000 tonnes per annum.

### Products

#### Intermediate Petrochemicals

We are the largest producer of intermediate petrochemicals in China. Intermediate petrochemicals produced by our facilities include olefins and aromatics and organic petrochemicals. Our intermediate petrochemical production is partly internally consumed for manufacture of synthetic resins, synthetic rubber and synthetic fibers.

Olefins (including ethylene, propylene and butadiene) can be extracted from natural gas liquids and refined petroleum products such as naphtha and liquefied petroleum gas. They are the basic feedstock of most petrochemical products. Ethylene is the primary olefin product and the most widely-used chemical in the petrochemical industry. We are the largest ethylene producer in China. Our rated ethylene capacity of 2.865 million tonnes per annum represented 51.0% of the total domestic ethylene capacity as of December 31, 2003. In 2003, we produced 3.169 million tonnes of ethylene, representing approximately 51.8% of the total domestic output, with a capacity utilization rate of 111.3%. Nearly all of our olefins production is used as feedstock for our petrochemical operations.

We produce aromatics mainly in the forms of benzene and xylene which are used primarily as feedstock for purified terephthalic acid, or PTA, the preferred raw material for polyester. We are the largest aromatics producer in China. Our annual rated capacities for benzene and xylene were 1.009 million tonnes and 0.552 million tonnes per annum, respectively, as of December 31, 2003. In 2003, we produced 1,102,500 tonnes of benzene and 303,200 tonnes of xylene.

Organic chemicals extracted mainly from olefins and aromatics are also intermediate petrochemicals and are essential raw materials for synthetic resins, synthetic rubber and synthetic fibers. We are the largest producer of butanol, styrene, paraxylene, vinyl acetate, phenol and acetone in China.

The following table sets forth our rated capacity per annum, capacity utilization rate, production volume and major plants of production as of or for the year ended December 31, 2003 for our principal intermediate petrochemical products.

Our Rated Capacity ----- (thousand tonnes per annum)	Utilization Rate ----- (percent)	Our Production ----- (thousand tonnes)	Major Plants of Product -----
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Ethylene.....	2,865.0	111.29%	3,169.1	Yanhua, Shanghai, Yangzi, Q Guangzhou
Propylene.....	2,767.5	116.9	3,235.4	Yanhua, Shanghai, Yangzi, Guangzhou, Gaoqiao, Anqing, Jingmen and Wuhan
Benzene.....	1,009.4	109.2	1,102.5	Yanhua, Shanghai, Yangzi, Guangzhou and Zhenhai
Xylene.....	551.5	54.98	303.2	Zhenhai, Jinling, Changl Guangzhou and Shijiazhu
Acetic acid.....	130	87.6	113.9	Shanghai and Yangzi
Styrene.....	224	100.3	224.7	Yanhua, Qilu and Guangz
Para-xylene.....	1,329	81.0	894.2	Shanghai, Yangzi, Qilu and
Phenol.....	225.0	83.1	186.9	Yanhua and Gaoqiao

Synthetic Resins

Synthetic resins are a core downstream product group. Our principal synthetic resin products are polyethylene, polypropylene, polyvinyl chloride, or PVC, and polystyrene. We are the largest producer of polyethylene, polypropylene and polystyrene in China. Synthetic resins are widely used in various sectors including agriculture, construction, automobile and consumer product industries. The following table sets forth our principal synthetic resin products and their major applications.

Resins	Major Applications
Polyethylene	films, boards, sheets, bottles, machinery parts, toys, housewares, wire and cable insulation, industrial packaging materials, pipes, ropes, fish nets, household containers
Polypropylene	films or sheets, ropes, housewares, toys and household electric appliance and automobile parts, fibers
Polyvinyl	chloride films, sheets, boards, wire and cable insulation, pipes, construction materials, bottles, toys, shoes, artificial leather
Polystyrene	automobile parts, optical devices, boards, sheets, telecommunications devices, electronic appliances, housewares, toys, containers and packaging materials

The following table sets forth our rated capacity per annum, capacity utilization rate, production volumes and major plants of production for each of our principal synthetic resins as of or for the year ended December 31, 2003.

	Our Rated Capacity ----- (thousand tonnes per annum)	Utilization Rate ----- (percent)	Our Production ----- (thousand tonnes)	Major Plant Producti -----
Polyethylene.....	1,953.0	114.4%	2,149.1	Yanhua, Shan Yangzi, Qil

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Polypropylene.....	1,960	110.56	2,167.0	Guangzhou Yanhua, Shanghai Yangzi, Guangzhou Wuhan, Jingmen and Fujian
Polyvinyl chloride.....	230.0	106.4	244.8	Qilu
Polystyrene.....	136.0	81.32	110.6	Yanhua, Qilu Guangzhou

Synthetic Fiber Monomers and Polymers

Our principal synthetic fiber monomers and polymers are purified terephthalic acid, ethylene glycol, acrylonitrile, caprolactam, dimethyl terephthalate. Based on our 2003 production, we are the largest producer of all of these synthetic fiber monomers and polymers except for acrylonitrile in China. Most of our production of synthetic fiber monomers and polymers are used as feedstock for synthetic fibers.

The following table sets forth our rated capacity per annum, capacity utilization rate, our production volume and major plants of production as of and for the year ended December 31, 2003 for each type of our principal synthetic fiber monomers and polymers.

	Our Rated Capacity ----- (thousand tonnes per annum)	Utilization Rate ----- (percent)	Our Production ----- (thousand tonnes)	Major Plants of Production -----
Purified terephthalic acid.	1,735.0	112.7%	1,755.9	Shanghai, Yangzi and Y
Ethylene glycol.....	570.0	79.0	450.4	Yanhua, Shanghai and Y
Acrylonitrile.....	258.0	100.02	240.8	Shanghai, Gaoqiao, Anqing Qilu
Caprolactam.....	1,350.0	97.6	124.5	Shijiazhuang and Ba
Polyester chips.....	1,845.1	104.2	1,743.4	Yanhua, Shanghai, Yizhen Tianjin

Synthetic Fibers

We are the largest producer of polyester and acrylic fibers in China. Our principal synthetic fiber products are polyester fiber, acrylic fiber, nylon, vinylon fiber and polypropylene fiber. Synthetic fibers are widely used to make apparel, carpets and industrial products such as canvas, sacking, nautical rope and fishing nets in the textile industry.

The following table sets forth our rated capacity per annum, capacity utilization rate, production volume and major plants of production for each type of our principal synthetic fibers as of and for the year ended December 31, 2003.

	Our Rated Capacity	Utilization Rate	Our Production	Major Plants of Production
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	(thousand tonnes per annum)	(percent)	(thousand tonnes)	
Polyester fiber.....	1,076.1	89.5%	89.55	Yizheng, Shanghai, Tianjin
Acrylic fiber.....	314.8	11.2	352.7	Shanghai, Anqing
Nylon.....	18.3	71.0	13.0	Baling
Polypropylene fiber.....	17	118.2	20.1	Shanghai

Synthetic Rubbers

Our principal synthetic rubbers are cis-polybutadiene rubber, styrene butadiene rubber, or SBR, styrene butadiene-styrene thermoplastic elastomer and isobutadiene isoprene rubber, or IIR. Synthetic rubbers are widely used in the manufacture of tires, inner tubes for tires, housewares, shoes, toys and other industries. Based on our 2003 production, we are the largest producer of SBR rubber and cis-polybutadiene rubber and the only producer of IIR in China.

The following table sets forth our rated capacity per annum, capacity utilization rate, production volume and major plants of production as of or for the year ended December 31, 2003 for each of our principal synthetic rubbers.

	Our Rated Capacity (thousand tonnes per annum)	Utilization Rate (percent)	Our Production (thousand tonnes)	Major Plant of Production
Cis-polybutadiene rubber.....	201.8	130.2%	262.8	Yanhua, Qilu, Gaoqiao
Styrene butadiene rubber.....	163.4	91.5	149.5	Yanhua, Qilu an
Styrene-butadiene-styrene thermoplastic elastomers .....	60.0	104.3	62.6	Yanhua
Isobutylene isoprene rubber.....	30.0	90.0	27.0	Yanhua

Chemical Fertilizers

We produce synthetic ammonia and urea. Our synthetic ammonia is used to manufacture urea, caprolactam and acrylic nitrile. Urea is used primarily as a fertilizer.

The following table sets forth our rated capacity per annum, capacity utilization rate, our production volume and major plants of production for ammonia and urea as of or for the year ended December 31, 2003.

	Our Rated Capacity (thousand	Utilization Rate (percent)	Our Production (thousand tonnes)	Major Plants of Production
--	---------------------------------	-------------------------------	-------------------------------------	----------------------------



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	tonnes per annum)	(percent)	(	
Ammonia.....	2,315	52.3%	1,210.2	Zhenhai, Jinling, Jiujiang, Qilu, and Balin
Urea.....	3,840	52.8	2,027.6	Zhenhai, Jinling, Jiujiang, Qilu, and Balin

Marketing and Sales of Petrochemicals

Price and volume of petrochemical sales are market driven. The southern and eastern regions in China, where most of our petrochemical plants are located, constitute the major petrochemical markets in China. Our proximity to the major petrochemical market gives us a competitive advantage over our competitors.

Our principal sales and distribution channels consist of direct sales to end-users, most of which are large and medium size manufacturing enterprises, and sales to distributors in our national sales network. In 2003, we sold approximately 60.5% of our petrochemical products directly to end-users and 39.5% to our distributors. We also provide after-sale services, including technical support and technology assistance, to our customers.

In addition, we also initiate sales activities through our business-to-business petrochemical e-commerce platform. In 2003, sales initiated by our e-commerce platform amounted to RMB17.5 billion (US\$2.11 billion), representing an increase of 16.25% from 15.0 billion for the year of 2002. Domain names for our e-commerce web sites are [www.sinopec-ec.com](http://www.sinopec-ec.com) and [www.sinopec-ec.com.cn](http://www.sinopec-ec.com.cn).

Raw Materials

Crude Oil

Our most important raw material is crude oil. The following table sets forth the sources of our crude oil supply and each source as a percentage of our total crude oil supply for the years ended December 31, 2001, 2002 and 2003.

	2001 ----	2002 ----	2003 ----
Source of Supply	(million tonnes)	(million tonnes)	(million tonnes)
Self-supply.....	29.41	28.90	28.20
PetroChina.....	14.46	14.57	13.08
CNOOC.....	6.18	6.22	5.57
Import.....	49.18	56.68	71.14
Total.....		106.37	117.99

Other Raw Materials

We produce most of the other raw materials used as feedstock for our petrochemical operations from crude oil. When our demand exceeds our internal

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supply of these other raw materials, we purchase the shortfall from domestic or foreign sources.

### Competition

We are a major competitor in every sector in which we compete. Most of our revenues are derived from domestic sales. Our competition is mainly in the domestic market. As the domestic market is more open for foreign participation, more foreign companies have become our competitors.

### Exploration and Production

The business of exploration and development of crude oil and natural gas is highly competitive. We compete in the PRC market primarily for the acquisition of desirable oil and gas prospects. We also compete in the international and domestic capital markets to finance our operations, including exploration, development and production activities. Our principal competitors in the PRC market in the above areas are PetroChina and CNOOC. Because our production of crude oil has only constituted approximately 24% of our crude oil requirements, most of our crude oil production has been internally consumed, and thus, we generally do not compete for crude oil customers.

### Refining and Marketing of Refined Petroleum Products

The business of refining and marketing of refined products is highly competitive. We are the market leader in the densely populated eastern, central and southern coastal regions in China, which is what we call our principal market. PetroChina controls most of the market for refined petroleum products in the northeastern and western regions in China.

Market participants compete primarily on the basis of quality of products and service, efficiency of operations including proximity to customers and awareness of brand name. We believe that we have a competitive advantage in our principal market over many of our competitors in these aspects arising from the quality of our personnel, technology, assets and organizational management.

### Petrochemicals

Our proximity to customers has given us significant competitive advantages. Our petrochemical production facilities are located in the eastern and southern regions in China, an area which has experienced higher economic growth rates in China in the past two decades. Proximity of our production facilities to our markets has given us an advantage over our competitors in terms of easy access to our customers, resulting in reduced transportation costs, more reliable delivery of products and better service to customers.

We expect competition in the petrochemicals market to increase substantially as the PRC markets open up to foreign competitors. Such competitors are likely to be large, reputable foreign companies producing high quality products at competitive prices. There can be no assurance that such foreign competition will not adversely affect our existing market position and our results of operations in our petrochemicals business.

### Competition and Opportunities after China's Accession to the WTO

China became a member of the WTO in December 2001. In line with the general progress of its economic reform programs and as part of its WTO commitments, China has reduced import tariffs on a wide range of products including petrochemical products in 2002. In addition, China has agreed to further lower tariff and eliminate quotas, grant foreign companies distribution rights of refined petroleum products and eventually lift its restrictions that limit competition by foreign companies in the PRC petroleum and petrochemicals

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industry. To the extent these restrictions are relaxed, we are likely to face more fierce competition in our businesses. In anticipation of the increased competition, we have taken measures to improve our own competitiveness.

China's accession to WTO also benefits us in a number of aspects. We derive direct benefits from China's elimination of import tariff on crude oil. We also derive indirect benefits from the significant growth in China's domestic automobile consumption and export of light industrial and textile products, which in turn increases the demand for refined petroleum and petrochemical products.

### Patents and Trademarks

In 2003, we applied for 817 patents in China, of which 570 have been granted patent rights. In addition, in 2003, we also applied for 113 patents outside China, of which 44 have been granted patent rights. We also use domestic and foreign patents owned by Sinopec Group Company under royalty-free licenses from Sinopec Group Company. These patents expire from time to time and cover many products, processes and product uses. Our patent licenses from Sinopec Group Company are for a term of ten years commencing on February 25, 2000. We also have royalty-free licenses from Sinopec Group Company to use certain Sinopec Group Company's trademarks and brands for our products and services. Our trademark licenses from Sinopec Group Company are for a term of ten years commencing February 25, 2000.

### Regulatory Matters

#### Regulation of Exploration and Production

#### Exploration and Production Rights

The PRC Constitution provides that all mineral and oil resources belong to the state. In 1988, the National People's Congress passed the Mineral Resources Law which authorizes the Ministry of Land and Resources to exercise administrative authority over the exploration and production of the mineral and oil resources within the PRC, including its territorial waters. The Mineral Resources Law and its supplementary regulations provide the basic legal framework under which exploration licenses and production licenses are granted. The Ministry of Land and Resources has the authority to grant exploration licenses and production licenses on a competitive bidding or other basis it considers appropriate. Applicants for these licenses must be companies approved by the State Council to engage in oil and gas exploration and production activities. Currently, only we, PetroChina and CNOOC have received such approval.

Applicants for exploration licenses must first register with the Ministry of Land and Resources blocks in which they intend to engage in exploration activities. The holder of an exploration license is obligated to make a progressive annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. Investment ranges from RMB 2,000 per square kilometer for the initial year to RMB 10,000 per square kilometer for the third and subsequent years. Additionally, the holder has to pay an annual exploration license fee of RMB 100 per square kilometer for each of the first three years and increases by an additional RMB 100 per square kilometer per year for subsequent years up to a maximum of RMB 500 per square kilometer. The maximum term of an exploration license is 7 years. The exploration license may be renewed twice upon application by the holder 30 days prior to expiration of the original term with each renewal for a two-year term.

At the exploration stage, an applicant can also apply for a progressive exploration and production license that allows the holder to test and develop reserves not yet fully proved. The progressive exploration and production

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license has a maximum term of 15 years. Upon the reserves becoming proved for a block, the holder must apply for a full production license in order to undertake production.

The Ministry of Land and Resources issues full production licenses to applicants on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation is given by the State Council. Due to a special dispensation granted to us by the State Council, the maximum term of our full production licenses is 55 years. The full production license is renewable upon application by the holder 30 days prior to expiration. A holder of the full production license has to pay an annual full production right usage fee of RMB 1,000 per square kilometer.

All companies approved by the State Council to engage in oil and gas exploration and production activities may apply for exploration and production licenses for onshore oil and natural gas resources (including areas of shallow water less than 5 meters deep) without geographical restrictions. Currently, we and CNOOC have the exploration and production license of offshore oil and natural gas resources in China, while we and PetroChina have exploration and production licenses of onshore (including areas of shallow water less than 5 meters deep) crude oil and natural gas in China.

Exploration and production licenses do not grant the holders the right to enter upon any land for the purpose of exploration and production. Holders of exploration and production licenses must separately obtain the right to use the land covered by the licenses, and current owners of the rights to use such land may transfer or lease the land to the license holder.

### Volume and Price Controls on Crude Oil

Each of the major crude oil producers is required to submit each year estimated production volumes for the following year. Based on these estimates and other data, such as forecasted domestic consumption and international oil prices, the National Development and Reform Commission sets annual production targets for us and other major oil producers and determines permitted levels of crude oil imports and exports nationwide. The Ministry of Commerce then allocates the nationwide import and export quotas among us, PetroChina and other licensed crude oil traders. The actual production levels are determined by the producers themselves, which may vary from their estimates submitted to the National Development and Reform Commission.

The PRC government no longer regulates crude oil prices and generally allows crude oil producers and buyers to negotiate the prices. We, PetroChina and CNOOC negotiate the price for crude oil supplied to each other based on international market prices.

### Volume and Price Controls on Natural Gas

Each year, the National Development and Reform Commission publishes the production targets for natural gas producers based on consumption estimates submitted by all natural gas producers. The National Development and Reform Commission also formulates the annual natural gas guidance supply plan, which requires natural gas producers to distribute specified amounts of natural gas to specified fertilizer producers. The actual production level of natural gas, except the amount supplied to the fertilizer producers, is determined by the natural gas producers.

The price of natural gas has originally three components:

- o wellhead price;

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- o pipeline transportation tariff; and
- o purification fee.

Wellhead prices vary depending on whether or not the natural gas sold is within the government-formulated natural gas supply plan. For natural gas sold within the government-formulated supply plan, the National Development and Reform Commission fixes wellhead prices at the wellhead according to the nature of the customers.

For sales of natural gas which was produced in excess of the government-formulated natural gas supply plan, the National Development and Reform Commission publishes the wellhead guidance price and allows the producer to set the price within +/-10% of this guidance price. Natural gas producers also submit to the National Development and Reform Commission for examination and approval proposed pipeline transmission tariffs based on the capital investment made in the pipeline, the depreciation period for the pipeline, and the ability of end users to pay. Producers set the purification fee based on the cost of natural gas purification. The purification fee must also be approved by the National Development and Reform Commission. Beginning on January 1, 2002, the National Development and Reform Commission required that the purification fee should be inclusively added to the wellhead price to reflect a unified ex-factory price for domestic natural gas production.

### Regulation of Refining and Marketing of Refined Petroleum Products

#### Volume and Price Controls on Gasoline and Diesel

Controls on retail and wholesale sales. Other than as described below for sales to special customers, there are no state controls on volume allocations of gasoline and diesel. The PRC government, to a limited extent, continues to exercise control over gasoline and diesel prices.

Beginning on June 1, 2000, the National Development and Reform Commission determined and published the retail guidance prices of gasoline and diesel monthly based on Singapore market price. Beginning on October 17, 2001, the National Development and Reform Commission has started determining the retail guidance prices of gasoline and diesel based on the FOB prices on the Singapore, Rotterdam and New York markets, instead of solely relying on the Singapore market alone. In addition, instead of publishing the retail guidance prices monthly, the National Development and Reform Commission would publish the retail guidance prices whenever it determines that the prices in those international markets have fluctuated over a certain extent. As a result, both the retail guidance prices of gasoline and diesel in the PRC and the timing of changes in such prices are expected to more closely reflect prevailing international market prices.

We are permitted to set our own retail prices within 8% of the published guidance prices. We are permitted to determine our wholesale prices of gasoline and diesel subject to the requirement of the National Development and Reform Commission that our wholesale prices are at least 5.5% below our retail prices. There are no government restrictions on how we set prices for sales among our segments and subsidiaries.

#### Controls on sales to special customers.

The National Development and Reform Commission allocates to us a quota of minimum supplies of gasoline and diesel that must be made available to meet the requirements of the military, national reserves, railways, airlines and other similar special customers. Prices to these special customer are benchmarked against the after-duty import prices for the relevant products. Except for sales to the military and national reserve, we are permitted to charge up to a

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8% premium on the special customer prices to these special customers.

### Imports and Exports

Following China's entry into the WTO, China's quota system on crude oil and refined products has been gradually liberalized. Other than filing with the government, state-controlled enterprises, such as our company, are no longer subject to the quota requirements. Import and export by non-state-controlled enterprises continue to be subject to quota and licensing requirements. The Ministry of Commerce is responsible for issuing import and export licenses. See "Item 3-Key Information-D. Risk Factors-Risks Relating to the PRC-Entry by China into the World Trade Organization significantly increases competition from foreign companies in our lines of business."

### Investment

Depending on the size and type of investment, construction and other investment projects are subject to different government approvals. Approval from the National Development and Reform Commission is required for capital investments in any new projects as well as in any renovation and expansion projects if the amount of capital involved exceeds RMB 50 million (approval from the State Council may also be required for certain major projects). If the investment is below RMB 50 million, no government approval is required. All joint ventures with foreign participation require government approval.

### Taxation, Fees and Royalty

Companies which operate petroleum and petrochemical businesses in China are subject to a variety of taxes, fees and royalties. The table below sets forth the various taxes, fees and royalties generally payable by us or by such companies in China.

Tax Item -----	Tax Base -----	Tax Rate -----
Corporate income tax	Taxable income	33%.
Value-added tax	Revenue	13% for liquified petroleum gas, natural gas, low density polyethylene for use as agricultural film and fertilizer and 17% for other items. We generally charge value-added tax to our customers at the time of settlement of the selling prices of our products on behalf of the taxation authority. We may directly claim refund of value-added tax collected from our customers for (i) value-added tax that we paid for (i) purchased materials consumed during the production process, (ii) charges paid for drilling and other engineering services, and (iii) labor consumed during the production process.
Business tax	Revenue from transportation services	3%.
Consumption tax	Sales volume	RMB 277.6 per tonne for gasoline and RMB 117.6 per tonne for diesel, payable by producer.
Import tariff	CIF China price	5% for gasoline and 6% for diesel.
Resource tax	Aggregate volume sold	RMB 8 to 30 per tonne for crude oil. RMB 2 to 15 per tonne for refined products.

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	or self-consumed	thousand cubic meter for natural gas. The actual applicable rate for each oil field may differ depending on the volume of the exploration and production activities and costs required for the production at the particular oil field.
Compensatory fee for mineral resources	Revenue	1% for crude oil and natural gas.
Exploration license fee	Area	RMB 100 to 500 per square kilometer per annum.
Production license fee	Area	RMB 1,000 per square kilometer per annum.
Royalty fee(1)	Production volume	Progressive rate of 0-12.5% for crude oil and 0-3% for natural gas.
City construction tax	total amount of value-added tax, consumption tax and business tax	1% to 7%.
Education Surcharge	total amount of value-added tax, consumption tax and business tax	3%.

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(1) Payable only by Sino-foreign oil and gas exploration and development cooperative projects, and the project entity of those cooperative projects is not subject to any other resource tax or fee.

### C. ORGANIZATIONAL STRUCTURE

For a description of our relationship with Sinopec Group Company, see "Item 4 -- Information on the Company -- History and Development" and "Item 7 -- Major Shareholders and Related Party Transactions." For a description of our significant subsidiaries, see note 28 to our consolidated financial statements.

### D. PROPERTY, PLANT AND EQUIPMENT

See "Item 4 -- Information on the Company -- Business Overview" for description of our property, plant and equipment.

### Environmental Matters

We are subject to various national environmental laws and regulations and also environmental regulations promulgated by the local governments in whose jurisdictions we have operations. For example, national regulations promulgated by the central government set discharge standards for emissions into air and water. They also set forth schedules of discharge fees for various waste substances. These schedules usually provide for discharge fee increases for each incremental increase of the amount of discharge up to a certain level. Above a certain level, the central regulations permit the local government to order any of our facilities to cure certain behavior causing environmental damage and subject to the central government's approval, the local government may also issue orders to close any of our facilities that fail to comply with the existing regulations.

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Each of our production subsidiaries has implemented a system to control its pollutant emissions and to oversee compliance with the PRC environmental regulations. We have a central safety and environmental compliance department to set our internal environmental requirements and procedures, and to manage and supervise the environmental protection programs at the various production facilities. Each production subsidiary has an environmental compliance department which is responsible for supervising environmental matters at the subsidiary and implementing our environmental requirements and procedures. These departments report both to the management of the subsidiary and to the central environmental compliance department.

Our production facilities have their own facilities to treat waste water, solid waste and waste gases on site. Waste water first goes through preliminary treatment at our own waste water treatment facilities. Thereafter, the water is sent to nearby waste water treatment centers operated either by us or by Sinopec Group for further treatment. All solid waste materials generated by our production facilities are buried at disposal sites or burned in furnaces either operated by us or by Sinopec Group. Waste gases are generally treated and burned in furnaces before dissipation and the ash is disposed in accordance with our solid waste disposal procedures.

Environmental regulations also require companies to file an environmental impact report to the environmental bureau for approval before undertaking any construction of a new production facility or any major expansion or renovation of an existing production facility. Such an undertaking will not be permitted to operate until the environmental bureau has performed an inspection and is satisfied that environmentally sound equipment has been installed for the facility.

We believe our environmental protection systems and facilities are adequate for us to comply with current applicable national and local environmental protection regulations. The PRC government, however, may impose stricter regulations which require additional expenditure on compliance with environmental regulations.

We paid pollutant discharge fees of approximately RMB 221 million in 2001, RMB 287 million in 2002, and RMB 245 million (US\$29.60 million) in 2003.

### Insurance

In respect of our refining, petrochemical production, and marketing and sales operations, we currently maintain with Sinopec Group Company, under the terms of its Safety Production Insurance Fund ("SPI Fund"), approximately RMB 221.9 billion (US\$26.8 billion) of coverage on our property and plants and approximately RMB 24.9 billion (US\$3.0 billion) of coverage on our inventory. In 2003, we paid an insurance premium of approximately RMB 953 million (US\$115.1 million) to Sinopec Group Company for such coverage. Transportation vehicles and products in transit are not covered by Sinopec Group Company and we maintain insurance policies for those assets with insurance companies in the PRC.

The insurance coverage under SPI Fund applies to all enterprises controlled by Sinopec Group Company under regulations published by the Ministry of Finance. We believe that, in the event of major accident, we will be able to recover most of our losses from insurance proceeds paid under the SPI Fund or by insurance companies.

Pursuant to an approval of the Ministry of Finance, Sinopec Group Company purchased from China People's Insurance Company a property and casualty policy would also cover our assets. The policy provides for an annual maximum cumulative claim amount of RMB 4.0 billion (US\$0.5 billion) and a maximum of



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RMB 2.36 billion (US\$0.29 billion) per occurrence.

Consistent with what we believe to be customary practice among PRC enterprises, we do not currently carry any third party liability insurance to cover claims in respect of personal injury, environmental damage arising from accidents on our property or relating to our operations other than on our transportation vehicles. We have not had a third party liability claim filed against us during the three years. We also do not carry business interruption insurance, as such coverage is not customary in the PRC.

### ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

#### A. GENERAL

The following discussion and analysis should be read in conjunction with our audited financial statements and the accompanying notes. Part of the financial information presented in this section is derived from our audited financial statements that have been prepared in accordance with International Financial Reporting Standards, or IFRS. IFRS vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 33 to the consolidated financial statements. Unless otherwise indicated, all financial data, whether presented on a consolidated basis or by segment, are presented net of inter-segment transactions (i.e., inter-segment and other intercompany transactions have been eliminated).

Moreover, we acquired Sinopec National Star Petroleum Company in 2001 and Sinopec Group Maoming Petrochemical Company, Xi'an Petrochemical Main Factory and Tahe Oilfield Petrochemical Factory from Sinopec Group Company in 2003. As we and these companies from which we acquired the assets are under the common control of Sinopec Group Company, our acquisitions are considered as "combination of entities under common control" which are accounted for in a manner similar to a pooling-of-interests. Accordingly, the acquired assets and related liabilities have been accounted for at historical cost and our financial statements for periods prior to the combinations have been restated to include the accounts and the results of operations of these companies on a combined basis.

#### Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations contained elsewhere in this annual report are based on our consolidated financial statements which have been prepared in accordance with IFRS. Our reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our financial statements. We base our assumptions and estimates on historical experience and on various other assumptions that we believe to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, our management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. Our principal accounting policies are set forth in Note 2 to our consolidated financial statements. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Oil and gas properties and reserves

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The accounting for our upstream oil and gas activities is subject to special accounting rules that are unique to the oil and gas business. There are two methods to account for oil and gas business activities, the successful efforts method and the full cost method. We have elected to use the successful efforts method. A description of our policies for oil and gas properties, impairment, maintenance and repair activities is set forth in note 2 to our consolidated financial statements.

The successful efforts method reflects the volatility that is inherent in exploring for mineral resources in that costs of unsuccessful exploratory efforts are charged to expense as they are incurred. These costs primarily include dry hole costs, seismic costs and other exploratory costs. Under the full cost method, these costs are capitalized and written-off (depreciation) over time.

Engineering estimates of our oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved". Proved and proved developed reserve estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense and impairment expense, and in disclosing the supplemental standardized measure of discounted future net cash flows relating to proved oil and gas properties. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalized costs of producing properties (the numerator). Producing properties' capitalized costs are amortized based on the units of oil or gas produced. Therefore, assuming all other variables are held constant, an increase in estimated proved developed reserves decreases our depreciation, depletion and amortization expense. Also, estimated reserves are often used to calculate future cash flows from our oil and gas operations, which serve as an indicator of fair value in determining whether a property is impaired or not. The larger the estimated reserves, the less likely the property is impaired.

### Impairments

If circumstances indicate that the net book value of an asset or investment, including oil and gas properties, may not be recoverable, this asset may be considered "impaired", and an impairment loss may be recognized in accordance with IAS 36 "Impairment of Assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The amount of impairment loss is the difference between the carrying amount of the asset and its recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for our assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. We use all readily available information in determining an amount that is a reasonable approximation of recoverable reserves, including

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estimates based on reasonable and supportable assumptions and projections of reserve quantities.

### Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value. We review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

### Revaluation

As required by the relevant PRC rules and regulations, our property, plant and equipment were revalued in connection with our reorganization. Subsequent to that revaluation, property, plant and equipment are carried at the revalued amount, being the fair value as at the date of the revaluation, less subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The results of subsequent revaluations may have an impact on our future results to the extent the fair values of our property, plant and equipment change significantly.

### Provision for Doubtful Debts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make the required payments. We base our estimates on the aging of our accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of our customers were to deteriorate, actual write-offs would be higher than estimated.

### Overview of Our Operations

We are the largest integrated petroleum and petrochemical companies in China and one of the largest in Asia in terms of operating revenues. We engage in exploring for, developing and producing crude oil and natural gas, operating refineries and petrochemical facilities and marketing crude oil, natural gas, refined petroleum products and petrochemicals. We have reported our consolidated financial results according to the following four principal business segments and the corporate and others segment.

- o exploration and production segment, which consists of our activities related to exploring for and developing, producing and selling crude oil and natural gas;
- o refining segment, which consists of purchasing crude oil from our exploration and production segment and from third parties, processing of crude oil into refined products, selling refined products principally to our marketing and distribution segment;
- o marketing and distribution segment, which consists of purchasing refined petroleum products from the refining segment and third parties, and marketing, selling and distributing refined products by wholesale to large customers and independent distributors and retail through our retail network;
- o chemicals segment, which consists of purchasing chemical feedstock

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principally from the refining segment and producing, marketing, selling and distributing chemical products; and

- o corporate and others segment, which consists principally of trading activities of the import and export subsidiaries and our research and development activities.

### B. CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth certain income and expense items from our consolidated statements of income for the periods indicated.

	Year Ended December 31,		
	2001	2002	2003
	RMB	RMB	RMB
	(in billions)		
Operating revenues			
Sales of goods.....	309.3	329.1	424.3
Other operating revenues.....	14.3	16.0	18.8
	-----	-----	-----
Total operating revenues.....	323.6	345.1	443.1
Operating expenses			
Purchased crude oil, products and operating supplies and expenses.....	(222.5)	(237.6)	(312.5)
Selling, general and administrative expenses.....	(17.8)	(21.5)	(25.9)
Depreciation, depletion and amortization.....	(23.4)	(25.3)	(26.7)
Exploration expenses, including dry holes.....	(3.8)	(4.4)	(6.1)
Personnel expenses.....	(13.7)	(14.4)	(16.2)
Employee reduction expenses.....	(2.5)	(0.2)	(1.0)
Taxes other than income tax.....	(12.0)	(11.9)	(13.5)
Other operating expenses, net.....	(0.3)	(1.1)	(3.9)
	-----	-----	-----
Total operating expenses.....	(296.0)	(316.4)	(405.8)
Operating income.....	27.6	28.7	37.3
	-----	-----	-----
Net finance costs.....	(3.3)	(4.2)	(3.8)
Gain from issuance of shares by a subsidiary.....	-	-	0.1
Other income and gains.....	0.5	0.6	0.5
Income before income tax and minority interests.....	24.9	25.1	34.1
Income tax.....	(8.1)	(7.7)	(10.6)
	-----	-----	-----
Income before minority interests.....	16.8	17.4	23.5
Minority interests.....	(0.6)	(1.1)	(1.9)
	-----	-----	-----
Net income.....	16.2	16.3	21.6
	=====	=====	=====

Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

In 2003, our sales of goods and operating income were RMB 424.3 billion (US\$51.3 billion) and RMB 37.3 billion (US\$4.5 billion) respectively, representing an increase of 28.9% and 30.0%, respectively, from those in the previous year. These changes are largely attributable to a number of factors. First, we closely monitored the changes in market demands, and quickly

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responded to such changes through adjustments of our operating strategy. Second, to take advantage of the favorable opportunity of higher prices of crude oil and chemical products in the global market and the rapid growth of Chinese economy, we managed to overcome the negative impact caused by SARS and further expanded our target market. In addition, we continued to strive for better operating results through more strengthened management, further corporate reforms, better asset structure and more efficient operation.

### Operating Revenues

#### Overview

In 2003, our sales of goods and other operating revenues were RMB 443.1 billion (US\$53.5 billion), representing an increase of 28.4% compared with 2002. Our sales of goods was RMB 424.3 billion (US\$51.3 billion), or an increase of 28.9% compared with 2002. The increase was primarily due to increase of the prices of crude oil, petroleum products and chemical products in the global market in 2003. In addition, to seize the market opportunity, we increased our refining throughput and increased the sales volume of our refined products, and increased our sales volume of main petrochemical products significantly. Our "other operating revenues" increased to RMB 18.8 billion (US\$2.2 billion) in 2003, or an increase of 17.5% compared with 2002. Such "other operating revenues" primarily consist of revenues generated from our sale of raw and auxiliary materials to Sinopec Group and its subsidiaries as well as third parties.

The following table sets forth external sales revenues and percentages of sales of goods and other operating revenues by product category, as well as percentage changes from 2002 to 2003.

	Year Ended December 31,			Rate of Change from 2002 to 2003 (%)	As a P Sale an Operat
	2002 ----- (RMB)	2003 ----- (RMB)	2003 ----- (US\$)		
(in billion)					
<b>External Sales Revenues</b>					
Crude oil and natural gas.....	10.9	14.9	1.8	36.7%	
Refined petroleum products.....	230.5	295.9	35.8	28.4	
Chemical products.....	63.1	80.7	9.7	27.9%	

The following table sets forth the average external sales prices and sales volumes by selected products, as well as the respective percentage changes from 2002 to 2003.

Average External Sales Price			Rate of Change from 2002 to 2003 (%)	Sales Volume		
				2002 ----- (RMB)	2003 ----- (RMB)	2003 ----- (US\$)

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Crude Oil.....	1,189(1)	1,493(1)	180.4(1)	25.6%	6.35(2)	7.22
Natural Gas.....	574(3)	591(3)	71.4(3)	3.0	3.2(4)	3.4(4)
Gasoline .....	2,806(1)	3,298(1)	398.5(1)	17.5	22.54(5)	23.36
Diesel .....	2,408(1)	2,794(1)	337.6(1)	16.0	44.04(5)	47.29
Selected Chemical Products						
Synthetic Resin .....	5,247(1)	6,042(1)	730.0(1)	15.2	3.83(5)	4.52
Synthetic Fiber.....	8,435(1)	9,639(1)	1,164.6(1)	14.3	1.18(5)	1.33
Synthetic Rubber.....	6,468(1)	8,513(1)	1,028.6(1)	31.6	0.51(5)	0.55
Synthetic Fiber Monomer and Polymer.....	5,362(1)	5,788(1)	699.3(1)	7.9%	1.80(5)	2.41

- (1) per tonne  
(2) tonnes  
(3) per thousand cubic meter  
(4) billion cubic meters  
(5) million tonnes

### Sales of crude oil and natural gas

Most of crude oil and a small portion of natural gas produced by us were internally used by our refining and chemical production. The remaining was sold to the refineries controlled by our controlling shareholder, Sinopec Group Company and third party customers.

In 2003, sales revenues from crude oil and natural gas contributed to RMB 14.9 billion (US\$1.8 billion), or 3.4% of our sales of goods and other operating revenues, representing an increase of 36.7% compared with RMB 10.9 billion in 2002. Such increase was primarily attributable to the increase in price and sales volume of crude oil. The external sales price of crude oil increased to RMB 1,493 (US\$180.4) per tonne from RMB 1,189 per tonne in 2002, or an increase of 25.6% from 2002. The quantity of external sales increased from 6.35 million tonnes in 2002 to 7.22 million tonnes in 2003, representing an increase of 13.7%. The external sales price of natural gas rose from RMB 574 per thousand cubic meters in 2002, to RMB 591 (US\$71.4) per thousand cubic meters in 2003, and the external sales volume increased from 3.2 billion cubic meters in 2002 to 3.4 billion cubic meters in 2003.

### Sales of refined petroleum products

Both the refining and the marketing and distribution segments make sales of refined petroleum products, which consist primarily of gasoline, diesel, kerosene, jet fuel and other refined products to third parties.

In 2003, the external sales revenue of petroleum products recorded by these two segments were RMB 295.9 billion (US\$35.8 billion), accounting for 66.8% of our sales of goods and other operating revenues, representing an increase of 28.4% from RMB 230.5 billion in 2002. The sales revenue of gasoline and diesel was RMB 209.1 billion (US\$25.3 billion), comprising 70.7% of the total sales revenue of petroleum products, representing an increase of 23.5% from RMB 169.3 billion in 2002. Among others, the sales revenue of gasoline in 2003 was RMB 77 billion (US\$9.3 billion), representing an increase of 21.6% compared with 2002. The sales revenue of diesel was RMB 132.1 billion (US\$16.0 billion), or an increase of 24.6% compared with 2002. The increase of sales revenue of gasoline and diesel was due to the rise of gasoline and diesel prices and our active efforts in increasing the sales volume of its products. In 2003, the average external sales price of gasoline was RMB 3,298 (US\$398.5) per tonne, representing an increase of 17.5% compared with 2002, and the average external sales price of diesel was RMB 2,794 (US\$337.6) per tonne, or an increase of 16% compared with that in 2002. The sales volume of gasoline was

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23.36 million tonnes, or an increase of 3.6% compared with that in 2002, and the sales volume of diesel was 47.29 million tonnes, or an increase of 7.4% compared with that in 2002. The combined sales volume of gasoline and diesel was 6.1% higher than that of 2002.

### Sales of chemical products

In 2003, our external sales revenue of chemical products was RMB 80.7 billion (US\$9.7 billion), accounting for 18.2% of our sales of goods and other operating revenues, or an increase of 27.9% compared with that of RMB 63.1 billion in 2002. The increase was mainly due to the significant increase in both chemical products prices and sales volumes of major chemical products, as a result of the strong domestic demand for chemical products. The strong domestic demand corresponded to the gradual recovery of the global chemical market. In order to increase production volume for our chemical products, we revamped certain of our ethylene and other downstream facilities, which increased our production capacity of certain chemical products. In 2003, the external sales volumes of synthetic resin, synthetic fiber, synthetic rubber, synthetic fiber monomer and polymer were respectively 4.52 million tonnes, 1.33 million tonnes, 550,000 tonnes, 2.41 million tonnes, representing increases of 18%, 12.7%, 7.8% and 33.9% respectively compared with 2002. The external sales prices of such products were, respectively, RMB 6,042 (US\$730.0) per tonne, RMB 9,639 (US\$1,164.6) per tonne, RMB 8,513 (US\$1,028.6) per tonne and RMB 5,788 (US\$699.3) per tonne, representing increases of 15.2%, 14.3%, 31.6% and 7.9% respectively, compared with 2002.

### Operating expenses

In 2003, our operating expenses were RMB 405.8 billion (US\$49.0 billion), representing an increase of 28.3% compared with 2002. The increase in operating expenses was primarily attributable to the increase in purchased crude oil, products and operating supplies and expenses and selling, general and administrative expenses.

### Purchased crude oil, products, and operating supplies and expenses

Our purchased crude oil, products and operating supplies and expenses were RMB 312.5 billion (US\$37.8 billion), accounting for 77% of the operating expenses, or an increase of RMB 74.9 billion (US\$9.0 billion) compared with 2002, representing an increase of 31.5%. Among others,

- o Purchased crude oil expenses were RMB 164.3 billion (US\$19.9 billion), accounting for 40.5% of the total operating expenses, or an increase of RMB 45 billion (US\$5.4 billion) or 37.7% compared with 2002. To meet the increasing demands in the market associated with the rapid growth of the Chinese economy, we increased our crude oil throughput. In 2003, our crude oil throughput was 116.66 million tonnes (excluding amounts processed for third parties), representing an increase of 11.23 million tonnes, or 10.7%, compared with 2002. Of our crude oil throughput, our exploration and production segment supplied 28.08 million tonnes, representing a decrease of 1.46 million tonnes, or 4.9%, compared with 2002. We processed 88.58 million tonnes of crude oil purchased from third parties, representing an increase of 12.69 million tonnes, or 16.7%, compared with 2002. Since March 2003, crude oil price in the global market has gradually increased. Our average cost for crude oil purchased from third parties in 2003 was RMB 1,855 (US\$224.1) per tonne, representing an increase of RMB 283 (US\$34.1) per tonne, or 18%, compared with 2002.
- o In 2003, our other purchased expenses were RMB 148.2 billion (US\$17.9 billion), accounting for 36.5% of the total operating expenses,

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representing an increase of RMB 29.9 billion (US\$3.6 billion), or 25.3%, compared with 2002, . This increase was mainly due to the increased costs of oil products and chemical feedstock caused by the increase in crude oil price.

### Selling, general and administrative expenses

In 2003, our selling, general and administrative expenses were RMB 25.9 billion (US\$3.1 billion), representing an increase of RMB 4.4 billion (US\$0.5 billion), or 20.5%, compared with 2002. The increase was largely due to:

- o In 2003, provision for bad debts increased by RMB 1.15 billion (US\$0.1 billion) from 2002.
- o In connection with the upgrade of production facilities and improved technologies, we disposed of certain low efficiency production equipment in 2003 causing an increase in the expense related to disposal of relevant spare parts by RMB 500 million (US\$60.4 million) compared with 2002.
- o Expenses in research and development increased by RMB 0.59 billion (US\$71.2 million) from 2002.
- o Operating lease rentals increased by RMB 0.39 billion (US\$47.1 million) from 2002, mainly because we leased certain additional petrol stations in order to further expand our distribution channels of oil products.
- o After the expansion and revamping of some of our chemical facilities, sales volume of chemical products increased. In addition, proportion of retail over the total sales volume of refined oil products, and total sales volume of refined oil products increased. Accordingly, the selling expenses, such as transportation costs, increased by RMB 0.69 billion (US\$83.3 million) from 2002.

### Depreciation, depletion and amortization

In 2003, our depreciation, depletion and amortization amounted to RMB 26.7 billion (US\$3.2 billion), representing an increase of 5.5% over 2002. This increase was mainly due to the addition of property, plant and equipment as a result of capital expenditure.

### Exploration expenses

In 2003, our exploration expenses were RMB 6.1 billion (US\$0.7 billion), representing an increase of 38.6% from 2002. The increase was principally due to our further increase of investment in the exploration activities, especially in the major new blocks in the western and southern parts of China.

### Personnel expenses

In 2003, our personnel expenses were RMB 16.2 billion (US\$2.0 billion), representing an increase of 12.5% over 2002. The increase was largely due to our introduction of a market rate based compensation system reform. As a result, wage, salary and welfare expenses increased by RMB 1.6 billion (US\$0.1 billion).

### Employee reduction expenses

As part of our voluntary staff reduction plan, we incurred approximately RMB 1 billion (US\$0.1 billion) as employee reduction expenses for approximately 21,000 employees who voluntarily terminated their employment with us in 2003.



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### Taxes other than income tax

In 2003, our taxes other than income tax were RMB 13.5 billion (US\$1.6 billion), representing an increase of 13.4% over 2002. The increase was largely due to the increase of consumption tax and surcharges as a result of the increased sales volume of gasoline and diesel.

### Other operating expenses, net

In 2003, our other operating expenses (net) were RMB 3.9 billion (US\$0.5 billion), representing an increase of RMB 2.8 billion (US\$0.3 billion) from 2002. The increase was largely due to a number of factors. Among others,

- o To facilitate a long-term development strategy, we further improved our asset structure and our overall asset quality. In 2003, we incurred a net loss of RMB 2.22 billion (US\$26.8 million), or an increase of RMB 1.42 billion (US\$17.2 million) over those in 2002, on disposal of certain low efficiency assets, which included RMB 90 million (US\$10.8 million) from the exploration and production segment, RMB 0.74 billion (US\$89.4 million) from the refining segment, RMB 0.37 billion (US\$44.7 million) from the marketing and distribution segment, RMB 1.01 billion (US\$12.2 million) from the chemicals segment, and RMB 10 million (US\$1.2 million) from others.
- o In order to allocate its internal resources more efficiently, we revised the production plans for certain less efficient facilities in 2003, and accordingly made a provision for impairment of long-lived assets of RMB 0.88 billion (US\$106.3 million), representing the difference between the expected recoverable value and the net book value of these assets.

### Operating profit

In 2003, our operating profit was RMB 37.3 billion (US\$4.5 billion), representing an increase of 30% from 2002.

### Net finance costs

In 2003, our net finance costs were RMB 3.8 billion (US\$0.5 billion), representing a decrease of RMB 0.4 billion (US\$48.3 million), or 9.5%, from 2002. The decrease was primarily due to our further reduction of the aggregate amount of our short-term loan and the adjustment of our financing structure to include, among others, certain US-dollar denominated loans. The interest expense was RMB 3.7 billion (US\$0.4 billion) in 2003, representing a decrease of RMB 0.4 billion (US\$48.3 million) from 2002.

### Profit from ordinary activities before taxation

In 2003, our profit from ordinary activities before taxation was RMB 34.1 billion (US\$4.1 billion), representing an increase of 35.9% from 2002.

### Income tax

In 2003, our income tax was RMB 10.6 billion (US\$1.3 billion), representing an increase of 37.7% over 2002.

### Minority interests

In 2003, our minority interests were RMB 1.9 billion (US\$0.2 billion), representing an increase of 72.7% over 2002.

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Profit attributable to shareholders

In 2003, our profit attributable to shareholders was RMB 21.6 billion (US\$2.6 billion), representing an increase of 32.5% compared with 2002.

Year Ended December 31, 2002 Compared with Year Ended December 31, 2001

In 2002, our sales of goods and operating income were RMB 329.1 billion and RMB 28.7 billion, respectively, representing increases of 6.4% and 3.7%, respectively, from 2001. The increases in our sales of goods and operating income were largely attributable to our flexible adjustment of operation in response to the opportunities presented by the better prices and the more orderly market since March 2002. In addition, we quickly turned around the poor performance we went through in January and February 2002 by expanding our market and implementing various measures to cut cost and improve efficiency. Since March 2002, our operating results have improved significantly and continued to maintain a fair growth momentum. In particular, the refining segment and marketing and distribution segment have significantly increased their operating income and the chemicals segment has turned operating loss into operating income.

### Operating Revenues

#### Overview

Sales of goods and other operating revenues increased by 6.6%, or RMB 21.5 billion, from RMB 323.6 billion in 2001 to RMB 345.1 billion in 2002. Sales of goods increased by RMB 19.8 billion, or 6.4%, from RMB 309.3 billion in 2001 to RMB 329.1 billion in 2002. The increase in sales of goods was primarily due to:

- o The international market conditions of petroleum and petrochemical products gradually improved after March 2002;
- o A number of chemicals production facilities have been revamped to increase capacity and production; and
- o Sales volume of refined products and chemical products increased as a result of management's efforts to expand domestic as well as international market as the market condition improved.

Other operating revenues increased by 11.9%, or RMB 1.7 billion, from RMB 14.3 billion in 2001 to RMB 16.0 billion in 2002. Other operating revenues primarily consist of revenues generated from sales of certain ancillary products and raw materials as well as rendering various services to Sinopec Group Company and third parties.

The following table sets forth external sales revenues and percentages of sales of goods and other operating revenues by product category, as well as percentage changes from 2001 to 2002.

	Year Ended December 31,	Rate of Change	As a Per
	-----	from	Sales of
	2001	2002	Oth
	-----	-----	Operatin
	(RMB)	(RMB)	-----
	(in billions)	(%)	(
External Sales Revenues			

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Crude oil & Natural gas.....	11.1	10.9	1.8%	3
Refined Petroleum Products.....	228.5	230.5	0.9	66
Chemical products.....	53.3	63.1	18.4%	18

The following table sets forth the average external selling prices and sales volumes of our selected products, as well as the respective percentage changes from 2001 to 2002.

	Average Realized Price		Rate of Change from 2001 to 2002 (%)	Sales Volume	
	2001 (RMB)	2002 (RMB)		2001	2002
Crude Oil.....	1,256 (1)	1,189 (1)	(5.3)	6.05 (2)	6.35 (2)
Natural Gas.....	570 (3)	574 (3)	0.7	2.9 (4)	3.2 (4)
Gasoline .....	2,662 (1)	2,806 (1)	5.4	22.70 (5)	22.54 (5)
Diesel .....	2,438 (1)	2,408 (1)	(1.2)	42.70 (5)	44.04 (5)
Selected Chemical Products					
Synthetic Resin .....	5,532 (1)	5,247 (1)	(5.2)	3.14 (5)	3.83 (5)
Synthetic Fiber.....	8,512 (1)	8,435 (1)	(0.9)	1.08 (5)	1.18 (5)
Synthetic Rubber.....	6,239 (1)	6,468 (1)	3.7	0.47 (5)	0.51 (5)
Synthetic Fiber Monomer and Polymer.....	5,139 (1)	5,362 (1)	4.3	1.80 (5)	1.80 (5)

- 
- (1) per tonne
  - (2) tonnes
  - (3) per thousand cubic meter
  - (4) billion cubic meters
  - (5) million tonnes

### Sales of crude oil and natural gas

In 2002, sales revenues of crude oil and natural gas contributed RMB 10.9 billion, or 3.2%, of our operating revenues, representing a decrease of RMB 0.2 billion compared with those in 2001. This decrease was primarily due to a decline of 5.3% in the average realized price of crude oil from RMB 1,256 per tonne in 2001 to RMB 1,189 per tonne in 2002. However, the average realized price of natural gas slightly increased by 0.7% from RMB 570 per thousand cubic meter in 2001 to RMB 574 per thousand cubic meter in 2002. The external sales volume of crude oil increased from 6.05 million tonnes in 2001 to 6.35 million tonnes in 2002, and external sales volume of natural gas increased from 2.9 billion cubic meters in 2001 to 3.2 billion cubic meters in 2002. The increased external sales volume of crude oil and natural gas partially offset the negative impact of the price decline of crude oil on the sales revenues of crude oil and natural gas.

### Sales of refined petroleum products

Sales revenues of refined petroleum products from the refining and the marketing and distribution segments in 2002 were RMB 230.5 billion, contributing 66.8% of our total operating revenues, and representing an increase of RMB 2 billion, or 0.9%, compared with RMB 228.5 billion in 2001. The sales revenues of gasoline and diesel were RMB 169.3 billion, contributing 73.4% of the sales revenues of refined petroleum products, and representing an increase of RMB 4.8 billion, or 2.9%, compared with RMB 164.5 billion in 2001.

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The sales revenues of gasoline increased by 4.8%, or RMB 2.9 billion, from RMB 60.4 billion in 2001 to RMB 63.3 billion in 2002; the sales revenues of diesel increased by 1.8%, or RMB 1.9 billion, from RMB 104.1 billion in 2001 to RMB 106.0 billion in 2002. The increases in sales revenues of gasoline and diesel were mainly due to the increased realized gasoline price and the increased sales volume of diesel, which increases were attributable to the gradual recovery of refined products prices on the international market as well as our efforts to increase the retail proportion of our sales and to further expand our market. In 2002, the average external sales price of gasoline was RMB 2,806 per tonne, representing an increase of 5.4% over that in 2001, and the average external sales price of diesel was RMB 2,408 per tonne, representing a decline of 1.2% compared with that in 2001. The sales volume of gasoline was 22.54 million tonnes, representing a decrease of 0.7% compared with that in 2001 and sales volume of diesel was 44.04 million tonnes, representing an increase of 3.1% compared with that in 2001. The aggregate sales volume of gasoline and diesel rose by 1.8% compared with that in 2001.

### Sales of chemicals

Sales revenues of chemical products were RMB 63.1 billion in 2002, representing an increase of RMB 9.8 billion, or 18.4%, compared with RMB 53.3 billion in 2001. This increase was primarily due to the significant increase of output and sales volume of the chemical products as we completed revamping a number of chemicals production facilities to expand capacity, and the gradual recovery of chemical products prices in 2002. The external sales volumes of synthetic resin, synthetic rubber, synthetic fiber and monomers and polymers for synthetic fiber in 2002 were 3.83 million tonnes, 0.51 million tonnes, 1.18 million tonnes and 1.80 million tonnes, respectively, representing an increase of 22.0%, 8.5%, 9.3% and 0%, respectively, from those in 2001. The average realized prices of these products were RMB 5,247 per tonne, RMB 6,468 per tonne, RMB 8,435 per tonne and RMB 5,362 per tonne, respectively. Compared with 2001, the average realized prices of synthetic rubber and monomers and polymers for synthetic fiber increased by 3.7% and 4.3% and those of synthetic resin and synthetic fiber declined by 5.2% and 0.9%, respectively. As the prices of various chemical products went up and others went down in 2002, the average realized external sales prices of all six chemical product categories in 2002 were at a similar level to those in 2001.

### Operating Expenses

#### Overview

Operating expenses in 2002 were RMB 316.4 billion, representing an increase of RMB 20.4 billion, or 6.9%, from those in 2001. The increase in operating expenses was primarily attributable to the increase in purchased crude oil, products and operating supplies and expenses, selling, general and administrative expenses and depreciation, depletion and amortization.

#### Purchased crude oil, products and operating supplies and expenses

In 2002, purchased crude oil, products and operating supplies and expenses were RMB 237.6 billion, accounting for 75.1% of our total operating expenses, and representing an increase of RMB 15.1 billion, or 6.8%, compared with RMB 222.5 billion in 2001.

- o Purchased crude oil expenses were RMB 119.3 billion in 2002, accounting for 37.7% of the total operating expenses, and representing an increase of RMB 2.6 billion, or 2%, compared with RMB 116.6 billion in 2001. The increase was mainly due to our increased crude oil throughput as a result of the strong market demand associated with the fast growing Chinese economy.

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- o The volume of purchased crude oil increased partially due to the decrease in the volume of crude oil supplied by our own production. The throughput of crude oil in 2002 were 105.43 million tonnes (excluding crude oil processed for third parties), representing an increase of 3.52 million tonnes, or 3.5%, compared with 101.91 million tonnes in 2001. In 2002, we processed 29.54 million tonnes of crude oil supplied by our own exploration and production segment, representing a decrease of 2.13 million tonnes, or 6.7%, compared to 31.67 million tonnes in 2001. The throughput of internally produced crude oil accounted for 28.0% of the total throughput of crude oil, while the throughput of externally sourced crude oil were 75.90 million tonnes, accounting for 72.0% of the total throughput of crude oil and representing an increase of 5.66 million tonnes, or 8.1%, compared with 70.24 million tonnes in 2001. Although the international crude oil prices gradually went up after March 2002, our average purchase price of externally sourced crude oil in 2002 decreased by RMB 89 per tonne, or 5.4%, from RMB 1,661 per tonne in 2001 to RMB 1,572 per tonne in 2002.
- o In 2002, other purchased products and operating supplies and expenses accounted for RMB 118.3 billion, or 37.4% of the total operating expenses, representing an increase of 11.7%, or RMB 12.4 billion, compared with RMB 105.9 billion in 2001. This increase was primarily due to the increased externally purchased chemical feedstock and the increased purchase expense associated with the increased sales revenues of our overseas trading subsidiaries as they increased their trading activities of crude oil and refined products in 2002.

### Selling, general and administrative expenses

Selling, general and administrative expenses were RMB 21.5 billion in 2002, representing an increase of 20.8% compared with RMB 17.8 billion in 2001. This increase was primarily due to:

- o An increase of RMB 0.85 billion in transportation and contracted labor expenses as a result of the increases of the retail proportion of the sales of gasoline and diesel and the total sales volume of refined products;
- o An increase of RMB 0.6 billion in the selling expenses associated with the increased sales volume of chemical products as a result of the expanded production capacity of certain chemical production facilities after revamp;
- o An increase of approximately RMB 0.5 billion in the selling, general and administrative expenses in 2002 due to the increased sales volume of refined products other than gasoline, diesel and kerosene including jet fuel;
- o An increase of RMB 0.2 billion for research and development;
- o An increase of RMB 0.1 billion for the implementation of our management information system; and
- o We strengthened the administration of accounts receivable and collected certain aged outstanding debts in 2001 in which specific provisions were previously provided for and accordingly, reduced that year's allowance for doubtful accounts.

### Depreciation, depletion and amortization

Depreciation, depletion and amortization were RMB 25.3 billion in 2002,

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representing an increase of RMB 1.9 billion, or 8.1%, from RMB 23.4 billion in 2001. This increase was primarily due to the commencement of operation of newly developed or acquired properties, plants and equipment including oil and gas properties as a result of our capital expenditure programs.

### Exploration expenses

Exploration expenses were RMB 4.4 billion in 2002, representing an increase of RMB 0.6 billion, or 15.8%, from RMB 3.8 billion in 2001. This increase was primarily due to our implementation of our strategy of continuously expanding resources, whereby we increased our exploration expenditure in certain important areas in China's western region and southern marine bed formation areas so as to lay a firm foundation for the potential future expansion of our crude oil reserves and production.

### Personnel expenses

In 2002, personnel expenses were RMB 14.4 billion, representing an increase of RMB 0.7 billion, or 5.1%, from RMB 13.7 billion in 2001. The increase was mainly because we reinforced our performance-based incentive schemes, and in certain subsidiaries special salaries were awarded for certain special positions, resulting in an increase of RMB 0.5 billion in wage and salary expenses. In addition, expenses related to welfare, contribution to retirement schemes and social security increased by RMB 0.2 billion in 2002. Despite the increase, the personnel expenses in 2002 have been effectively controlled as a whole.

### Employee reduction expenses

Pursuant to the asset swap agreement between Sinopec Group Company and us, we made payment of RMB 0.24 billion relating to 11,000 employees transferred to Sinopec Group Company.

### Taxes other than income tax

Taxes other than income tax were RMB 11.9 billion, which is similar to that in 2001.

### Other operating expenses

The net amount of other operating expenses were RMB 1.1 billion in 2002, representing an increase of RMB 0.8 billion compared to RMB 0.3 billion in 2001. The increase was primarily attributable to the increased expenses incurred for the disposal of certain obsolete and retired equipment after various facilities' upgrade.

### Operating income

Operating income in 2002 was RMB 28.7 billion, representing an increase of RMB 1.1 billion, or 4.0%, from RMB 27.6 billion in 2001. This increase resulted from a combination of various external and internal factors including the recovery of crude oil and chemicals prices on the international market after March 2002, and the operating strategy implemented by our management in response to a more favorable market condition. Over the year, the operating income improved and stabilized after the first quarter.

### Net finance cost

Net finance cost was RMB 4.2 billion in 2002, representing an increase of 27.3% compared with RMB 3.3 billion in 2001. The increase was due to the following factors:

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- o Adversely affected by the fluctuation of exchange rates, we had a net foreign exchange loss of approximately RMB 0.3 billion, representing an increased finance cost of RMB 0.8 billion compared with approximately RMB 0.5 billion of net foreign exchange gain in 2001;
- o Net interest income in 2002 decreased by RMB 0.85 billion from that in 2001 as a result of the reduction of time deposits associated with the use of the offering proceeds and the lower interest rate set by People's Bank of China since February 2002; and
- o Interest expense in 2002 decreased by RMB 0.81 billion from 2001 as a result of the lower average interest rate in 2002 and our effort to tighten our operational cash management and to improve our financing structure, including reducing the amount of short-term loans.

Income before income tax and minority interests

Income before income tax and minority interest in 2002 was RMB 25.1 billion, representing a slight increase of 1.2% from RMB 24.8 billion in 2001.

Income tax

Income taxes in 2002 was RMB 7.7 billion, representing a decrease of 3.8% compared with RMB 8.0 billion in 2001, which decrease was primarily due to the decrease of non-deductible expenses.

Net income

Net income in 2002 was RMB 16.3 billion, representing a slight increase of 0.6% compared with RMB 16.2 billion in 2001. Basic earnings per share in 2002 was RMB 0.19, which was the same as that in 2001.

### C. DISCUSSIONS ON RESULTS OF SEGMENT OPERATIONS

We divide our operations into four principal business segments, namely, exploration and production segment, refining segment, marketing and distribution segment, and chemicals segment, and a corporate and others segment.

Unless otherwise specified, inter-segment transactions have not been eliminated from the financial data discussed in this section. In addition, the operating revenue data for each segment discussed in this section include, in addition to the sales of goods, "other operating revenues" for such segment.

The following table shows the operating revenues by each segment, the contribution of external sales and inter-segment sales as a percentage of operating revenues before elimination of inter-segment sales, and the contribution of external sales as a percentage of consolidated operating revenues (i.e. after elimination of inter-segment sales) for 2002 and 2003.

Year Ended December 31,				As a Percentage of Consolidated Operating Revenues Before Elimination of Inter-segment Sales		As a Percentage of Consolidated Operating Revenues After Inter-segment Sales
2001	2002	2003	2003	2002	2003	2002
----	----	----	----	----	----	----

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	RMB	RMB	RMB	US\$	(%)	(%)	(%)
	(in billions)						
Operating Revenues							
Exploration & Production							
External sales(1).....	17.3	18.2	23.0	2.8	3.1%	3.1%	5.3%
Inter-segment sales.....	43.3	39.4	47.3	5.7	6.8	6.4	
	-----	-----	-----	-----	-----	-----	
Total operating revenue...	60.6	57.6	70.3	8.5	9.9	9.5	
	=====	=====	=====	=====	=====	=====	
Refining							
External sales(1).....	50.6	49.2	62.2	7.5	8.5	8.4	14.2
Inter-segment sales.....	159.8	164.6	211.6	25.6	28.4	28.5	
	-----	-----	-----	-----	-----	-----	
Total operating revenue...	210.4	213.8	273.8	33.1	36.9	36.9	
	=====	=====	=====	=====	=====	=====	
Marketing and distribution							
External sales(1).....	180.8	184.7	238.8	28.8	31.9	32.2	53.5
Inter-segment sales.....	2.5	2.3	2.6	0.3	0.4	0.4	
	-----	-----	-----	-----	-----	-----	
Total operating revenue...	183.3	187.0	241.4	29.1	32.3	32.6	
	=====	=====	=====	=====	=====	=====	
Chemicals							
External sales(1).....	57.8	67.2	84.9	10.3	11.6	11.4	19.5
Inter-segment sales.....	6.3	7.9	7.4	0.9	1.4	1.0	
	-----	-----	-----	-----	-----	-----	
Total operating revenue...	64.1	75.1	92.3	11.2	13.0	12.4	
	=====	=====	=====	=====	=====	=====	
Corporate and others							
External sales(1).....	17.1	25.8	34.2	4.1	4.5	4.6	7.5
Inter-segment sales.....	8.9	19.9	29.4	3.6	3.4	4.0	
	-----	-----	-----	-----	-----	-----	
Total operating revenue...	26.0	45.7	63.6	7.7	7.9	8.6	
	=====	=====	=====	=====	=====	=====	
Total operating revenue before inter-segment eliminations.....	544.4	579.2	741.4	89.6	100%	100%	
	=====	=====	=====	=====	=====	=====	
Elimination of inter-segment sales.....	(220.8)	(234.1)	(298.3)	(36.1)			
	-----	-----	-----	-----			
Consolidated operating revenues.....	323.6	345.1	443.1	53.5			100
	=====	=====	=====	=====			=====

(1) includes other operating revenues. See note 30 to the consolidated financial statements for other operating revenues of each of our operating segments.

The following table shows the operating revenues, operating expenses and operating income by each segment before elimination of the inter-segment transactions for the periods indicated, and the percentage change from 2002 to 2003.

	Years Ended December 31,			Ch
	2001	2002	2003	2003
	----	----	----	----



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	RMB	RMB	RMB	US\$
	(in billions)			
Exploration and Production				
Total operating revenues.....	60.6	57.6	70.3	8.5
Total operating expenses.....	(37.4)	(42.8)	(51.1)	(6.2)
	-----	-----	-----	-----
Total operating income.....	23.2	14.8	19.2	2.3
	=====	=====	=====	=====
Refining				
Total operating revenues.....	210.4	213.8	273.8	33.1
Total operating expenses.....	(208.3)	(207.8)	(267.8)	(32.4)
	-----	-----	-----	-----
Total operating income.....	2.1	6.0	6.0	0.7
	=====	=====	=====	=====
Marketing and distribution				
Total operating revenues.....	183.3	187.0	241.4	29.1
Total operating expenses.....	(180.9)	(178.6)	(229.5)	(27.7)
	-----	-----	-----	-----
Total operating income.....	2.4	8.4	11.9	1.4
	=====	=====	=====	=====
Chemicals				
Total operating revenues.....	64.1	75.1	92.3	11.2
Total operating expenses.....	(64.3)	(74.5)	(90.1)	(10.9)
	-----	-----	-----	-----
Total operating income/(loss).....	(0.2)	0.6	2.2	0.3
	=====	=====	=====	=====
Corporate and others				
Total operating revenues.....	26.0	45.7	63.6	7.7
Total operating expenses.....	(25.9)	(46.8)	(65.6)	(7.9)
	-----	-----	-----	-----
Total operating (loss)/income.....	0.1	(1.1)	(2.0)	(0.2)
	=====	=====	=====	=====

Exploration and Production Segment

The business activities of the exploration and production segment consist of exploration, development, production, and sale of crude oil and natural gas.

Year Ended December 31, 2003 compared with Year Ended December 31, 2002

Operating revenues from the exploration and production segment in 2003 were RMB 70.3 billion (US\$8.5 billion), representing an increase of 22% from RMB 57.6 billion in 2002. The increase in operating revenues was primarily due to an increase in the average realized prices of crude oil. In addition, the increase was also partially due to increase in the average realized prices and sales volume of natural gas.

In 2003, average realized price of crude oil by this segment was RMB 1,620 (US\$195.7) per tonne, representing an increase of 22.9% over 2002. Average realized price of natural gas was RMB 596 (US\$72.0) per thousand cubic meters, representing an increase of 4.2% over 2002.

Sales volume of crude oil was 35.75 million tonnes, representing an increase of 0.6% compared with 2002. Sales volume of natural gas was 3.5 billion cubic meters, representing an increase of 6.1% over that in 2002.

In 2003, the segment's operating expenses were RMB 51.1 billion (US\$6.2 billion), or an increase of RMB 8.3 billion (US\$1.0 billion), or 19.4%, compared with 2002. The increase was primarily because:

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- o In 2003, the segment continued to implement its strategy featuring "expansion of resources", and increased investment in exploration activities in a number of new blocks in western and southern parts of China. As a result, the exploration expenses (including the costs of dry holes) increased by RMB 1.7 billion (US\$205.4 million) compared with 2002.
- o Due to the increase of downhole operation activities and rise of fuel and other costs as a result of the increase in crude oil price, the lifting cost of crude oil and natural gas increased by RMB 1.04 billion (US\$125.7 million) compared with 2002.
- o Other expenses including supply of materials increased by RMB 0.8 billion (US\$96.6 million) compared with 2002.
- o In 2003, as a result of the employee compensation system reform, wages, salaries and welfare expenses increased by approximately RMB 0.7 billion (US\$84.5 million) compared with 2002.
- o In 2003, depreciation, depletion and amortization were RMB 9.4 billion (US\$1.1 billion), representing an increase of RMB 0.4 billion (US\$48.3 million) compared with 2002, due to the addition of fixed assets resulted from the segment's capital investments.
- o Provision for impairment losses of assets increased by RMB 310 million compared with 2002.
- o Due to the increase of sales revenues the compensation fee for mineral resources increased. In addition, land lease rentals increased due to the increase in leased land area. The sum of these two items increased by RMB 220 million (US\$37.4 million) compared with 2002.
- o Disposal of spare parts increased by approximately RMB 100 million (US\$12.0 million) compared with 2002.

Compared with 2002, in light of the high crude oil price, this segment increased its workload of certain downhole operation in order to maintain a stable production of crude oil, and incurred additional expenses to resume the production activities that were affected by stormy tide and flood. As a result, the unit lifting cost of crude oil and natural gas increased from US\$6.12 per barrel in 2002 to US\$6.47 per barrel in 2003, representing an increase of 5.7%.

In 2003, operating income of the exploration and production segment was approximately RMB 19.2 billion (US\$2.3 billion), which was 29.7% higher than in 2002.

Year Ended December 31, 2002 Compared with Year Ended December 31, 2001

Operating revenues from the exploration and production segment in 2002 were RMB 57.6 billion, representing a decrease of RMB 3 billion, or 5%, from RMB 60.6 billion in 2001. The decline in operating revenues was primarily due to the decrease of the average realized prices and sales volume of crude oil. Despite that crude oil prices on the international market have gradually increased since March 2002, our average realized crude oil price in 2002 was still lower than that of 2001, partly because the crude oil pricing mechanism in China, though determined in accordance with the international market prices, lags behind them for approximately one month.

In 2002, the segment's average realized price of crude oil was RMB 1,317.82 per tonne, representing a decrease of 4% compared with RMB 1,373.06 per tonne in 2001. Average realized price of natural gas was RMB 571.69 per

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thousand cubic meter in 2002, representing an increase of 1.9% compared with RMB 561.08 per thousand cubic meter in 2001.

In 2002, the exploration and production segment sold 35.53 million tonnes of crude oil, representing a decrease of 0.48 million tonnes, or 1.3%, from 36.01 million tonnes in 2001. It also sold 3.3 billion cubic meters of natural gas, representing an increase of 0.2 billion cubic meters, or 6.5%, from 3.1 billion cubic meters in 2001. While the crude oil production volume in 2002 remained at the similar level to that in 2001, crude oil sales volume declined primarily because the segment sold 0.38 million tonnes more of inventory crude oil stored in the pipelines in 2001 compared with 2002. The increase in natural gas sales volume was primarily due to the increased production of natural gas from Sinopec National Star and in China's western regions.

Operating expenses for the exploration and production segment were RMB 42.8 billion, representing an increase of RMB 5.4 billion, or 14.4%, from RMB 37.4 billion in 2001, which increase is primarily due to the following reasons:

- o Depreciation, depletion and amortization increased by RMB 0.9 billion from RMB 8.1 billion in 2001 to RMB 9 billion in 2002 as more fixed assets commenced operation as a result of various capital expenditure programs;
- o We continued to implement in 2002 our strategy of expanding resources, and increased our exploration expenditure in certain important areas in western China and southern China's marine bed formation areas so as to lay a firm foundation for the potential future increase of crude oil reserve and production. Exploration expenses (including dry holes expenses) increased by RMB 0.6 billion from RMB 3.8 billion in 2001 to RMB 4.4 billion in 2002;
- o We reduced approximately RMB 0.2 billion of the allowance for doubtful debts in 2001, while in 2002, we made a provision for allowance for doubtful accounts of approximately RMB 0.4 billion. The related expenses in 2002 thus increased by approximately RMB 0.6 billion compared with 2001.
- o As a result of the segment's reinforcement of its performance based incentive schemes as well as the implementation of new incentive schemes in certain subsidiaries such as special salaries for special positions, expenses related to salaries, welfare and social security increased approximately by RMB 0.3 billion in 2002 compared with 2001;
- o The segment disposed of certain obsolete and retired equipment after various facilities' upgrade, which resulted in an increase of the related expenses by approximately RMB 0.3 billion in 2002; and
- o Other operating expenses of the segment including supplies of materials in 2002 increased by RMB 0.9 billion compared with 2001.

Operating income of the exploration and production segment was approximately RMB 14.8 billion in 2002, representing a decrease of RMB 8.4 billion, or 36.2%, from RMB 23.2 billion in 2001. The decline was primarily due to the decline of realized prices of crude oil as well as the increase of depreciation, depletion and amortization expenses and exploration expenses.

### Refining Segment

Our refining segment consists of our operations related to purchasing crude oil from our exploration and production segment and from third parties, processing of crude oil into refined petroleum products, selling gasoline,

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diesel and kerosene including jet fuel our marketing and distribution segment, and selling other refined petroleum products to domestic and overseas customers.

Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

In 2003, the refining segment's operating revenues were RMB 273.8 billion (US\$33.1 billion), or an increase of RMB 60 billion (US\$7.2 billion), or 28.1%, over 2002. The increase was mainly due to the increase in the selling prices and sales volumes of various major refined petroleum products.

The table below sets forth sales revenue and the percentage of total operating revenue for the segment by product category for 2002 and 2003, and as well as the percentage changes in sales revenue from 2002 to 2003. Other refined petroleum products mainly consist of kerosene, liquid purified gas, jet fuel, fuel oil, lubricant and asphalt.

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	For the Year Ended December 31,			Rate of Change from 2002 to 2003 ----- (%)	
	2002 ----- (RMB)	2003 ----- (RMB)	2003 ----- (US\$)		
	(in billions)				
Refining segments, operating revenues					
Gasoline.....	44.1	55.8	6.8	26.5%	
Diesel .....	79.8	99.7	12.0	24.9	
Chemical feedstock .....	38.9	49.9	6.0	28.3	
Other refined petroleum products.....	47.9	63.9	7.7	3.4	
Other operating revenues.....	3.1	4.5	0.6	45.2	
	-----	-----	-----	-----	
Total.....	213.8	273.8	33.1	28.1%	

In 2003, the sales revenues of gasoline realized by the segment was RMB 55.8 billion (US\$6.8 billion), accounting for 20.4% (which was 0.2% lower than that of 2002) of this segment's operating revenues, representing an increase of 26.5% from 2002.

In 2003, the sales revenues of diesel realized by the segment was RMB 99.7 billion (US\$12.0 billion), accounting for 36.4% (which was 0.9% lower than that of 2002) of this segment's operating revenues, representing an increase of 24.9% from 2002.

In 2003, the sales revenues of chemical feedstock realized by the segment was RMB 49.9 billion (US\$6.0 billion), accounting for 18.2% (which was similar to that in 2002) of this segment's operating revenues, representing an increase of 28.3% from 2002.

In 2003, the sales revenues of refined petroleum products other than gasoline, diesel and chemical feedstock were RMB 63.9 billion (US\$7.7 billion), accounting for 23.3% (which was 0.9% higher than that of 2002) of this segment's operating revenues, representing an increase of 33.4% from 2002. The growth of the sales revenues of these products was faster than that of gasoline and diesel, mainly because the segment actively reinforced its efforts in marketing

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these refined petroleum products, in response to the changes in the market situation. To seize the opportunities, we further optimized our product-mix, and produced a larger quantity of those refined petroleum products with higher added values.

The table below sets forth sales volume and average realized prices by product for 2002 and 2003, and as well as the percentage changes in sales volume and average realized prices for the periods shown. Other refined petroleum products mainly consist of kerosene, liquid purified gas, jet fuel, fuel oil, lubricant and asphalt.

	Sales volume		Rate of change	Average realized prices	
	2002	2003	from 2002 to 2003	2002	2003
	----	----	-----	----	----
	(million tonnes)		(%)	(RMB per tonne)	
Gasoline.....	19.34	21.25	9.9%	2,281	2,624
Diesel.....	37.53	41.46	10.5	2,127	2,404
Chemical feedstock .....	20.09	21.91	9.1	1,934	2,277
Other refined petroleum products.....	25.99	29.64	14.0%	1,843	2,157

In 2003, the operating expenses of the segment were RMB 267.8 billion (US\$32.4 billion), representing an increase of 28.9% from 2002. This increase was largely due to the rise of crude oil price, as well as our efforts in increasing the throughput of crude oil.

In 2003, the average crude oil cost was RMB 1,824 (US\$220.4 billion) per tonne, representing an increase of RMB 295 (US\$35.6) per tonne, or 19.3%, from 2002. Crude oil throughput was 116.66 million tonnes (excluding amounts processed for third parties), representing an increase of 11.23 million tonnes, or 10.65%, over 2002. In 2003, the total crude oil costs were RMB 212.8 billion (US\$25.7 billion), accounting for 79.5% of the segment's operating expenses, representing an increase of RMB 51.6 billion (US\$6.2 billion), or 32%, over 2002. In addition, the proportion accounted for by the total crude oil costs in the refining segment's operating expenses in 2003 increased by 1.9% compared with 2002.

In 2003, refining margin was US\$4.09 per barrel (defined as the sales revenues less the crude oil costs and refining feedstock costs and taxes other than income tax; divided by the throughput of crude oil and refining feedstock), increased by US\$0.13 per barrel compared with US\$3.96 dollars per barrel in 2002, thus representing an increase by 3.3%.

In 2003, the unit refining cash operating cost (defined as operating expenses less the purchasing costs of crude oil and refining feedstock, depreciation and amortization, taxes other than income tax, other business expenses and adjustments; divided by the throughput of crude oil and refining feedstock) was US\$2.00 per barrel, decreased by US\$0.02 per barrel compared with US\$2.02 per barrel in 2002, representing a decrease by 1%. This reflected the segment's continued efforts in lowering its costs in 2003, while the increased throughput has also diluted the expenses on a unit basis.

In 2003, operating profit of the refining segment was RMB 6 billion (US\$724.9 million), similar to that in 2002.

Year Ended December 31, 2002 Compared with Year Ended December 31, 2001

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Operating revenues of the refining segment in 2002 were RMB 213.8 billion, representing an increase of 1.6% compared with RMB 210.4 billion in 2001. The increase in operating revenues was primarily due to the significant increase in revenues from the sales of chemical feedstock as well as certain refined products other than gasoline and diesel.

In 2002, the refining segment sold 19.34 million tonnes of gasoline at an average realized price of RMB 2,281 per tonne, and realized sales revenues of RMB 44.1 billion, accounting for 20.6% in the total operating revenues of the refining segment. In 2001, the refining segment sold 18.75 million tonnes of gasoline at an average realized price of RMB 2,387 per tonne, and realized sales revenues of RMB 44.8 billion, accounting for 21.3% in the total operating revenues of the refining segment in 2001.

Compared with 2001, the sales volume of gasoline in 2002 increased by 0.59 million tonnes, or 3.1%; the realized gasoline price fell by RMB 106 per tonne, or 4.4%; sales revenues of gasoline decreased by RMB 0.7 billion, and that as a percentage of the refining segment's total operating revenues declined by 0.7%.

In 2002, the refining segment sold 37.53 million tonnes of diesel at an average realized price of RMB 2,127 per tonne, and realized sales revenues of RMB 79.8 billion, accounting for 37.3% of the total operating revenues of the refining segment. In 2001, the refining segment sold 38.28 million tonnes of diesel at an average realized price of RMB 2,200 per tonne, and realized sales revenues of RMB 84.2 billion, accounting for 40.0% of the total operating revenues of the refining segment in 2001.

Compared with 2001, the sales volume of diesel in 2002 decreased by 0.75 million tonnes, or 2.0%; the realized diesel price fell by RMB 73.14 per tonne, or 3.3%; sales revenues of diesel decreased by RMB 4.4 billion, and that as a percentage of the refining segment's total operating revenues declined by 2.7%.

In 2002, the refining segment sold 20.09 million tonnes of chemical feedstock at an average realized price of RMB 1,934 per tonne, and realized sales revenues of RMB 38.9 billion, accounting for 18.2% of the total operating revenues of the refining segment. In 2001, the refining segment sold 17.17 million tonnes of chemical feedstock at an average realized price of RMB 1,991 per tonne, and realized sales revenues of RMB 34.2 billion, accounting for 16.3% of the total operating revenues of the refining segment in 2001.

Compared with 2001, the sales volume of chemical feedstock in 2002 increased by 2.92 million tonnes, or 17.0%; sales price fell by RMB 57 per tonne, or 2.9%; sales revenues increased by RMB 4.7 billion, and that as a percentage of the refining segment's total operating revenues increased by 1.9%. In 2002, as part of its optimization plan for resource allocations, the refining segment adjusted its product mix in accordance with the increased demand from our chemical segment and significantly increased its production as well as sales volume of chemical feedstock.

In 2002, the refining segment sold 25.99 million tonnes of other refined products than gasoline, diesel and chemical feedstock at an average realized price of RMB 1,843 per tonne, and realized sales revenues of RMB 47.9 billion, accounting for 22.4% of the total operating revenues of the refining segment. In 2001, the refining segment sold 24 million tonnes of these other refined products at an average realized price of RMB 1,853.54 per tonne, and realized sales revenues of RMB 44.5 billion, accounting for 21.1% of the total operating revenues of the refining segment in 2001.

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	For the Year Ended		Rate of Change
	December 31,		from
	2001	2002	2001 to 2002
	----	----	-----
	(RMB)	(RMB)	(%)
	(in billions)		
Refining segments total operating revenue			
Gasoline.....	44.8	44.1	(1.6%)
Diesel .....	84.2	79.8	(5.2)
Chemical feedstock .....	34.2	38.9	13.7
Other refined petroleum products.....	44.5	47.9	7.6
Other operating revenues.....	2.7	3.1	14.8
	-----	-----	-----
Total.....	210.4	213.8	1.6%

The table below sets forth sales volume and average realized prices by product for 2001 and 2002, and as well as the percentage changes in sales volume and average realized prices for the periods shown. Other refined petroleum products consists of kerosene, liquid purified gas, jet fuel, fuel oil, lubricant and asphalt.

	Sales Volume		Rate of Change	Average	
	2001	2002	from	Realized Price	
	----	----	2001 to 2002	2001	2002
	(million tonnes)		(%)	(RMB per tonne)	
Gasoline.....	18.75	19.34	3.2%	2,387	2,387
Diesel.....	38.28	37.53	(2.0)	2,200	2,200
Chemical feedstock .....	17.17	20.09	17.0	1,991	1,991
Other refined petroleum products.....	24.00	25.99	8.3	1,854	1,854

Compared with 2001, the sales volume of these other refined products increased by 1.99 million tonnes, or 8.3%; average realized sales price fell by RMB 11 per tonne, or 0.6%; sales revenues increased by RMB 3.4 billion, and that as a percentage of the segment's total operating revenues increased by 1.3%. The increase in the sales volume of these other refined products outpaced that of gasoline and diesel, as we intended to capture the favorable opportunities presented in the changing market by strengthening the management control of these other refined products and increasing the production of those products with higher added value.

In 2002, operating expenses of the refining segment were RMB 207.8 billion, representing a decrease of RMB 0.5 billion, or 0.2%, from RMB 208.3 billion in 2001. The decrease was primarily due to the reduction of average purchase cost of crude oil. In 2002, average cost of crude oil was RMB 1,529 per tonne, representing a decrease of RMB 85.85 per tonne, or 5.3%, from RMB 1,615 per tonne in 2001. In 2002, the segment processed 105.43 million tonnes of crude oil (excluding crude oil processed for third parties), representing an increase of 3.52 million tonnes from 101.91 million tonnes in 2001, which increase was partially offset by the decline of the average purchase cost of crude oil. In 2002, total purchase expenses of crude oil were RMB 161.2 billion, accounting for 77.6% of the total operating expenses of the refining

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segment. In 2001, total purchase expenses of crude oil was RMB 164.6 billion, accounting for 79% of the total operating expenses of the refining segment. Compared with 2001, the total purchase expenses of crude oil for the segment in 2002 decreased by RMB 3.4 billion, and that as a percentage of the segment's total operating expenses decreased by 2.1%.

In 2002, our refining margin (defined as the refining segment's sales revenues less crude oil expenses, feedstock expenses and taxes other than income tax; and divided by the volume of crude oil and feedstock processed) was US\$3.95 per barrel, which increased by US\$0.38 per barrel, or 10.6%, from US\$3.57 per barrel in 2001.

In 2002, operating income of the refining segment was RMB 6.0 billion, representing an increase of RMB 3.9 billion, or 185.7%, from RMB 2.1 billion in 2001. The increase was largely due to the increased refining margins as a result of, among others, the increased crude oil throughput, the better adjustment of product mix, the expansion of the market and the increased production of refined products with higher added value.

### Marketing and Distribution Segment

Our marketing and distribution segment consists of our operations related to purchasing petroleum products from the refining segment and third parties, and wholesale selling and distribution refined products domestic customers, direct-selling refined products to certain special customers, and retail selling refined products and provision of related services through our retail network.

Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

In 2003, the segment's operating revenues of our marketing and distribution segment were RMB 241.4 billion (US\$29.1 billion), or an increase of 29.1% over 2002. The increase was primarily due to the increase in the total sales volume and sales prices of petroleum products, and in particular the higher percentage accounted for by the retail volume of gasoline, diesel and high-grade gasoline in the total sales volume. In 2003, total sales volume of petroleum products was 83.86 million tonnes, representing an increase of 10.25 million tonnes, or 13.9%.

The percentage of retail and the distribution sales in the total sales volume of the segment increased further. The percentage of retail sales of gasoline and diesel in the segment's operating revenue increased from 43.7% in 2002 to 45.8% in 2003. The percentage of distribution sales of gasoline and diesel in the Segment's operating revenue increased from 8.5% in 2002 to 11.2% in 2003. The percentage of the wholesale sales of gasoline and diesel in the segment's operating revenue decreased from 31.9% in 2002 to 25.1% in 2003.

In 2003, the percentage of retail sales of gasoline and diesel in the total sales volume of gasoline and diesel increased from 44.8% in 2002 to 48.9% in 2003, or an increase of 4.1%. The percentage of distribution sales of gasoline and diesel in the total sales volume increased from 9.9% in 2002 to 13.3% in 2003, or an increase of 3.4%. The percentage of wholesale sales of the total sales volume of gasoline and diesel decreased from 38.1% in 2002 to 30.6% in 2003, or a decrease of 7.5%. The increase in the retail percentage in the total sales volume was due to a number of factors including, among others, our continued efforts to build additional retail sales outlets, to further optimize the locations of our existing petrol stations, to further improve the service quality, and to further increase the throughput per petrol station.

The percentage of high-grade gasoline in the total sales volume of gasoline further increased, from 27.1% in 2002 to 35.5% in 2003, or an increase of 8.4%.



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The sales revenues of four major product categories, namely gasoline, diesel, kerosene (including jet fuel) and fuel oil, of the segment were RMB 232.6 billion (US\$28.1 billion), constituting 96.4% of the segment's operating revenue, representing an increase of 29.1% from 2002.

The following table shows the sales volumes, average realized prices, respective percentages of change of four product categories in 2002 and 2003, including the break-down information of different sales channels for gasoline and diesel.

	Sales Volume		Rate of Change from 2002 to 2003	Average Realized Price	
	2002	2003		2002	2003
	(million tonnes)		(%)	(RMB per tonne)	
Gasoline.....	21.36	23.53	10.2%	2,857	3,062
Retail sale.....	12.34	14.68	19.0	3,062	3,062
Direct sale to customers.....	0.72	0.79	9.7	2,313	2,313
Distribution.....	1.04	1.62	55.8	2,693	3,062
Wholesale.....	7.26	6.44	(11.3)	2,585	3,062
Diesel .....	44.50	47.92	7.7	2,405	2,562
Retail sale.....	17.16	20.29	18.2	2,562	2,562
Direct sale to customers.....	4.01	4.34	8.2	2,219	2,219
Distribution.....	5.48	7.88	43.8	2,398	2,398
Wholesale.....	17.85	15.41	(13.7)	2,297	2,297
Kerosene including jet fuel.....	4.34	4.57	5.3	2,112	2,112
Fuel Oil .....	2.11	6.37	201.9%	1,427	1,427

In 2003, this segment's operating expenses were RMB 229.5 billion (US\$27.7 billion), representing an increase of 28.4% compared with 2002. Among others, purchasing costs of gasoline and diesel were RMB 180.8 billion (US\$21.8 billion), constituting 78.8% of the segment's operating expenses. Average purchased prices of gasoline and diesel increased by 14.3% and 13.7%, respectively, compared with 2002, to RMB 2,693 (US\$325.4) per tonne and RMB 2,450 (US\$296.0) per tonne respectively. The purchasing volume of gasoline and diesel increased by 10.2% and 7.7% from 2002, to 23.53 million tonnes and 47.92 million tonnes respectively.

In 2003, the segment's cash operating cost per tonne of petroleum products (defined as the operating expenses less the purchasing costs, taxes other than income tax, depreciation and amortization, and divided by the sales volume) was RMB 174.95 (US\$21.1) per tonne, or an increase of 5.4% compared with RMB 166 per tonne in 2002. This increase was primarily due to the increased percentage of retail sales volume and distribution sales of petroleum products in the total sales volume, which in turn increased transportation and labor costs.

In 2003, the segment's operating income was RMB 11.9 billion (US\$1.4 billion), or an increase of 41.7% compared with 2002. This increase was due to a number of factors, including its continued efforts to focus on market demands, to increase the percentage of retail and distribution sales volumes in the total sales volume, to further optimize the deployment of resources, and to increase the total sales volume of petroleum products. As a result, the segment managed to achieve relatively good operating results over the full year.

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Year Ended December 31, 2002 Compared with Year Ended December 31, 2001

Operating revenues of the marketing and distribution segment in 2002 were RMB 187 billion, representing an increase of RMB 3.7 billion, or 2%, from RMB 183.3 billion in 2001. The increase was mainly due to the increased sales volume of the refined products. The total sales volume of the refined products by the segment in 2002 was 73.61 million tonnes, representing an increase of 4.26 million tonnes, or 6.1%, from 69.35 million tonnes in 2001.

Retail sales as a percentage of the segment's total sales revenues further increased in 2002. The retail sales revenue of gasoline and diesel accounted for 43.7% of the segment's operating revenues in 2002, representing an increase from 39.7% in 2001. Wholesale sales revenues of gasoline and diesel accounted for 46.1% of the segment operating revenues in 2002, representing a decline from approximately 53% in 2001.

Wholesale sales volume accounted for 55.2% of the total sales volume of gasoline and diesel in 2002, representing a decrease of 2.4% from 57.6% in 2001. Retail sales volume accounted for 44.8% of the total sales volume of gasoline and diesel in 2002, representing an increase of 2.4% from 42.4% in 2001.

The increase in retail sales revenue and retail sales volume was mainly a result of the increased average throughput at each service station, which increase was attributable to our continued effort to enhance our retail distribution network, to further optimize the locations of our existing service stations and to improve our quality of service.

The following table shows the sales volumes, average realized prices, respective percentages of change of four product categories in 2001 and 2002, including the break-down information of different sales channels for gasoline and diesel.

	Sales Volume		Rate of	Average	
	2001	2002	Change from 2001 to 2002	Realized Prices 2001	2002
	----	----	-----	----	----
	(million tonnes)		(%)	(RMB per tonne)	
Gasoline.....	20.32	21.36	5.1%	2,749	2,857
Retail sale.....	10.84	12.34	13.8	2,935	3,062
Direct sale to customers.....	0.86	0.72	(16.3)	2,457	2,313
Distribution.....	0.68	1.04	52.9	2,642	2,693
Wholesale.....	7.94	7.26	(8.6)	2,536	2,585
Diesel .....	42.55	44.50	4.6	2,440	2,405
Retail sale.....	15.82	17.16	8.5	2,591	2,562
Direct sale to customers.....	4.66	4.01	(13.9)	2,269	2,219
Distribution.....	3.1	5.48	76.8	2,439	2,398
Wholesale.....	18.97	17.85	(5.9)	2,358	2,297
Kerosene including jet fuel.....	3.74	4.34	16.0%	2,757	2,112

Sales revenues of gasoline were RMB 61 billion in 2002, representing an increase of RMB 5.3 billion, or 9.5%, from RMB 55.7 billion in 2001. This increase was primarily due to the increased sales volume as well as the

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increased sales prices of gasoline. Gasoline sales price increased because of the increased retail sales proportion as well as the increased sales volume of higher grade gasoline. Sales volume of gasoline in 2002 was 21.36 million tonnes, representing an increase of 1.09 million tonnes, or 5.4%, from 20.27 million tonnes in 2001. In addition, the sales volume of gasoline with octane level #90 and higher as a percentage of the segment's total gasoline sales volume was further enhanced, representing an increase of 31% from 4.41 million tonnes in 2001 to 5.78 million tonnes in 2002.

Sales revenues of diesel were RMB 107 billion, representing an increase of RMB 3.2 billion, or 3.1%, from RMB 103.8 billion in 2001. The increase was primarily due to the increased sales volume of diesel.

Sales revenue of kerosene including jet fuel was RMB 9.2 billion in 2002, representing a decrease of RMB 1.1 billion, or 11.3%, from RMB 10.3 billion in 2001. The decrease was primarily due to the decline of the average realized prices of kerosene including jet fuel.

- o In 2002, the retail sales volume of gasoline increased to 12.34 million tonnes, representing an increase of 1.5 million tonnes, or 13.8%, from 10.84 million tonnes in 2001; and the average realized retail sales price of gasoline was RMB 3,061.82 per tonne, representing an increase of 4.3% compared with RMB 2,934.55 per tonne in 2001;
- o In 2002, the wholesale sales volume of gasoline (excluding direct distribution sales volume and those directly sold to special customers) was 7.26 million tonnes, representing a decrease of 0.68 million tonnes, or 8.6%, from 7.94 million tonnes in 2001; and the average realized wholesale sales price of gasoline was RMB 2,585.31 per tonne, representing an increase of 1.9% compared with RMB 2,536.2 per tonne in 2001;
- o In 2002, the direct distribution sales volume of gasoline was 1.04 million tonnes, representing an increase of 0.36 million tonnes, or 52.9%, from 0.68 million tonnes in 2001; and the average realized price for the direct distribution sales of gasoline was RMB 2,693.28 per tonne, representing an increase of 1.9% compared with RMB 2,642.34 per tonne in 2001; and
- o In 2002, the direct sales volume of gasoline to special customers was 0.72 million tonnes, representing a decrease of 0.14 million tonnes, or 16.3%, from 0.86 million tonnes in 2001; and the average realized price of gasoline sold to special customers was RMB 2,312.75 per tonne, representing a decrease of 5.9% compared with RMB 2,457.12 per tonne in 2001.

In 2002, the sales revenues of diesel were RMB 107 billion, representing an increase of RMB 3.2 billion, or 3.1%, from RMB 103.8 billion in 2001. The increase was primarily due to the increased sales volume of diesel. In 2002, the sales volume of diesel was 44.5 million tonnes, representing an increase of 1.95 million tonnes, or 4.6%, from 42.55 million tonnes in 2001; the average realized sales price of diesel was RMB 2,404.85 per tonne, representing a decrease of RMB 35.6 per tonne, or 1.5%, compared with RMB 2,440.45 per tonne in 2001.

- o In 2002, the retail sales volume of diesel increased to 17.16 million tonnes, representing an increase of 1.34 million tonnes, or 8.5%, from 15.82 million tonnes in 2001; and the average realized retail sales price of diesel was RMB 2,562.49 per tonne, representing a decrease of 1.1% compared with RMB 2,590.59 per tonne in 2001;

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- o In 2002, the wholesale sales volume of diesel (excluding the direct distribution sales volume and those directly sold to special customers) was 17.85 million tonnes, representing a decrease of 1.12 million tonnes, or 5.9%, from 18.97 million tonnes in 2001; and the average realized wholesale sales price of diesel was RMB 2,297.06 per tonne, representing a decrease of 2.6% compared with RMB 2,357.51 per tonne in 2001;
- o In 2002, the direct distribution sales volume of diesel was 5.48 million tonnes, representing an increase of 2.38 million tonnes, or 76.8%, from 3.1 million tonnes in 2001; and the average realized price for the direct distribution sales of diesel was RMB 2,397.89 per tonne, representing a decrease of 1.7% compared with RMB 2,438.83 per tonne in 2001;
- o In 2002, the direct sales volume of diesel to special customers was 4.01 million tonnes, representing a decrease of 0.65 million tonnes, or 13.9%, from 4.66 million tonnes in 2001; and the average realized price of diesel sold to special customers was RMB 2,219.39 per tonne, representing a decrease of 2.2% compared with RMB 2,269.32 per tonne in 2001.

Sales revenue of kerosene including jet fuel was RMB 9.2 billion in 2002, representing a decrease of RMB 1.1 billion, or 11.3%, from RMB 10.3 billion in 2001. The decrease was primarily due to the decline of the average realized prices of kerosene including jet fuel. The average realized price of kerosene including jet fuel was RMB 2,111.92 per tonne in 2002, representing a decrease of 23.4% compared with RMB 2,757.0 per tonne in 2001.

Operating expenses of the marketing and distribution segment were RMB 178.6 billion in 2002, representing a decrease of RMB 2.3 billion, or 1.3%, from RMB 180.9 billion in 2001. The purchase costs of gasoline and diesel in 2002 were RMB 146.2 billion, accounting for 81.9% of the total operating expenses of this segment. The average purchase cost of gasoline and diesel decreased from 2001 by 8.6% and 6.4%, respectively, to RMB 2,357.28 per tonne and RMB 2,155.17 per tonne in 2002, respectively.

Operating income of the marketing and distribution segment was RMB 8.4 billion, representing an increase of RMB 6 billion, or 250%, from 2001. Such increase was primarily because, as the general market conditions improved, the total sales volume of refined products increased. The increase was also due to the increased retail proportion in the total sales volume as well as the increased sales volume of higher grade gasoline.

Over the year, operating income of the marketing and distribution segment gradually improved from a sluggish start in January and February 2002, at which time the refined products prices were at the lowest level for the entire year. With the gradual recovery of prices of crude oil and refined products on the international market after March 2002, we closely monitored the market changes with a view to capturing the favorable opportunities presented and further optimizing our deployment of the resources for refined products. In response to the market demand, we adopted a number of effective initiatives including tighter control of our crude oil throughput and the volume of refined products we made available in the domestic market. As a result, the performance of the marketing and distribution segment improved significantly over the year.

### Chemicals Segment

Our chemicals segment consists of operations related to purchasing chemical feedstock from our refining segment, producing, marketing and distribution of petrochemical products and inorganic chemical products.

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Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

In 2003, the chemicals segment's operating revenue were RMB 92.3 billion (US\$11.2 billion), representing an increase of 22.9% compared with 2002. This increase was mainly due to significant increases in sales volumes and sales prices of all major categories of chemical products except chemical fertilizers, as a result of the strong domestic demand for chemical products. The strong domestic demand corresponded to the gradual recovery of the global chemical market. In order to increase production volume for our chemical products, we revamped certain of our ethylene and other downstream facilities, which increased our production capacity of certain chemical products.

The sales revenues of the six major product categories of this segment, namely basic organic chemicals, synthetic resin, synthetic rubber, synthetic fiber, synthetic fiber monomer and polymer, and chemical fertilizer, were approximately RMB 83.1 billion (US\$10.0 billion), accounting for 90.0% of the segment's operating revenues, representing an increase of 26.3% compared with 2002.

The following table sets forth the sales volume, average realized prices and respective percentages changes of these six major categories of chemical products of the segment in 2002 and 2003.

	Sales Volumes		Rate of Change	Average	
	2002	2003	from 2002 to 2003	Realized Prices	Realized Prices
	----	----		----	----
	(million tonnes)		(%)	(RMB per tonne)	
Basic organic chemicals.....	7.23	7.80	7.9%	2,748	2,815
Synthetic resins.....	3.83	4.52	18.0	5,247	6,042
Synthetic rubber.....	0.51	0.55	7.8	6,468	8,513
Synthetic fiber.....	1.18	1.33	12.7	8,435	9,639
Synthetic fiber monomers and polymers.....	1.80	2.41	33.9	5,362	5,788
Chemical fertilizer.....	2.72	2.03	(25.4)%	1,084	1,165

In 2003, the chemicals segment's operating expenses were RMB 90.1 billion (US\$10.9 billion), representing an increase of RMB 15.6 billion (US\$1.9 billion), or 21.1%, from 2002. Partly because the segment expanded and upgraded certain ethylene and other downstream facilities, production significantly increased. As a result, expenses on various feedstock and auxiliary materials, other variable expenses and fixed costs all increased. Among others:

- o Consumption of feedstock and auxiliary materials increased by 2.74 million tonnes, the average unit price increased by RMB 228 (US\$27.5) per tonne. As a result, the purchased costs of feedstock, operating supplies and related expenses increased by approximately RMB 12.6 billion (US\$1.5 billion) compared with 2002.
- o The losses on disposal of low-efficiency assets increased by RMB 0.89 billion (US\$107.5 million) as a result of the segment's efforts to optimize its asset structure.
- o Provision for the impairment losses on assets increased by RMB 0.45 billion (US\$54.4 million).

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- o The losses on disposal of spare parts increased by RMB 0.27 billion (US\$32.6 million).
- o Selling expenses increased by RMB 0.18 billion (US\$21.7 million), due to the increases in the production and sales volumes.
- o Depreciation and amortization were RMB 8.0 billion (US\$1.0 billion), representing an increase of RMB 0.14 billion (US\$16.9 million) over 2002.

In 2003, the segment's operating income was RMB 2.2 billion (US\$260.9 million), representing an increase of approximately RMB 1.6 billion (US\$193.3 million) from 2002. The increase was largely because the segment has completed expansion and upgrading of certain of its facilities, which resulted in the increase of production and sales volumes of major products. In addition, sales prices of a number of major products also contributed to the increased operating income.

Year Ended December 31, 2002 Compared with Year Ended December 31, 2001

Operating revenues of the chemicals segment in 2002 were RMB 75.1 billion, representing an increase of RMB 11.0 billion, or 17.2%, from RMB 64.1 billion in 2001. The increase was largely due to a significant increase of sales volume of various chemical products as their production capacities increased after the relevant facilities completed their revamp in 2002. The sales revenues of the segment's six major chemical product categories (namely, basic organic chemicals, synthetic resins, synthetic rubbers, synthetic fiber, synthetic fiber monomers and polymers and chemical fertilizers) were approximately RMB 65.8 billion, accounting for 87.6% of the operating revenues of the segment, and increased by RMB 11.4 billion, or 21.0%, from RMB 54.4 billion in 2001.

The following table sets forth sales volumes and average realized prices by product category for 2001 and 2002, as well as the respective percentage changes between 2001 and 2002.

	Sales Volume		Rate of Change	Average	
	2001	2002	from 2001 to 2002	2001	2002
	-----	-----	-----	-----	-----
	(million tonnes)		(%)	(RMB per tonne)	
Basic organic chemicals.....	5.29	7.23	36.7	2,428	2,748
Synthetic resins.....	3.14	3.83	22.0	5,532	5,247
Synthetic rubbers.....	0.47	0.51	8.5	6,239	6,468
Synthetic fibers.....	1.08	1.18	9.3	8,512	8,435
Synthetic fiber monomers and polymers.....	1.80	1.80	0.0	5,139	5,362
Chemical fertilizers.....	2.73	2.72	(0.4)%	996	1,084

Operating expenses of the chemical segment in 2002 were RMB 74.5 billion, representing an increase of 15.9% compared with RMB 64.3 billion in 2001. The increase was largely because various expenses such as purchased feedstock, fuels, utilities and ancillary materials increased as a result of the increased production of various chemical products after the completion of

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the revamping products for certain ethylene and downstream facilities. Among the increased expenses,

- o the consumption of feedstock increased by 0.93 million tonnes in 2002 compared with that in 2001, and their average unit price increased by RMB 253 per tonne, the combination of which led to an increase of approximately RMB 6.6 billion, or 18.6%, in the purchased products and operating supplies and expenses;
- o the increased consumption of fuels, utilities and ancillary materials also led to an increase of approximately RMB 1.9 billion, or 21.8%, in such expenses;
- o the significant increase in production and sales volume increased the selling, general and administrative expenses in 2002 by approximately RMB 0.5 billion, or 18.5% compared with that in 2001; and
- o the depreciation and amortization amounted to RMB 7.1 billion in 2002, representing an increase of approximately RMB 0.4 billion, or 6%, from 2001.

Operating income of the chemicals segment in 2002 was RMB 0.6 billion, representing an increase of approximately RMB 0.8 billion compared with the operating loss of approximately RMB 0.2 billion in 2001. The increase was largely due to the increased production and sales volume of certain major chemical products after the relevant production facilities were revamped for increased production capacity.

### Corporate and others

Our corporate and others mainly involves trading activities of our import and export subsidiaries, and our research and development activities as well as other activities at our corporate headquarters.

### Year Ended December 31, 2003 compared with Year Ended December 31, 2002

In 2003, the operating revenues of corporate and others were approximately RMB 63.6 billion (US\$7.7 billion), representing an increase of 39.2% from 2002. Such operating revenues mainly consisted of the consolidated operating revenues of Sinopec International Co., Ltd. and its subsidiaries. The increase was largely because we increased our import and export trading volume and other business transactions to capture the opportunities presented by the high prices of crude oil and petroleum products.

In 2003, the operating expenses of corporate and others were approximately RMB 65.6 billion (US\$7.9 billion), representing an increase of 40.2% from 2002. The increase was largely because the purchasing costs of Sinopec International Co., Ltd. and its subsidiaries increased concurrently with its increased revenue.

In 2003, the operating losses of the corporate and others segment were approximately RMB 2 billion (US\$241.6 million), representing an increase of RMB 0.9 billion (US\$108.7 million) over 2002. The increase was primarily due to the incurrence of RMB 1.6 billion (US\$193.3 million) in research development expenses by our headquarters and research institutes in 2003, representing an increase of approximately RMB 0.5 billion (US\$60.4 million) compared with 2002. In addition, expenses of RMB 0.12 billion (US\$14.5 million) related to the stock appreciation rights were recorded in 2003 under "corporate and others".

### Year Ended December 31, 2002 Compared with Year Ended December 31, 2001

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Operating revenues of corporate and others segment in 2002 were approximately RMB 45.7 billion, representing an increase of RMB 19.7 billion, or 75.7%, from 2001. The increase was primarily because some of our subsidiaries consolidated under the corporate and others segment significantly expanded their independent trading operations of crude oil and refined products on the international market.

Operating expenses of corporate and others segment in 2002 were approximately RMB 46.8 billion, representing an increase of RMB 20.9 billion, or 80.7%, compared with that in 2001. The increase was largely due to the increased purchase expenses associated with the increased trading activities of these subsidiaries.

The corporate and others segment had an operating loss of approximately RMB 1.1 billion in 2002, representing a decrease of approximately RMB 1.2 billion compared with the operating income of RMB 0.1 billion in 2001. The decline was primarily due to the increased expenses in our corporate headquarters as follows:

- o the R&D expenses increased by RMB 0.22 billion in 2002 compared with that in 2001;
- o we recovered RMB 0.18 billion of aged receivables in 2001 that were previously provided for resulting in a reduction of the allowance for doubtful accounts, while no such item in 2002; and
- o the expenses related to the management information system increased by RMB 0.1 billion in 2002 from 2001.

### D. LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of funding have been cash provided by operating activities and short and long-term borrowings and our primary uses of funds have been for working capital, capital expenditures and repayment of short-term and long-term borrowings.

As of December 31, 2003, our short-term debts (including short-term loans from Sinopec Group Company and its affiliates) were RMB 29.1 billion (US\$3.5 billion) (including the current portion of long-term debts which was RMB 8.2 billion (US\$1.0 billion)) and accounted for 26.9% of our total short-term and long-term debts (which long-term debts include interest free subordinated loan from Sinopec Group Company in the amount of RMB 35.6 billion due in 2020).

In March 2004, we issued 10-year domestic corporate bonds of RMB3.5 billion (US\$422.9 million) at an interest rate of 4.61% per year. The issuance of bonds can broaden our financing channel and reduce the financing costs. The proceeds raised are used to fund our capital expenditures.

Our future debt level is dependent primarily on results of operations, the capital expenditure plan and cash that may be generated from assets dispositions. We believe that we have substantial borrowing capacity to meet unanticipated cash requirements.

The following table sets forth a condensed summary of the statements of cash flows for the periods indicated and selected balance sheet items at the end of the periods indicated.



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	December 31,		
	2001	2002	2003
	-----	-----	-----
	RMB	RMB	RMB
	(in billions)		
Net cash from operating activities:			
Net cash provided by operations(1).....	52.9	56.5	69.0
Changes in working capital and other assets and liabilities(2).....	14.0	10.2	4.0
Net interest and cash tax (paid)(3).....	(10.2)	(11.6)	(13.0)
	-----	-----	-----
Total.....	56.7	55.1	60.0
Cash flows from investing activities:			
Capital expenditure including capital expenditure of jointly controlled entities.....	(56.2)	(42.2)	(48.0)
Purchase of investments net of proceeds from disposal of investments.....	(3.1)	(1.8)	(1.0)
Increase in time deposits less maturity of time deposits.....	20.0	0.8	(1.0)
Net changes in other activities(4) .....	0.5	0.4	0.0
	-----	-----	-----
Total.....	(38.8)	(42.8)	(50.0)
Cash flows from financing activities:			
Proceeds from public offering, net of issuing expenses.....	11.6	---	---
Proceeds from bank and other loans including those of jointly controlled entities, net of repayments.....	(14.5)	(6.9)	(5.0)
Contribution from minority interest, net of distributions to minority interests.....	(0.4)	(0.2)	0.0
Cash and cash equivalents distributed to Sinopec Group Company .	(6.4)	---	---
Dividend paid	(6.7)	(8.7)	(7.0)
	-----	-----	-----
Total.....	(16.4)	(15.8)	(13.0)
Net increase/(decrease) in cash and cash equivalents.....	1.5	(3.5)	(2.0)
	=====	=====	=====
Cash and cash equivalents at end of year.....	21.7	18.2	15.0

- (1) Represents income/(loss) before income tax and minority interests as adjusted for depreciation, depletion and amortization, dry hole cost, income from associates, investment income, interest income, interest expense, gain from issuance of shares by a subsidiary, unrealized foreign exchange (gains)/losses, loss on disposal of property, plant and equipment, and impairment losses on long-lived assets.
- (2) Represents decreases/(increases) in current assets, increases/(decreases) in current liabilities and increases in other assets, net of other liabilities.
- (3) Represents interest received, interest paid, investment income received, and income tax paid.
- (4) Represents proceeds from disposal of property, plant and equipment and repayments of loans from associates and jointly controlled entities.

Net Cash from Operating Activities

Net cash provided by operations, which represents income/(loss) before income tax and minority interests as adjusted for depreciation, depletion and amortization, dry hole cost, income from associates, investment income, interest income, interest expense, gain from issuance of shares by a subsidiary, unrealized foreign exchange (gains)/losses, loss on disposal of

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property, plant and equipment, and impairment losses on long-lived assets, increased from RMB 56.5 billion in 2002 to RMB 69.8 billion (US\$8.4 billion) in 2003. The increase was primarily due to the increased income before income tax and minority interests reflecting our better operating results in 2003. Net cash provided by working capital and other assets, which represents decreases/(increases) in current assets, increases/(decreases) in current liabilities and increases in other assets, net of other liabilities, was RMB 4.5 billion (US\$0.6 billion) in 2003, which decreased from RMB 10.2 billion in 2002 due to our efforts to strengthen our control over working capital, collect accounts receivable and reduce occupancy of funds by various current assets. We believe our working capital is sufficient to meet our present working capital requirement. Net cash provided by operations, working capital and other assets was partially offset by the net interest and tax paid of RMB 13.7 billion (US\$1.7 billion). Net interest and tax paid in 2003 consisted primarily of RMB 4.6 billion (US\$0.6 billion) of interest payments and RMB 9.5 billion (US\$1.1 billion) of income tax paid.

### Cash Flows from Investing Activities

Our cash outflows for capital expenditure projects amounted to RMB 56.2 billion, RMB 42.2 billion and RMB 44.0 billion (US\$5.3 billion) in 2001, 2002 and 2003, respectively. In addition, we had RMB 4.1 billion (US\$0.5 billion) in capital expenditure on our jointly controlled entities.

We made investments of RMB 3.4 billion, RMB 2.2 billion and RMB 1.5 billion (US\$0.2 billion) in 2001, 2002 and 2003, respectively, in a variety of joint ventures and associates. We also realized RMB 0.7 billion, RMB 0.8 billion and RMB 0.5 billion (US\$0.1 billion) in 2001, 2002 and 2003, respectively, from the disposal of investments and property, plant and equipment.

Cash flow from investing activities in 2003 also included RMB 1.2 billion (US\$0.1 billion) in increase in time deposits less maturity of time deposits.

### Cash Flows from Financing Activities

Net cash used in financing activities was RMB (13.2) billion (US\$(1.6) billion) in 2003, primarily because our repayment of bank and other loans exceeded proceeds from bank and other loans (including loans of jointly controlled entities) by RMB 5.6 billion (US\$0.7 billion). The net cash outflow was also due to the dividend paid in 2003 of RMB 7.8 billion (US\$0.9 billion).

Cash and cash equivalents as of December 31, 2003 were RMB 15.2 billion (US\$1.8 billion) as compared to RMB 18.2 billion as of December 31, 2002. As we further strengthened our cash management in 2003, cash and cash equivalents healthily reduced as funds were better used and overall efficiency was improved.

### Contractual Obligations and Commercial Commitments

The following table sets forth our obligations and commitments to make future payments under contracts and under contingent commitments as of December 31, 2003.

As of December 31, 2003

-----  
Payment due by period  
-----

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	Total	less than 1 year	1-3 years	4-5 years	After years
	-----	-----	-----	-----	-----
	(RMB millions)				
Contractual obligations(1)					
Short-term debts.....	20,904	20,904	-	-	
Long-term debts.....	87,396	8,175	23,798	15,938	39,4
	-----	-----	-----	-----	-----
Total contractual obligations.....	108,300	29,079	23,798	15,938	39,4
	=====	=====	=====	=====	=====
Other commercial commitments(2)					
Operating lease commitment.....	115,661	3,276	6,429	6,337	99,6
Capital commitment.....	55,030	51,439	3,591	-	
Exploration and production licenses.....	789	87	204	137	3
Guarantees(3).....	4,955	4,955	-	-	
	-----	-----	-----	-----	-----
Total commercial commitments.....	176,435	59,757	10,224	6,474	99,9
	=====	=====	=====	=====	=====

- (1) Contractual obligations represent on-balance sheet contractual liability as of the balance sheet date.
- (2) Other commercial commitments represent off-balance sheet contingent liabilities, and other potential cash outflows (as of the balance sheet date) which may result from contingent events.
- (3) Guarantee is not limited by time, therefore specific payment due period is not applicable. As of December 31, 2003, we have not entered into any off-balance sheet arrangements other than guarantees given to banks in respect of banking facilities granted to certain parties. As of December 31, 2003, the maximum amount of potential future payments under the guarantees was RMB 4,955 million. We monitor the conditions that are subject to the guarantees to identify whether a loss is probable, and will recognize any such loss under guarantees when those losses are estimable. As of December 31, 2003, it was not probable that we would be required to make payments under these guarantees. See note 26 to the consolidated financial statements for further information of the guarantees.

Historical and Planned Capital Expenditure

The following table sets forth our capital expenditure by segment for each of the years ended December 31, 2001, 2002 and 2003 and the capital expenditure in each segment as a percentage of our total capital expenditure for such year.

	2001		2002		2003		To
	RMB	Percent	RMB	Percent	RMB	Percent	RMB
(in billions, except percentage data)							
Exploration and production .	20.3	35%	20.2	48%	20.6	46%	61.1
Refining.....	9.1	15	6.7	16	9.7	22	25.5
Marketing and distribution...	17.3	29	7.0	17	6.8	15	31.1
Chemicals.....	12.0	20	7.4	18	7.4	16	26.8
Corporate.....	0.5	1	0.8	1	0.5	1	1.8

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	----	----	----	----	----	----	----
Total.....	59.2	100%	42.1	100%	45.0	100%	146.3
	=====	=====	=====	=====	=====	=====	=====

In 2003, our capital expenditure was RMB 45.0 billion (US\$5.4 billion). Among which, the capital expenditure for our exploration and production segment was RMB 20.6 billion (US\$2.5 billion). We found new reserves and increased oil and gas production, reinforced the foundation of our resources, and improved our profile of the possible, probable and proved reserves. The capital expenditure for our refining segment was RMB 9.7 billion (US\$1.2 billion). With the investment, a number of facilities were revamped to improve the product quality and to increase refining capacity. Refining capacity increased by 5.5 million tonnes per annum in 2003. The Ningbo-Shanghai-Nanjing imported crude oil pipeline was put into operation in May 2004, which would help optimize the allocation of crude oil and reduce transportation costs. The capital expenditure for our marketing and distribution segment was RMB 6.8 billion (US\$0.8 billion), which was mainly used to construct pipelines of refined oil products, and to further optimize the marketing networks by building new gas stations and upgrading existing gas stations. The investment also helped us maintain our position in our principal market as well as raise brand awareness and further enhance customer loyalty. The capital expenditure for our chemicals segment was RMB 7.4 billion (US\$0.9 billion). With the investment, the Qilu ethylene revamping project was under construction and the chemical fertilizer revamping projects had all started. In 2003, the ethylene capacity increased by 70,000 tonnes per annum, and capacity of monomers and polymers for synthetic fibers increased by 770,000 tonnes per annum. The capital expenditure for corporate and others was RMB 518 million (US\$62.6 million), which was principally used in the construction of information technology system.

In addition, we incurred RMB 4.2 billion (US\$0.5 billion) in capital expenditure in 2003 on our jointly controlled entities including our ethylene joint venture with BP in Shanghai. In 2003, we plan to spend RMB 50.2 billion (US\$6.1 billion) in capital expenditure. Of our planned capital expenditure, RMB 19.9 billion (US\$2.4 billion) is planned for our exploration and production segment, RMB 11.8 billion (US\$1.4 billion) for our refining segment, RMB 9.5 billion (US\$1.1 billion) for our chemicals segment, RMB 8.0 billion (US\$1.0 billion) for our marketing and distribution segment and RMB 1.0 billion (US\$0.1 billion) for construction of ERP system and other purposes. The focuses of our capital expenditure in 2004 will be on the following area:

- o Exploration and Production Segment While maintaining stable production and ensuring a balance between newly added reserves and production in eastern China, efforts are to be made to speed up the exploration in those new blocks in southern China and in western China, proactively adjust crude oil and natural gas resource structure to enhance reserves and production, further improve reserve series and reduce cost.
- o Refining Segment In accordance with the regional demand of refined products, we intend to speed up the revamping of costal refineries such as Shanghai Petrochemical, Gaoqiao, Maoming and Guangzhou refineries. The Ningbo-Shanghai-Nanjing crude oil pipeline was put into operation in May 2004 to help the optimization of crude oil resources.

Moreover, we intend to further develop our competitive advantage for integration of oil refining and chemical production facilities, further optimize product mix and increase chemical feedstock production.

- o Chemicals Segment We intend to speed up the adjustment on product

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mix and technological innovation for chemical business, focus on core business and increase total production. Emphasis will be drawn on the second-round upgrading projects for Qilu and Maoming ethylene facilities and the project of substituting oil by coal as raw materials in some chemical fertilizer enterprises.

- o Marketing and Distribution Segment We intend to complete the construction of a refined oil products pipeline in southwest China, and further optimize the marketing and distribution network. Efforts are to be made to construct gas stations along expressways and rivers and in rural areas, and to set up distribution networks in major cities, to our position in the market, and to improve the Company's profitability and market share.

In addition, the two world-class ethylene joint ventures with BASF and BP are at critical construction phase. We plan to, according to schedule and scale of construction determined by the board of directors of the two joint ventures and our percentage of shareholdings in the joint ventures, inject investment in a timely manner. The investment to be incurred will be included in our investment in associates and our capital expenditure as appropriate.

We plan to fund the capital and related expenditures principally through cash provided by operating activities and short- and long-term debts from domestic as well as overseas sources. Our capital expenditure plans are subject to a number of risks and uncertainties, and our actual capital expenditures may vary significantly from these planned amounts due to various factors. See "Item 3 -- Key Information -- Risk Factors -- Our development plans have significant capital expenditure and financing requirements, which are subject to a number of risks and uncertainties".

### Inflation

Inflation in the PRC has not had a significant impact on our results of operations in recent years.

### US GAAP Reconciliation

Our consolidated financial statements are prepared in accordance with IFRS which differs in certain material respects from US GAAP. These differences, as they apply to our consolidated financial statements, relate primarily to:

- o the US GAAP requirement that payments made by Sinopec Group Company to employees that were transferred to and subsequently terminated by Sinopec Group Company are charged to current earnings, whereas under IFRS, such payments are not recorded;
- o the US GAAP requirement that investments accounted for by the equity method while the investee has activities in progress necessary to commence its planned operations are considered as qualifying assets for which interest is capitalized, whereas under IFRS, such investments are not considered as qualifying assets for which interest is capitalized;
- o the US GAAP requirement that foreign exchange differences on funds borrowed for property, plant and equipment be expensed, rather than capitalized as is allowed under IFRS;
- o the US GAAP requirement that property, plant and equipment be carried at historical costs less accumulated depreciation

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(depreciation expense is based on the historical costs), whereas under IFRS revalued property, plant and equipment can be carried in the consolidated financial statements at the revalued amount less accumulated depreciation (depreciation expense is based on the revalued amount); and

- o the US GAAP requirement that an impairment loss be recognized on an asset when the sum of the expected undiscounted future cash flows resulting from the use of the asset and its eventual disposition is less than the carrying amount of the asset and the requirement that such impairment loss cannot be reversed, rather than the IFRS standard which involves the asset's discounted future expected cash flows and which permits, in some circumstances, the reversal of amounts previously written down.

See note 33 to the consolidated financial statements for further information.

### ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

#### A. DIRECTORS, supervisors AND SENIOR MANAGEMENT

##### Directors

The table and discussion below set forth certain information concerning our directors. Messrs. Li Yizhong, Wang Yi, Zhang Enzhao and Liu Guoguang and Ms. Huang Min have served up their respective terms as our directors and were no longer our directors after our extraordinary shareholders' meeting on April 22, 2003 (the "EGM"). Messrs. Chen Tonghai, Wang Jiming, Mou Shuling, Zhang Jiaren, Cao Xianghong, Fan Yifei, Cao Yaofeng, Liu Kegou were elected as our directors, and Messrs. Chen Qingtai, Shi Wanpeng, Zhang Youcai, Cao Yaofeng and Charles Tsu Kwok Ho were elected as our independent directors at the EGM. Mr. Gao Jian was elected as a director on April 29, 2004, replacing Mr. Liu Kegou for the remaining of the term. The current term for all our directors is three years, which will expire in April 2006.

Name	Age	Positions with the Company
----	---	-----
Chen Tonghai	55	Chairman of the Board of Directors
Wang Jiming	61	Vice Chairman; President
Mou Shuling	59	Director; Senior Vice President
Zhang Jiaren	59	Director; Senior Vice President and Chief Financial Officer
Cao Xianghong	58	Director; Senior Vice President
Liu Genyuan	58	Director
Liu Kegou	56	Director until April 29, 2004
Gao Jian	54	Director since April 30, 2004
Fan Yifei	40	Employee Representative; Director
Chen Qingtai	66	Independent Non-executive Director
Ho Tsu Kwok Charles	54	Independent Non-executive Director
Shi Wanpeng	66	Independent Non-executive Director
Zhang Youcai	62	Independent Non-executive Director
Cao Yaofeng	50	Employee Representative; Director

Chen Tonghai, 55, is Chairman of the board of directors of Sinopec Corp. Mr. Chen is also President of Sinopec Group Company. Mr. Chen graduated from Northeastern Petroleum Institute in 1976 specializing in exploration engineering. Mr. Chen is a senior economist and a senior level administrator

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with extensive management experience in petrochemical industry and macro-economic control. From March 1983 to December 1986, Mr. Chen was Head of Zhenhai Petroleum and Petrochemical Plant. From 1986 to 1994, Mr. Chen served as a Deputy Mayor, Acting Mayor and Mayor of Ningbo City, Zhejiang Province. From 1994 to 1998, Mr. Chen served as a Vice Minister of the State Development and Planning Commission. Mr. Chen served as Vice President of Sinopec Group Company from April 1998 to April 2003 and as Vice Chairman of Sinopec Corp. from February 2000 to April 2003. Mr. Chen was elected as Director and Chairman of the second session of the Board of Directors of Sinopec Corp. in April 2003.

Wang Jiming, 61, is Vice Chairman of the board of directors and President of Sinopec Corp. Mr. Wang graduated from China Eastern Petrochemical Institute in 1964 specializing in petroleum refining. Mr. Wang is a professor level senior engineer with over 30 years' management experience in petroleum and petrochemical industry. From 1984 to 1993, Mr. Wang served as a Vice President, Acting President and President of Shanghai Petrochemical General Plant. Mr. Wang served as Chairman and President of Shanghai Petrochemical Company Limited from June 1993 and served as a Vice President of Old Sinopec and Chairman of Shanghai Petrochemical Company from February 1994 to April 1998. Mr. Wang served as a Vice President of Sinopec Group Company from April 1998 to February 2000. Mr. Wang has also served as Chairman of Shanghai SECCO Petrochemical Company Limited from December 2001 to July 2003. Mr. Wang served as Director of the first session of the Board of Directors and President of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Wang was elected as Director and Vice Chairman of the second session of the Board of Directors of Sinopec Corp. and was appointed as President of Sinopec Corp.

Mou Shuling, 59, is a director and Senior Vice President of Sinopec Corp. Mr. Mou graduated from Beijing Petroleum Institute in 1968 specializing in petroleum exploration engineering. Mr. Mou is a professor level senior engineer and has over 30 years' management experience in China's petroleum industry. From February 1992 to April 1997, Mr. Mou served as a Deputy Director and Director of Petroleum Exploration Bureau of Jiangsu Province. From April 1997 to April 1998, Mr. Mou served as Director of Shengli Petroleum Administration Bureau. Mr. Mou has been a Vice President of Sinopec Group Company from April 1998 to February 2000. Mr. Mou has been a director of Sinopec Corp since February 2002 and was a Vice President of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Mou was elected as Director of the second session of the Board of Directors of Sinopec Corp. and was appointed as Senior Vice President of Sinopec Corp.

Zhang Jiaren, 59, is a director, Senior Vice President and Chief Financial Officer of Sinopec Corp. Mr. Zhang graduated from Hefei Industrial University in 1966 specializing in electrical engineering. Mr. Zhang is a professor level senior economist with over 30 years' management experience in petrochemical industry. From August 1987 to July 1994, Mr. Zhang served as a Vice President and President of Zhenhai Petroleum and Petrochemical Plant, a subsidiary of Old Sinopec. In July 1994, Mr. Zhang served as Chairman and President of Zhenhai Refining and Petrochemical Company. Mr. Zhang served as a Vice President of Sinopec Group Company from April 1998 to February 2000. Mr. Zhang served as Director of the first session of the Board of Directors and Vice President of Sinopec Corp. from February 2000 to April 2003. Mr. Zhang has been Chief Financial Officer of Sinopec Corp. since March 2000. In April 2003, Mr. Zhang was elected as Director of the second session of the Board of Directors of Sinopec Corp. and was appointed as Senior Vice President and Chief Financial Officer of Sinopec Corp.

Cao Xianghong, 58, is a director and Senior Vice President of Sinopec Corp. Mr. Cao graduated from Nanjing Petrochemical Institute in 1967 specializing in high polymer chemistry. Mr. Cao is a professor level senior engineer and an Academician of China Academy of Engineering. Mr. Cao has over 30 years' management experience in China's petrochemical industry. From July

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1984 to August 1997, Mr. Cao served as a Vice President and Chief Engineer of Beijing Yanshan Petrochemical Company, a subsidiary of Old Sinopec. From August 1997 to February 2000, Mr. Cao served as President, Vice Chairman and Chairman of Beijing Yanshan Petrochemical Company Limited and Chairman of Beijing Yanhua Petrochemical Company Limited. Mr. Cao has been a Director of Sinopec Corp. since February 2000 and was a Vice President of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Cao was elected as Director of the second session of the Board of Directors of Sinopec Corp. and was appointed as Senior Vice President of Sinopec Corp.

Liu Genyuan, 58, is a director of Sinopec Corp. Mr. Liu is Managing Vice President of Sinopec Group Company. Mr. Liu graduated from Shanghai Science and Technology University in July 1968 specializing in radiation chemistry. He is a professor level senior economist and has over 30 years' extensive management experience in China's petroleum and petrochemical industry. From May 1995 to July 2001, he served as President of Shanghai Gaoqiao Petrochemical Company. Mr. Liu has been Managing Vice President of Sinopec Group Company since July 2001. Mr. Liu was elected as Director of the second session of the Board of Directors of Sinopec Corp. in June 2003.

Liu Keguo, 56, is a director of Sinopec Corp. Mr. Liu is Vice President of China Development Bank. Mr. Liu graduated from the Renmin University of China in February 1982 specializing in politics and economics. He then obtained a doctorate degree from Northeast Finance University in July 2000 specializing in finance. Mr. Liu was engaged in economic management over a long period of time, and has accumulated extensive experience in macro-economic management. From September 1986 to March 1990, he was Vice President of Beijing Public Transportation Company. From March 1990 to October 1996, he served as Vice Chairman of Financial Structure and Tax System Reform Bureau, and then as Chairman of Taxation Administration Bureau, of State Ministry of Finance. From October 1996 to May 1999, he was the assistant to President of Liaoning Province. From May 1999 to September 2002, he served as Vice President of Liaoning Province. Mr. Liu has been Vice President of China Development Bank since September 2002. Mr. Liu was elected as Director of the second session of the Board of Directors of Sinopec Corp. in June, 2003.

Gao Jian, 54, is the Deputy Governor of the State Development Bank. In September 1982, Mr Gao graduated from the Beijing Institute of Political Science and Law as a postgraduate specialising in politics and economics. In July 1992, he graduated from the Finance and Science Research Institute of the Ministry of Finance of the State with a Ph.D degree specialising in finance. From November 1997 to June 1998, he conducted postdoctoral researches at the Faculty of Economics at Harvard University, USA and is a Senior Economist. Mr Gao has been engaged in researches in economic theories and financial management for a long period of time and has extensive experience in economics and financial management. From January 1989 to April 1994, he had been the Deputy Head of the Department of Treaty and Law of the Ministry of Finance and the Deputy Head of the State Liabilities Management Department. From April 1994 to October 1998, he was the Head of the State Liabilities Department and the Head of the Department of Treaty and Law of the Ministry of Finance. From October 1998 to April 2001, he was the Chief Economist, the Head of the Funds Bureau and, concurrently, the Chief Representative of the Hong Kong Representative Office of the State Development Bank. From April 2001 to July 2003, he was the Assistant to the Head of the Funds Bureau and, concurrently, the Chief Representative of the Hong Kong Representative Office of the State Development Bank. Since July 2003, he is the Deputy Governor of the State Development Bank. Mr. Gao has been our director since April 30, 2004.

Fan Yifei, 40, is a director of Sinopec Corp. Mr. Fan is Assistant to the Governor of China Construction Bank. Mr. Fan graduated from Changzhou Financial and Economic School in July 1982 specializing in infrastructure finance and credit. He obtained a master's degree in finance from the Financial



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Science Research Institute of the Ministry of Finance in September 1990. In July 1993, he obtained a doctoral degree in finance from the Renmin University of China. He is a senior accountant. He has long engaged in financial management work, and has relatively extensive experience in financial management. From February 1994 to September 1994, he was the Assistant to the General Manager and Manager of the Finance Department of the Trust Investment Company of China Construction Bank. From September 1994 to July 1996, he served as a Deputy Director of the Capital Planning Department of China Construction Bank. He was the General Manager of the Finance and Accounting Department of China Construction Bank from July 1996 to January 1998. He was the General Manager of the Planning and Finance Department of China Construction Bank from January 1998 to February 2000. He has been the Assistant to the Governor of China Construction Bank since February 2000. Mr. Fan was elected as Director of the second session of the Board of Directors of Sinopec Corp. in April 2003.

Chen Qingtai, 66, is an independent non-executive director of Sinopec Corp. Mr. Chen graduated from Tsinghua University in 1964 specializing in power and dynamics engineering. Mr. Chen is a researcher and a economist in China. From October 1982 to July 1992, Mr. Chen was Chief Engineer, President and Chairman of China No. 2 Automobile Works. From July 1992 to April 1993, Mr. Chen served as a Deputy Director of the State Council Economic and Trade Office. From April 1993 to March 1998, Mr. Chen served as Deputy Director of State Economic and Trade Commission. Since July 2000, he has been Director of the Public Management College under Tsinghua University. Mr. Chen has been Vice Minister of State Council Development and Research Center and a member of the National Committee of the tenth session of Chinese People's Political Consultative Conference since March, 2003. Mr. Chen served as Independent Non-executive Director of the first session of the Board of Directors of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Chen was elected as Independent Non-executive Director of the second session of the Board of Directors of Sinopec Corp.

Ho Tsu Kwok Charles, 54, is an independent non-executive director of Sinopec Corp. Mr. Ho is President and a director of Hong Kong Tobacco Company Limited, a cigarette manufacturer and distributor in the Asia Pacific. Mr. Ho is also Chairman and a director of Global China Investments Limited, a joint-venture with a Canadian provincial government pension fund, the Ontario Municipal Employees Retirement System, and he is responsible for devising investment and management strategies of Global China Investments Limited. Mr. Ho is the Honorary Chairman and a non-executive director of Sing Tao Holdings Limited, and a non-executive director of China National Aviation Company Limited, each listed on the Hong Kong Stock Exchange. Mr. Ho is also a member of the Chinese People's Political Consultative Conference and a member of Economic Consultative Advisor to the Shandong Provincial Government. He is a Trustee of the University of International Business and Economics of China and an Honorary Trustee of Peking University and the Chinese University of Hong Kong. Mr. Ho is also a member of the tenth session of the National Committee of the Chinese People's Political Consultative Conference. Mr. Ho served as Independent Non-executive Director of the first session of the Board of Directors of Sinopec Corp. from June 2000 to April 2003. In April 2003, Mr. Ho was elected as Independent Non-executive Director of the second session of the Board of Directors of Sinopec Corp.

Shi Wanpeng, 66, is an independent non-executive director of Sinopec Corp. Mr. Shi is a member of the Ninth Session of the National Committee of the Chinese People's Political Consultative Conference. Mr. Shi graduated from Northern Jiaotong University in August 1960 specializing in railway transportation administration. He is a professor level senior engineer. He has long engaged in economic management work, and has extensive experience in macro-economic control. From January 1983 to January 1987, he served as a Deputy Director of the Transport Bureau of the State Economic Commission. From January 1987 to May 1988, he was the Director of the Economic and Technical

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Co-operation Bureau of the State Economic Commission. From May 1988 to July 1991, he was the Director of the Production and Dispatch Bureau of the State Planning Commission. From July 1991 to July 1992, he served as a Deputy Secretary General of the Production Office of the State Council. From July 1992 to April 1993, he served as a Deputy Director of the Economic and Trade Office of the State Council. From April 1993 to July 1997, he was a Vice Minister of the State Economic and Trade Commission. From July 1997 to March 1998, he was the Chairman (minister level) of the China Textiles Association. From March 1998 to February 2002, he served as a Vice Minister of the State Economic and Trade Commission. He has been a member of the National Committee of the tenth session of the Chinese People's Political Consultative Conference and Deputy Director of its Economic Committee since March 2003. Mr. Shi was elected as Independent Non-executive Director of the second session of the Board of Directors of Sinopec Corp. in April 2003.

Zhang Youcai, 62, is an independent non-executive director of Sinopec Corp. Mr. Zhang is Chairman of The Chinese Institute of Chief Accountants. Mr. Zhang graduated from Nanjing Industrial University in August 1965 specializing in inorganic chemistry. He is a professor. He has long engaged in business administration, financial management and government work, and has extensive experience in industrial, economic, financial and accounting management. From January 1968 to August 1980, he served as a technician, Vice-president, Deputy Secretary of the Party Committee and President, respectively, of Nantong Chemical Fertilizer Plant. From August 1980 to January 1982, he was a Deputy Director and a member of the Leading Party Group of the Industrial Bureau of Nantong Region. From January 1982 to February 1983, he served as a Deputy Director of the Planning Commission of Nantong Region. From February 1983 to November 1989, he served as a Deputy Mayor, Deputy Secretary of the Party Committee and Mayor, respectively, of Nantong City. He was a Vice Minister and a member of the Leading Party Group of the Ministry of Finance from December 1989 to July 2002 (from May 1994 to March 1998 of this period, he served concurrently as the Director of the State-owned Assets Administration Bureau). He has been the Chairman of The Chinese Institute of Chief Accountants since November 2002. He has also been the member of the standing committee of the tenth session of the National People's Congress and Deputy Director of its Financial and Economic Committee since March 2003. Mr. Zhang was elected as Independent Non-executive Director of the second session of the Board of Directors of Sinopec Corp. in April 2003.

Cao Yaofeng, 50, is a director of Sinopec Corp. Mr. Cao is Chairman of the board of directors of Sinopec Shengli Oilfield Company Limited. Mr. Cao graduated from the General Section of East China Petroleum Institute in September 1977 specializing in mining machinery. He obtained a master's degree in mechanical design and theories from the Petroleum University (East China) in June 2001. He is a professor level senior engineer. From April 1997 to February 2002, he was a Deputy Director of Shengli Petroleum Administration Bureau under China Petrochemical Group Company. He acted concurrently as a Vice-chairman of the board of directors of Sinopec Shengli Oilfield Company Limited in May 2000. From December 2001 to December 2002, he was a director and the General Manager of Sinopec Shengli Oilfield Company Limited. He has also been the Chairman of the board of directors of Sinopec Shengli Oilfield Company Limited since December 2002. Mr. Cao was elected as Employee Representative Director of the second session of the Board of Directors of Sinopec Corp. in April 2003.

### Supervisors

The table and discussion below set forth certain information concerning our supervisors. Messrs. Yu Qingbo, Hou Shaojian and Jiang Baoxing have served up their respective terms as our supervisors and were no longer our supervisors after our shareholders' extraordinary meeting on April 22, 2003 (the "EGM"). Mr. Wang Zuoran was re-elected as our supervisor at the EGM and was subsequently elected as Chairman of our board of supervisors. Messrs. Zhang

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Chongqing, Wang Peijun and Wang Xianwen were elected as our supervisors at the EGM. Mr. Cui Jianmin was elected as our independent supervisor at the EGM. Messrs. Zhang Baojian and Kang Xianzhang were elected as our supervisors, and Mr. Li Yonggui was elected as our independent supervisor at the EGM. In addition, our employees have elected Messrs. Su Wensheng, Cui Guoqi, Zhang Xianglin and Zhang Haicao as our employee representative supervisors as of April 22, 2003. The current term of our supervisors is three years, which will expire in April 2006.

Name -----	Age ---	Position with the Company -----
Wang Zuoran	53	Chairman of the Board of Supervisors
Zhang Chongqing	59	Supervisor
Wang Peijun	58	Supervisor
Wang Xianwen	59	Supervisor
Zhang Baojian	59	Supervisor
Kang Xianzhang	55	Supervisor
Cui Jianmin	71	Independent Supervisor
Li Yonggui	63	Independent Supervisor
Su Wensheng	47	Employee Representative Supervisor
Cui Guoqi	50	Employee Representative Supervisor
Zhang Xianglin	57	Employee Representative Supervisor
Zhang Haichao	46	Employee Representative Supervisor

Wang Zuoran, 53, is Chairman of the board of supervisors of Sinopec Corp. Mr. Wang graduated from Shandong Economic Administration Institute in 1994 specializing in economic administration. From July 1994 to February 2000, Mr. Wang served as a Deputy Director and chief officer of Shengli Petroleum Administration Bureau. From February 2000 to July 2001, Mr. Wang was the Assistant to President of China Petrochemical Corporation. Mr. Wang has been Director of Disciplinary Supervision Committee of China Petrochemical Corporation since July 2001. Mr. Wang served as Supervisor of the first session of the Supervisory Committee of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Wang was elected as Supervisor and Chairman of the second session of the Supervisory Committee of Sinopec Corp.

Zhang Chongqing, 59, is a supervisor of Sinopec Corp. Mr. Zhang graduated from China University of Science and Technology in 1967 specializing in polymer chemistry. From April 1991 to February 1993, Mr. Zhang served as a Deputy President of Planning Institute of Old Sinopec. From February 1993 to December 1998, Mr. Zhang served as a Deputy Director and Director of General Administrative Office of Old Sinopec. Mr. Zhang has been Director of General Administrative Office of Sinopec Group Company since December 1998. Mr. Zhang served as Supervisor of the first session of the Supervisory Committee of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Zhang was elected as Supervisor of the second session of the Supervisory Committee of Sinopec Corp.

Wang Peijun, 58, is a supervisor of Sinopec Corp. Mr. Wang graduated from Northeastern Petroleum Institute in 1970 specializing in oil and gas field engineering. From June 1989 to August 1991, Mr. Wang was Head of Qilu Petroleum and Petrochemical Company of Old Sinopec. From August 1990 to December 1998, he served as a Deputy Director and Director of the Human Resource Department of Old Sinopec. Since December 1998, Mr. Wang has been Director of the Human Resource Department of Sinopec Group Company. Mr. Wang served as Supervisor of the first session of the Supervisory Committee of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Wang was elected as Supervisor of the second session of the Supervisory Committee of Sinopec Corp.

Wang Xianwen, 59, is a supervisor of Sinopec Corp. Mr. Wang graduated

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from Jilin University in 1968 specializing in chemistry. From April 1984 to March 1990, Mr. Wang served as a Deputy Manager of Jinzhou Petrochemical Company of Old Sinopec. From March 1990, Mr. Wang served as Deputy Director and Director of Old Sinopec's Auditing Bureau. Mr. Wang has been Director of Sinopec Group Company's Auditing Bureau since December 1998. Mr. Wang has been Director of Sinopec Corp.'s Auditing Bureau since February 2000. Mr. Wang served as Supervisor of the first session of the Supervisory Committee of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Wang was elected as Supervisor of the second session of the Supervisory Committee of Sinopec Corp.

Zhang Baojian, 59, is a supervisor of Sinopec Corp. Mr. Zhang is Director of the Finance and Planning Department of China Petrochemical Group Company and Vice-chairman of the Board of Directors of Sinopec Finance Company Limited. Mr. Zhang graduated from Shandong Financial and Economic College in July 1968 specializing in accounting. He is a professor level senior accountant. From October 1985 to April 1989, he was the Chief Accountant of Yueyang Petrochemical General Plant. From April 1989 to October 1995, he served as the chief accountant and a Deputy Director of the Finance Department of the former China Petrochemical Corporation. He acted concurrently as the Vice-chairman of Sinopec Finance Company Limited since May 1993. From October 1995 to February 2000, he served as the Director of the Finance Department of the former China Petrochemical Corporation (and later China Petrochemical Group Company), and concurrently served as Chairman of Sinopec Finance Company Limited. Mr. Zhang has been Director of the Finance & Planning Department of China Petrochemical Group Company, and has been acting concurrently as a Vice-chairman of the board of directors of Sinopec Finance Company Limited since February 2000. Mr. Zhang has been Deputy Chief Accountant of China Petrochemical Corporation since March 2003. Mr. Zhang was elected as Supervisor of the second session of the Supervisory Committee of Sinopec Corp. in April 2003.

Kang Xianzhang, 55, is a supervisor of Sinopec Corp. Mr. Kang is Director of the Supervisory Department of Sinopec Corp. He is also a Deputy Head of the Discipline Inspection Group and the Director of the Supervisory Bureau of China Petrochemical Group Company. Mr. Kang graduated from the Correspondence Teaching Department of the Party School of the Beijing Municipal Party Committee in March 1988 specializing in ideology politics. He also graduated from the Correspondence Teaching College of the Party School of the Central Committee of the Communist Party of China in December 1992 specializing in party and political affairs management (undergraduate course). He is a senior political worker. From June 1995 to April 1996, he was the Deputy Director of the Organization Department of the Communist Party Committee of the Tibet Autonomous Region. From April 1996 to May 1997, he was a senior researcher of the deputy director level in the Cadre Allocation Bureau of the Organization Department of the Central Committee of the Communist Party of China. He acted as the Deputy Secretary of the Communist Party Committee of the Coal Scientific Research Institute of the Ministry of Coal Industry from May 1997 to October 1998. From October 1998 to May 1999, he was a supervisor of the deputy director level in the Discipline Inspection Group and the Supervisory Bureau of China Petrochemical Group Company, and acted as a Deputy Director of the Supervisory Bureau of the same company from May 1999 to March 2001. He was the Deputy Director of the Supervisory Department of Sinopec Corp. from February 2000 to March 2001. He has been a Deputy Head of the Discipline Inspection Group of the Leading Party Group and Director of the Supervisory Bureau of China Petrochemical Group Company, as well as Director of the Supervisory Department of Sinopec Corp. since March 2001. Mr. Kang was elected as Supervisor of the second session of the Supervisory Committee of Sinopec Corp. in April 2003.

Cui Jianmin, 71, is an independent supervisor of Sinopec Corp. Mr. Cui graduated from the People's University of China in 1962 specializing in

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planning. Mr. Cui is a senior auditor and has extensive management experience in audit and finance fields. From June 1983 to April 1985, Mr. Cui served as Director of Industry and Transportation Bureau of State Audit Office. From January 1985 to April 1995, Mr. Cui has served as a Deputy Auditor-General and Managing Deputy Auditor-General of State Audit Office. Mr. Cui has been Chairman of the Chinese Certified Public Accountants Association since December 1995. Mr. Cui served as Independent Supervisor in the first session of Supervisory Committee of Sinopec Corp. from April 2000 to April 2003 and was elected Independent Supervisor of the second session of Supervisory Committee of Sinopec Corp. in April 2003.

Li Yonggui, 63, is an independent supervisor of Sinopec Corp. Mr. Li is Chairman of the China Taxation Consulting Association. Mr. Li graduated from Shandong Financial and Economic College in July 1965 specializing in finance. He is a senior economist and a certified public accountant. He has long engaged in tax management work and has extensive management experience in the field of taxation. From February 1985 to December 1988, he was the Deputy Director of the Taxation Bureau of the Ministry of Finance. He served as the Chief Economist of the State Administration of Taxation from December 1988 to April 1991. From April 1991 to February 1995, he served as the Deputy Director of the State Administration of Taxation. He was the Chief Economist of the State Administration of Taxation of China From February 1995 to September 2001. Mr. Li has been the Chairman of the China Taxation Consulting Association since May 2000. Mr. Li was elected as Independent Supervisor of the second session of the Supervisory Committee of Sinopec Corp. in April 2003.

Su Wensheng, 47, is an employee representative supervisor of Sinopec Corp. Mr. Su is Acting Deputy Secretary of the Party Working Committee of the Headquarter responsible for Sinopec Corp.'s Western China E&P operation, and Director of the Ideology & Politics Department and a Deputy Secretary of the Affiliated Party Committee of China Petrochemical Group Company. Mr. Su graduated from Tsinghua University in December 1980 specializing in environmental engineering. He obtained a master's degree in management science and engineering from Petroleum University (Beijing) in June 2000. He is a senior engineer. From September 1986 to November 1996, he was a Deputy Secretary of the Party Committee of the former Beijing Designing Institute, and acted concurrently as the Secretary of the Disciplinary Committee of the same Institute. From November 1996 to December 1998, he was the Secretary of the Party Committee of Beijing Designing Institute of the former China Petrochemical Corporation. Mr. Su has been the Director of the Ideology & Politics Department and a Deputy Secretary of the Affiliated Party Committee of China Petrochemical Group Company since October 1998. He has acted concurrently as the Acting Deputy Secretary of the Party Working Committee of the Western New Region Exploration Headquarter of Sinopec Corp. since December 2001. Mr. Su was elected as Employee Representative Supervisor of the second session of the Supervisory Committee of Sinopec Corp. in April 2003.

Cui Guoqi, 50, is an employee representative supervisor of Sinopec Corp. Mr. Cui is Chairman of the Trade Union of Sinopec Beijing Yanhua Petrochemical Company Limited, a member of the Executive Committee of the All China Federation of Trade Unions, and a member of the Standing Committee of the National Committee of the Chinese Energy Resources and Chemical Industry and Engineering Society of China. Mr. Cui graduated from the Correspondence Teaching College of People's University in December 1985 specializing in industrial business management. In January 1997, he obtained a master's degree in business management from the Business Management School of Renmin University of China. He is a senior economist. Mr. Cui has served as Chairman of the Trade Union of Sinopec Yanshan Company since February 2000. Mr. Cui has been a member of the Executive Committee of the All China Federation of Trade Unions since December 2000, and a member of the Standing Committee of the National Committee of the Union of Chinese Energy and Chemical Industries since December 2001. Mr. Zhang was elected Employee Representative Supervisor of the second session of

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the Supervisory Committee of Sinopec Corp. in April 2003.

Zhang Xianglin, 57, is an employee representative supervisor of Sinopec Corp. Mr. Zhang is director and Chairman of the Trade Union of Sinopec Yangzi Petrochemical Company Limited. Mr. Zhang graduated from Beijing Machinery College in July 1970 specializing in precision machine tool. He is a Senior Party Affairs Educator. He has served as a director and Chairman of the Trade Union of Sinopec Yangzi Petrochemical Company limited since January 2000. Mr. Zhang was elected Employee Representative Supervisor of the second session of the Supervisory Committee of Sinopec Corp. in April 2003.

Zhang Haichao, 46, is an employee representative supervisor of Sinopec Corp. Mr. Zhang is Manager of Sinopec Zhejiang Petrochemical Company. Mr. Zhang graduated from Zhoushan Petrochemical School in December 1979 specializing in oil storage and transportation. He also graduated from Jilin Petrochemical Institute in July 1985 specializing in oil storage and transportation. From January 2001 to June 2002, he participated in the business administration programme at Macau Science & Technology University. He is an economist. From April 1990 to March 1998, he was a Deputy Manager and Manager, respectively, of Ningbo Petroleum Branch Company. He served as a Deputy General Manager of Zhejiang Petroleum Company and served concurrently as Manager of Ningbo Petroleum Branch Company from March 1998 to September 1999. He has served as the General Manager of Zhejiang Petroleum Company since September 1999, and has served as the Manager of Sinopec Zhejiang Petroleum Company since February 2000. Mr. Zhang was elected Employee Representative Supervisor of the second session of the Supervisory Committee of Sinopec Corp. in April 2003.

### Other Executive Officers

Wang Tianpu, 41, is a Senior Vice President of Sinopec Corp. Mr. Wang graduated from Qingdao Chemical Institute specializing in fundamental organic chemistry in July 1985. He then graduated from Dalian Science and Technology University in July 1996 and obtained a master's degree in business administration. In August 2003, he graduated from Zhejiang University specializing in Chemical Engineering and obtained a doctor's degree. He is a professor level senior engineer, and has accumulated extensive experience in production management in petrochemical industry. From March 1999 to February 2000, he was Vice President of Qilu Petroleum and Petrochemical Company under Old Sinopec. From February 2000 to September 2000, he was Vice President of Sinopec Corp.'s Qilu branch company. From September 2000 to August 2001, he was President of Sinopec Corp.'s Qilu branch company. Mr. Wang served as Vice President of Sinopec Corp. from August 2001 to April 2003 and was appointed as Senior Vice President of Sinopec Corp. in April 2003.

Wang Zhigang, 47, is a Vice President of Sinopec Corp. Mr. Wang is Vice Chairman of Shengli Petroleum Management Department of China Petrochemical Corporation. Mr. Wang graduated from East China Petroleum Institute in January 1982 specializing in oil production, and then obtained a master degree from University of Petroleum in June 2000 specializing in oil and gas development engineering. He is a professor level senior engineer. From February 2000 he was Vice-president of Shengli Oil Field Limited Company under Sinopec Corp. From February to June in 2000, he was Vice-president of Shengli Oil Field Limited Company under Sinopec Corp. From June 2000 to December 2001, Mr. Wang served as Director and Managing President of Shengli Oil Field Limited Company under Sinopec Corp. He was appointed as Non-executive Vice Chairman of the Committee of Economics and Trade of Ningxia Hui Autonomous Region from November 2001 to May 2003. From June 2003, he has acted as the Director of Exploration and Production Department of Sinopec Corp. Mr. Wang was appointed Vice President of Sinopec Corp. in April 2003.

Zhang Jianhua, 40, is a Vice President of Sinopec Corp. Mr. Zhang is President of Shanghai Gaoqiao branch company under Sinopec Corp. Mr. Zhang

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graduated from East China Chemistry and Engineering Institute in July 1986 specializing in petroleum refinery, and then obtained a master degree from East China University of Science and Technology specializing in chemical engineering. He is a professor level senior engineer. In April 1999 Mr. Zhang was appointed Vice-president of Shanghai Gaoqiao Petrochemical Company under China Petrochemical Corporation. From February to September in 2000, he was Vice-president of Shanghai Gaoqiao branch company under Sinopec Corp. From September 2000 to June 2003, he was the President of Sinopec Shanghai Gaogiao Company. Mr. Zhang has been Director of Sinopec Operation and Management Department since November 2003. Mr. Zhang was appointed Vice President of Sinopec Corp. in April 2003.

Cai Xiyu, 42, is a Vice President of Sinopec Corp. Mr. Cai is Director and Managing President of China International Petrochemical United Limited Company. Mr. Cai graduated from Fushun Petroleum Institute in August 1982 specializing in petroleum refinery automation, and then obtained an MBA degree from China Industry and Science Dalian Training Center. He is a senior economist. From June 1995 to May 1996, Mr. Cai was Vice-president of Jinzhou Petrochemical Company under China Petrochemical Corporation before the industry reorganization. From May 1996 to December 1998, he was Managing Vice-president of Dalian Western Pacific Petrochemical Limited Company. From December 1998 to June 2001, he acted as Vice-president of Sales Company under Sinopec Corp.; and from June to December in 2001, he acted as Managing Vice-president of Sales Company under Sinopec Corp. He has been Director and President of China International United Petroleum & Chemicals Company Limited since December 2001. Mr. Cai was appointed as Vice President of Sinopec Corp. in April 2003.

Li Chunguang, 48, is a Vice President of Sinopec Corp. Mr. Li is Director of petroleum sales of Sinopec Corp. Mr. Li graduated from Heilongjiang Business Institute in January 1982 specializing in petroleum storage and transportation. He is a senior engineer. Mr. Li acted as Vice-president of Sales Company under Sinopec Corp. from October 1995 to June 2001. From June 2001 to December 2001, he was President of Sinopec Sales Company Limited, and has been Director of Marketing and Distribution Department of Sinopec Corp. since December 2001. Mr. Li was appointed as Vice President of Sinopec Corp. in April 2003.

Zhang Honglin, 61, is General Counsel of Sinopec Corp. Mr. Zhang graduated from Nanjing Petrochemical Institute in 1967 specializing in petrochemical engineering. Mr. Zhang is a professor level senior economist. From August 1986 to August 1988, Mr. Zhang served as Head of Research Institute of Petroleum and Petrochemical Industrial Science of Old Sinopec. From August 1988 to May 1997, Mr. Zhang served as a Deputy Director of Enterprise Management Department at Old Sinopec and President of Shanlong Economic Development Company, a subsidiary of Old Sinopec. From May 1997 to November 1997, Mr. Zhang was Director of Old Sinopec's Assets Operation and Management Department. From November 1997 to June 1998, he served as a director and Vice President of China Eastern United Petrochemical Group Limited. Mr. Zhang has been Director of Sinopec Group Company's Assets Operation and Management Department and Enterprise Reforming Department since June 1998. Mr. Zhang served as company secretary to the Board of Directors of Sinopec Corp. from February 2000 to April 2003. Mr. Zhang was appointed as our general counsel in February 2003.

Chen Ge, 42, is secretary to the board of directors of Sinopec Corp. Mr. Chen is Director of Sinopec Corp.'s Secretariat to the board of directors. Mr. Chen graduated from Daqing Petroleum Institute in July 1983 specializing in petroleum refinery, and then obtained an MBA degree from Dalian University of Science and Technology in July 1996. He is a senior economist. From July 1983 to February 2000, he worked in Beijing Yanshan Petrochemical Company. From February 2000 to December 2001, he was a Deputy Director of Sinopec Corp.'s Secretariat to the board of directors. Mr. Chen has been the Director of

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Sinopec Corp.'s Secretariat to the board of directors since December 2001. Mr. Chen was appointed as our secretary to the board of directors since April 2003.

### B. COMPENSATION

Salaries of Directors, Supervisors and Members of the Senior Management

We have established and are continuously enhancing a fair and transparent reward and supervision system for directors, supervisors and other senior management members. We have adopted initiative policies approved by the first extraordinary shareholders' meeting on September 7, 2000 including the performance evaluation and remunerations incentive scheme for the senior management, the share appreciation rights scheme, and the conditions for the implementation of the initial granting of share appreciation rights scheme.

Our directors and supervisors receive their remuneration in the form of basic salary and performance rewards, including the amount retirement pension plan. During 2003, no share appreciation right is exercised.

During 2003, directors in office (excluding directors and independent non-executive directors who do not hold any working post with us), supervisors (excluding independent supervisors) and other senior management officers were paid RMB 4,190,745 in total as annual remuneration. The three highest paid directors and senior management officers respectively received RMB 717,476 and RMB 852,740 remuneration in total. The total annual fees for the independent non-executive directors and independent supervisors were RMB 165,000. Directors Mr. Liu Genyuan, Mr. Liu Keguo and Mr. Fan Yifei (and Mr. Gao Jian, who replaced Mr. Liu Keguo as director as of April 30, 2004), do not hold any working post with us, and accordingly are not paid any remuneration by us.

During 2003, amongst our 22 directors (excluding directors and independent non-executive directors who do not hold any working post with us), supervisors (excluding independent supervisors) and other senior management officers who are in office, two of them received annual remuneration for an amount above RMB 300,000, four of them received annual remuneration between RMB 200,000 and RMB 300,000, 15 of them received annual remuneration between RMB 150,000 and RMB 200,000, and one of them received annual remuneration between RMB 100,000 and RMB 150,000.

We do not have any service contract with any director that provides for benefits upon termination of service.

### C. BOARD PRACTICE

In accordance with the Rules and Procedures for the Board of Directors' Meeting that was adopted as an appendix to our articles of association at the extraordinary shareholders' meeting on April 22, 2003, we have established three special committees, namely, an audit committee, a strategy committee and a remuneration and evaluation committee. The majority of the members of these special committees are independent directors. In addition, the audit committee shall have at least one independent director who is a financial expert.

The main responsibilities of the audit committee include:

- o to propose the appointment or replacement of the external auditor;
- o to oversee the internal auditing system and its implementation;
- o to coordinate the communication between the internal auditing department and the external auditor;



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- o to examine and approve financial information and its disclosure;  
and
- o to examine the internal control system.

The main responsibilities of the strategy committee are to conduct research and put forward proposals on the long-term development strategy and significant investments.

The main responsibilities of the remuneration and evaluation committee include:

- o to research on evaluation criteria for directors and the president, to conduct their evaluations and make necessary suggestions; and
- o to research on and review the policies and proposals in respect of the remuneration of directors, supervisors, president, vice-president, Chief Financial Officer and secretary of the board of directors.

The members of audit committee are Chen Qingtai, Shi Wanpeng, Zhang Youcai, Ho Tsu Kwok Charles and Cao Yaofeng.

The members of strategy committee are Wang Jiming, Shi Wanpeng, Ho Tsu Kwok Charles, Mou Shuling, Zhang Jiaren, Liu Keguo (until April 29, 2004), Cao Xianghong and Fan Yifei.

The members of remuneration and evaluation committee are Shi Wanpeng, Chen Qingtai, Zhang Youcai, Mou Shuling and Liu Genyuan.

### D. EMPLOYEES

As of December 31, 2001, 2002 and 2003, we had approximately 443,808, 418,871 and 400,513 employees. The following table sets forth the number of our employees by our business segments, their scope of work and their education as of December 31, 2003.

By Segment	Number of Employees	Percentage of Total Number Employees (%)
Exploration and Production .....	144,194	36.0
Refining .....	81,099	20.2
Marketing and Distribution .....	77,944	19.5
Chemicals .....	92,654	23.1
Corporate and Others .....	4,622	1.2
Total .....	400,513	100.0
By Employee's Scope of Work	Number of Employees	Percentage of Total Number Employees (%)
Production.....	185,907	46.4
Sales.....	76,527	19.1
Technical.....	46,096	11.5
Finance.....	10,553	2.7
Administration.....	33,757	8.4
Others.....	47,673	11.9

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Total .....	400,513	100
By Education -----	Number of Employees -----	Percentage of Total Nu Employees (%) -----
Master's degree and above.....	2,934	0.7
University .....	43,013	10.7
Tertiary education.....	67,363	16.8
Technical/polytechnic school.....	48,534	12.1
Secondary, technical/polytechnic school or below.....	238,669	59.7
Total .....	400,513	100

We have trade unions that protect employee rights, organize educational programs, assist in the fulfillment of economic objectives, encourage employee participation in management decisions, and assist in mediating disputes between us and individual employees. We have not been subjected to any strikes or other labor disturbances that have interfered with our operation, and we believe that our relations with our employees are good.

The total remuneration of our employees includes salary, performance bonuses and allowances. Employees also receive certain subsidies in housing, health services, education and other miscellaneous items.

As at December 31, 2003, we had a total of 98,951 retired employees, and all of them have participated in basic pension schemes administered by provincial governments. Government-administered pension schemes are responsible for the payments of basic pensions. Details of our employee's retirement scheme of the Company are set out in note 29 to our consolidated financial statements included elsewhere in this annual report.

We plan to reduce the number of employees by 100,000 persons by means of retirement, voluntary resignation and/or redundancy within the period of 5 years from 2001 to 2005, so as to enhance its efficiency and operating profit. As of the end of 2003, the net aggregate reduction in the past 3 years amounted to 108,000 persons. In 2003, we recorded employee reduction expenses of RMB1.014 billion for about 21,000 employees who voluntarily resigned.

### E. SHARE OWNERSHIP

Our directors, supervisors and senior officers do not have share ownership in us.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. MAJOR SHAREHOLDERS

The following table sets forth information regarding our major shareholders as of June 15, 2004.

Shareholder	Number of Shares Owned (in millions) -----	Percentage -----
Sinopec Group Company.....	47,743	55.06%
China Development Bank .....	8,776	10.12

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China Xinda Asset Management Corporation..... 8,721 10.06

As at June 15, 2004, we had 67,121,951,000 state-owned shares, 16,780,488,000 H shares and 2,800,000,000 A shares outstanding. As at April 30, 2004, we had 12,793,748 ADRs outstanding, which represented underlying ownership of 1,279,374,800 H shares and were beneficially owned by approximately 4,400 record owners.

### RELATED PARTY TRANSACTIONS

Sinopec Group Company owns 55.06% of our outstanding equity as of June 15, 2004. Sinopec Group Company will be able to exercise all the rights of a controlling shareholder, including the election of directors and voting in respect of amendments to our articles of association. Sinopec Group Company, as our controlling shareholder, will be subject to certain minority shareholder protection provisions under our articles of association.

We have engaged from time to time and will continue to engage in a variety of transactions with Sinopec Group Company, which provide a number of services to us, including ancillary supply, transport, educational and community services. The nature of our transactions with Sinopec Group Company are governed by a number of service and other contracts between Sinopec Group Company and us. A discussion of these agreements and arrangements is set forth under the heading "Item 7 - Major Shareholders and Related Party Transactions-Related Party Transactions" in our annual report on Form 20-F filed with the Securities and Exchange Commission on April 17, 2001.

In 2003, we acquired from Sinopec Group Company the operations of Sinopec Group Maoming Petrochemical Company's ethylene facility with a rated capacity of 380,000 tonnes and its related downstream facilities for RMB 3.3 billion (US\$0.4 billion) in cash. In addition, we acquired the operations of Tahe Petrochemical and Xi'an Petrochemical, both of which are wholly-owned by Sinopec Group Company, for RMB 220.8 million (US\$26.7 million) and RMB 135.2 million (US\$16.3 million), respectively, in cash. The purchase prices were determined on the basis of independent valuation and appraisals of the acquired assets and liabilities under applicable laws and regulations in the PRC.

Please also see note 28 to our consolidated financial statements included elsewhere in this annual report.

### B. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

### A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See F-pages following Item 19.

### Legal Proceedings

We are involved in certain judicial and arbitral proceedings before Chinese courts or arbitral bodies concerning matters arising in connection with the conduct of our businesses. We believe, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on our financial condition or results of operations.

### Dividend Distribution Policy

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Our board of directors will determine the payment of dividends, if any, with respect to our shares on a per share basis. Any final dividend for a financial year shall be subject to shareholders' approval. The board may declare interim and special dividends at any time under general authorization by a shareholders' ordinary resolution. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on our results of operations, cash flows, financial condition, the payment by our subsidiaries of cash dividends to us, future prospects and other factors which our directors may determine are important.

For holders of our H shares, cash dividend payments, if any, shall be declared by our board of directors in renminbi and paid in HK dollars. The depositary will convert the HK dollar dividend payments and distribute them to holders of ADSs in US dollars, less expenses of conversion.

In addition to cash, dividends may be distributed in the form of shares. Any distribution of shares, however, must be approved by special resolution of the shareholders. Dividends in the form of shares will be distributed to the depositary and, except as otherwise described in the Deposit Agreement, will be distributed by the depositary in the form of additional ADSs, to holders of ADSs.

Dividends may be paid only out of our distributable profits (less allocations to the statutory funds which generally range from 15% to 20% of our net income determined in accordance with PRC GAAP) and may be subject to PRC withholding tax. Our articles of association limit our distributable profits to the lower of the amount determined in accordance with PRC GAAP and IFRS. Subject to the above, we currently expect that we will distribute as dividends up to 40% of our distributable profits.

Our shareholders' meeting has approved a final dividend of RMB 0.09 per ordinary share for the year ended December 31, 2003, which is equivalent to RMB 9.0 (US\$1.1) per ADS. After deducting the interim dividends distribution of RMB 0.03 per ordinary share, the year end dividend is RMB 0.06 per ordinary share, which is equivalent to RMB 6.0 (US\$ 0.72) per ADS.

### B. SIGNIFICANT CHANGES

None.

### ITEM 9. THE OFFER AND LISTING

Not applicable, except for Item 9A (4) and Item 9C.

Our H Shares have been listed on the stock Exchange of Hong Kong Stock (Code: 0386), and our ADSs, each representing 100 H Shares, have been listed on the New York Stock Exchange and the London Stock Exchange under the symbol "SNP", since we completed our initial public offering on October 19, 2000. Prior to that time, there was no public market for our H Shares. The Stock Exchange of Hong Kong is the principal non-U.S. trading market for our H Shares. Our publicly traded domestic shares, or A shares, are listed on the Stock Exchange of Shanghai since August 8, 2001 (Code: 600028).

The following table sets forth, for the periods indicated, the high and low closing prices per H Share, as reported on the Stock Exchange of Hong Kong, per ADS, as reported on the New York Stock Exchange and per A share, as reported on the Stock Exchange of Shanghai .

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Period		The Stock Exchange of Hong Kong		The New York Stock Exchange		The Shangha Exchan
		High (HK dollar per H share)	Low	High (US dollar per ADS)	Low	High (RMB per A
	Past 6 months					
2004	May	2.925	2.475	37.71	32.08	5.34
	April	3.125	2.65	40.15	34.18	5.55
	March	3.35	2.75	42.80	36.05	5.77
	February	3.40	3.00	44.01	38.10	5.43
	January	3.85	3.025	49.90	38.99	5.69
2003	December	3.475	2.55	44.41	33.23	5.06
	Quarterly Data					
2004	First Quarter	3.85	2.75	49.90	36.05	5.77
2003	Fourth Quarter	3.475	2.15	44.41	27.87	5.06
	Third Quarter	2.475	1.81	32.12	23.85	3.90
	Second Quarter	1.88	1.45	24.50	18.34	4.04
	First Quarter	1.56	1.36	19.42	17.30	3.60
2002	Fourth Quarter	1.38	1.17	17.49	14.60	3.40
	Third Quarter	1.44	1.13	18.05	14.57	3.85
	Second Quarter	1.42	1.25	18.33	15.85	3.90
	First Quarter	1.30	1.05	16.68	13.50	3.40
2001	Fourth Quarter	1.21	1.02	15.55	12.83	3.96
	Third Quarter	1.56	1.00	20.05	12.83	4.36
	Second Quarter	1.65	1.14	21.00	14.50	
	First Quarter	1.32	1.06	16.80	14.00	
	Annual Data					
2003		3.475	1.24	44.41	17.30	5.06
2002		1.44	1.05	18.33	13.50	3.90
2001		1.65	1.00	21.00	12.80	4.36
2000	(October 19 to December 31)	1.70	1.19	21.44	14.88	

Source: Bloomberg

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

The following is a summary of certain provisions of our articles of association, as amended, the Company Law of the PRC (1993) and certain other applicable laws and regulations of the PRC. You and your advisors should refer to the text of our articles of association, as amended, and to the texts of applicable laws and regulations for further information.

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### Objects and Purposes

We are a joint stock limited company established in accordance with the Company Law and certain other laws and regulations of the PRC. We are registered with the PRC State Administration of Industry and Commerce with business license number 1000001003298. Article 12 of our articles of association provides that our scope of businesses includes, among other things, exploration, development and sales of petroleum and natural gas; pipeline transportation of petroleum and natural gas; petroleum refining; production, sales and storage of refined petroleum products, petrochemical products, chemical fiber products and other chemical products; wholesale, retailing and storage of refined petroleum products and other petroleum products; operation of convenience stores; power generation; manufacturing and installation of machinery; purchase and sales of raw materials, charcoal, and equipment; import and export; and provision of technology services and labor services.

### Directors

Our directors shall be elected at our shareholders' general meeting. Cumulative voting shall be adopted for the election of directors if a controlling shareholder controls 30% or more of our shares. Details of the cumulative voting mechanism are set forth in Article 57 of the Rules and Procedures for the Shareholders' General Meetings that is an appendix to, and forms an integral part of, our articles of association. Our directors shall be elected for a term of three years and may serve consecutive terms upon re-election, except that independent directors may only serve a maximum of two terms. Our directors are not required to hold any shares in us, and there is no age limit requirement for the retirement or non-retirement of our directors.

Where a director is materially interested, directly or indirectly, in a contract, transaction or arrangement (including any proposed contract, transaction or arrangement) with us, he or she shall declare the nature and extent of his or her interests to the board of directors at the earliest opportunity, whether or not such contract, transaction or arrangement is otherwise subject to the approval of the board. A director shall not vote, and shall not be counted in the quorum of the meeting, on any resolution concerning any contract, transaction or arrangement where the director owns material rights or interests therein. A director is deemed to be interested in a contract, transaction or arrangement in which his associate (as defined by the Listing Rule of the Hong Kong Stock Exchange) is interested.

Unless the interested director discloses his interests to the board and the contract, transaction or arrangement in which the director is materially interested is approved by the board at a meeting in which the director neither votes nor is not counted in the quorum, such contract, transaction or arrangement shall be voidable by us except with respect to a bona fide party thereto who does not have notice of the director's interests.

We are prohibited from making loans or providing guarantees to our directors and their associates except where such loan or guarantee is to meet expenditure requirement incurred or to be incurred by the director for the purposes of the company or for the purpose of enabling the director to perform his or her duties properly.

The board of directors shall examine and approve the amount of the long-term loans for the current year in accordance with the annual investment plan as approved by the shareholders' general meeting. The chairman of the board may make adjustments of not more than 10% of the total amount of the long-term loans for the current year as approved by the board of directors. The board of directors shall also approve the total amount of the working capital loans for the current year. Within the total amount of the long-term or working capital loans as approved by the board of directors, the chairman of the board

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is authorized to approve and sign on behalf of the company any such loan contract with loan amount over RMB 1.0 billion, and the president of the company is authorized to approve and sign on behalf of the company any such loan contract with loan amount not exceeding RMB 1.0 billion.

Matters relating to the remuneration and liability insurance of our directors shall be determined by the shareholders' general meeting.

### Dividends

Our board of directors may propose dividend distributions at any time. Our board of directors may declare interim and special dividends under general authorization by a shareholders' ordinary resolution. A distribution of final dividends for any financial year is subject to shareholders' approval. Dividends may be distributed in the form of cash or shares. A distribution of shares, however, must be approved by special resolution of the shareholders.

Dividends may only be distributed after allowance has been made for:

- o recovery of losses, if any;
- o allocations to the statutory common reserve fund;
- o allocations to the statutory common welfare fund; and
- o allocations to a discretionary common reserve fund if approved by the shareholders.

The minimum and maximum aggregate allocations to the statutory funds are 15% and 20%, respectively, of our net income determined in accordance with PRC accounting rules.

The articles of association require us to appoint on behalf of the holders of H shares a receiving agent which is registered as a trust corporation under the Trustee Ordinance of Hong Kong to receive dividends declared by us in respect of the H shares on behalf of such shareholders. The articles of association require that cash dividends in respect of H shares be declared in renminbi and paid by us in HK dollars. The depositary of our ADSs will convert such proceeds into U.S. dollars and will remit such converted proceeds to our holders of ADSs. If we record no profit for the year, we may not normally distribute dividends for the year.

Dividend payments may be subject to PRC withholding tax.

### Voting Rights and Shareholders' Meetings

Our board of directors shall convene a shareholders' annual general meeting once every year and within six months from the end of the preceding financial year. Our board shall convene an extraordinary general meeting within two months of the occurrence of any one of the following events:

- o where the number of directors is less than the number stipulated in the PRC Company Law or two-thirds of the number specified in our articles of association;
- o where our unrecovered losses reach one-third of the total amount of our share capital;
- o where shareholder(s) holding 10% or more of our issued and outstanding voting shares request(s) in writing the convening of an extraordinary general meeting; or
- o whenever our board deems necessary or our board of supervisors so requests;

Meetings of a special class of shareholders must be called in certain enumerated situations when the rights of the holders of such class of shares may be modified or adversely affected as discussed below. Resolutions proposed

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by the board of supervisors or shareholder(s) holding 5% or more of the total number of voting shares shall be included in the agenda for the relevant annual general meeting if they are matters which fall within the scope of the functions and powers of shareholders in general meeting.

All shareholders' meetings must be convened by our board by written notice given to shareholders not less than 45 days before the meeting. Based on the written replies received by us 20 days before a shareholders' meeting, we shall calculate the number of voting shares represented by shareholders who have indicated that they intend to attend the meeting. Where the number of voting shares represented by those shareholders amount to more than one-half of our total voting shares, we may convene the shareholders' general meeting (regardless of the number of shareholders who actually attend). Otherwise, we shall, within five days, inform the shareholders again of the motions to be considered and the date and venue of the meeting by way of public announcement. After the announcement is made, the shareholders' meeting may be convened. The accidental omission by us to give notice of a meeting to, or the non-receipt of notice of a meeting by, a shareholder will not invalidate the proceedings at that shareholders' meeting.

Shareholders at meetings have the power, among other things, to approve or reject our profit distribution plans, annual budget, financial statements, increase or decrease in share capital, issuance of debentures, merger or liquidation and any amendment to our articles of association. In addition, the rights of a class of shareholders may not be modified or abrogated, unless approved by a special resolution of all shareholders at a general shareholders' meeting and by a special resolution of shareholders of that class of shares at a separate meeting. Our articles of association enumerate, without limitation, certain amendments which would be deemed to be a modification or abrogation of the rights of a class of shareholders, including increasing or decreasing the number of shares of a class disproportionate to increases or decreases of other classes of shares, removing or reducing rights to receive dividends in a particular currency or creating shares with voting or equity rights superior to shares of such class.

Cumulative voting is adopted for the election of directors. For all other matters, each H share is entitled to one vote on all such matters submitted to a vote of our shareholders at all shareholders' meetings, except for meetings of a special class of shareholders where only holders of shares of the affected class are entitled to vote on the basis of one vote per share of the affected class.

Shareholders are entitled to attend and vote at meetings either in person or by proxy. Proxies must be in writing and deposited at our legal address, or such other place as is specified in the meeting notice, not less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the relevant resolution(s). When the instrument appointing a proxy is executed by the shareholder's attorney-in-fact, such proxy when deposited must be accompanied by a notary certified copy of the relevant power of attorney or other authority under which the proxy was executed.

Except for those actions discussed below which require supermajority votes ("special resolutions"), resolutions of the shareholders are passed by a simple majority of the voting shares held by shareholders who are present in person or by proxy. Special resolutions must be passed by more than two-thirds of the voting rights represented held by shareholders who are present in person or by proxy.

The following decisions must be adopted by special resolution:

- o an increase or reduction of our share capital or the issue of



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- shares, including stock distributions, of any class, warrants and other similar securities;
- o issuance of debentures;
- o our division, merger, dissolution and liquidation; (Shareholders who object to a proposed merger are entitled to demand that either we or the shareholders who approved the merger purchase their shares at a fair price.)
- o repurchase of shares;
- o amendments to our articles of association; and
- o any other matters considered by the shareholders in a general meeting and which they have resolved by way of an ordinary resolution to be of a nature which may have a material impact on us and should be adopted by special resolution.

All other actions taken by the shareholders, including the appointment and removal of our directors and supervisors and the declaration of cash dividend payments, will be decided by an ordinary resolution of the shareholders. The listing agreement between us and the Hong Kong Stock Exchange (the "Listing Agreement") provided that we may not permit amendments to certain sections of the articles of association which have been mandated by the Hong Kong Stock Exchange. These sections include provisions relating to:

- o varying the rights of existing classes of shares;
- o voting rights;
- o our power to purchase our own shares;
- o rights of minority shareholders; and
- o procedure on liquidation.

In addition, certain amendments to the articles of association require the approval and consent of the relevant PRC authorities.

Any shareholder resolution which is in violation of any laws or regulations of the PRC or the articles of association will be null and void.

### Liquidation Rights

In the event of our liquidation, the H shares will rank *pari passu* with the domestic ordinary shares, and payment of debts out of our remaining assets shall be made in the order of priority prescribed by applicable laws and regulations or, if no such standards exist, in accordance with such procedure as the liquidation committee which has been appointed either by us or the People's Court of the PRC may consider to be fair and reasonable. After payment of debts, we shall distribute the remaining property to shareholders according to the class and proportion of their shareholders.

### Further Capital Call

Shareholders are not liable to make any further contribution to the share capital other than according to the terms, which were agreed by the subscriber of the relevant shares at the time of subscription.

### Increases in Share Capital and Preemptive Rights

The articles of association require the approval by a special resolution of the shareholders and by special resolution of holders of domestic ordinary shares and H shares at separate shareholder class meetings be obtained prior to authorizing, allotting, issuing or granting shares, securities convertible into shares or options, warrants or similar rights to subscribe for any shares or such convertible securities. No such approval is required if, but only to the extent that:

- o we issue domestic ordinary shares and H shares, either separately

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or concurrently, in numbers not exceeding 20% of the number of domestic ordinary shares and H shares then in issue, respectively, in any 12-month period, as approved by a special resolution of the shareholders; or

- o if our plans for issuing H shares upon its establishment are implemented within fifteen months of the date of approval by the China Securities Regulatory Commission.

New issues of shares must also be approved by the relevant PRC authorities.

### Reduction of Share Capital and Purchase by Us of Our Shares and General Mandate to Repurchase Shares

We may reduce our registered share capital only upon obtaining the approval of the shareholders by a special resolution and, in certain circumstances, of relevant PRC authorities. The number of H shares, which may be purchased is subject to the Hong Kong Takeovers and Share Repurchase Codes.

### Restrictions on Large or Controlling Shareholders

Our articles of association provide that, in addition to any obligation imposed by laws and administration regulations or required by the listing rules of the stock exchanges on which our H shares are listed, a controlling shareholder shall not exercise his voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders:

- o to relieve a director or supervisor from his or her duty to act honestly in our best interests;
- o to approve the expropriation by a director or supervisor (for his or her own benefit or for the benefit of another person) of our assets in any way, including, without limitation, opportunities which may benefit us; or
- o to approve the expropriation by a director or supervisor (for his or her own benefit or for the benefit of another person) of the individual rights of other shareholders, including, without limitation, rights to distributions and voting rights (save according to a restructuring of our company which has been submitted for approval by the shareholders in a general meeting in accordance with our articles of association).

A controlling shareholder, however, will not be precluded by our articles of association or any laws and administrative regulations or the listing rules of the stock exchanges on which our H shares are listed from voting on these matters.

When a controlling shareholder intends to put forward a new motion on profit distribution at an annual general meeting, the controlling shareholder shall, at not less than ten days before the date of the annual general meeting, submit the motion to the board of directors to enable it to make an announcement, failing which the shareholder is not entitled to put forward the motion at the annual general meeting.

A controlling shareholder is defined by our articles of association as any person who acting alone or in concert with others:

- o is in a position to elect more than one-half of the board of directors;
- o has the power to exercise, or to control the exercise of, 30% or

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- more of our voting rights;
- o holds 30% or more of our issued and outstanding shares; or
- o has de facto control of us in any other way.

As of the date of this annual report, Sinopec Group Company is and will be our only controlling shareholder.

### Disclosure

The Listing Agreement imposes a requirement on us to keep the Hong Kong Stock Exchange, our shareholders and other holders of our listed securities informed as soon as reasonably practicable of any information relating to us and our subsidiaries, including information on any major new developments which are not public knowledge, which:

- o is necessary to enable them and the public to appraise the position of us and our subsidiaries;
- o is necessary to avoid the establishment of a false market in its securities; and
- o might be reasonably expected materially to affect market activity in and the price of its securities.

There are also requirements under the Listing Rules for us to obtain prior shareholders' approval and/or to disclose to shareholders details of certain acquisitions or disposals of assets and other transactions (including transactions with controlling shareholders).

### Sources of Shareholders' Rights

The PRC's legal system is based on written statutes and is a system in which decided legal cases have little precedent value. The PRC's legal system is similar to civil law systems in this regard. In 1979, the PRC began the process of developing its legal system by undertaking to promulgate a comprehensive system of laws. In December 1993, the Standing Committee of the 8th National People's Congress adopted the PRC Company Law. Although the PRC Company Law is expected to serve as the core of a body of regulatory measures, which will impose a uniform standard of corporate behavior on companies and their directors and shareholders, only a limited portion of this body of regulatory measures has so far been promulgated.

Currently, the primary sources of shareholder rights are our articles of association, as amended, the PRC Company Law and the Listing Rules of the Hong Kong Stock Exchange, which, among other things, impose certain standards of conduct, fairness and disclosure on us, our directors and our controlling shareholder, i.e., Sinopec Group Company. To facilitate the offering and listing of shares of PRC companies overseas, and to regulate the behavior of companies whose shares are listed overseas, the State Council Securities Committee and the State Commission for Restructuring the Economic System issued on August 27, 1994 the Mandatory Provisions for articles of association of Company Listing Overseas (the "Mandatory Provisions"). These Mandatory Provisions become entrenched in that, once they are incorporated into the articles of association of a PRC company, any amendment to those provisions will only become effective after approval by the companies approval department of local governments authorized by the State-owned Assets Supervision and Administration Commission of the State Council and the China Securities Regulatory Commission. The Listing Rules require a number of additional provisions to the Mandatory Provisions to be included in the articles of association of PRC companies listing H shares on the Hong Kong Stock Exchange (the "Additional Provisions"). The Mandatory Provisions and the Additional Provisions have been incorporated into our articles of association.

In addition, upon the listing of and for so long as the H shares are

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listed on the Hong Kong Stock Exchange, we will be subject to those relevant ordinances, rules and regulations applicable to companies listed on the Hong Kong Stock Exchange, including the Listing Rules of the Hong Kong Stock Exchange, the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the Securities (Insider Dealing) Ordinance and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases (the "Hong Kong Takeovers and Repurchase Codes").

Unless otherwise specified, all rights, obligations and protections discussed below derive from our articles of association and/or the PRC Company Law.

### Enforceability of Shareholders' Rights

There has not been any public disclosure in relation to the enforcement by holders of H shares of their rights under constitutive documents of joint stock limited companies or the PRC Company Law or in the application or interpretation of the PRC or Hong Kong regulatory provisions applicable to PRC joint stock limited companies.

In most states of the United States, shareholders may sue a corporation "derivatively". A derivative suit involves the commencement by a shareholder of a corporate cause of action against persons (including corporate officers, directors or controlling shareholders) who have allegedly wronged the corporation, where the corporation itself has failed to enforce such claim against such persons directly. Such action is brought based upon a primary right of the corporation, but is asserted by a shareholder on behalf of the corporation. Because the right to sue derivatively is not available under PRC law, our shareholders may have to rely on other means to enforce the rights of shareholders, such as through administrative proceedings.

Our articles of association provide that all differences or claims:

- o between a holder of H shares and us;
- o between a holder of H shares and any of our directors, supervisors, general managers, deputy general managers or other senior officers; or
- o between a holder of H shares and a holder of domestic ordinary shares, arising from any provision of our articles of association, any right or obligation conferred or imposed by the PRC Company Law or any other relevant law or administrative regulation which concerns our affairs

must, with certain exceptions, be referred to arbitration at either the China International Economic and Trade Arbitration Commission in the PRC or the Hong Kong International Arbitration Center. Our articles of association provide that such arbitration will be final and conclusive. In June 1999, an arrangement was made between the People's Courts of the PRC and the courts of Hong Kong to mutually enforce arbitration awards rendered in the PRC and Hong Kong according to their respective laws. This new arrangement was approved by the Supreme Court of the PRC and the Hong Kong Legislative Council and became effective on February 1, 2000. We have provided an undertaking to the United States Securities and Exchange Commission that, at such time, if any, as all applicable laws and regulations of the PRC and (unless our H shares are no longer listed on the Hong Kong Stock Exchange) all applicable regulations of the Stock Exchange of Hong Kong Ltd. shall not prohibit, and to the extent Section 14 under the United States Securities Act of 1933, as amended, so requires, our board of directors shall propose an amendment to the articles of association which would permit shareholders to adjudicate disputes arising between our shareholders and us, our directors, supervisors or officers by means of judicial proceedings.

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The holders of H shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Hong Kong Stock Exchange to enforce its rules. The SDI Ordinance establishes certain obligations in relation to disclosure of shareholder interests in Hong Kong listed companies, the violation of which is subject to prosecution by the Securities and Futures Commission of Hong Kong. The Hong Kong Takeovers and Repurchase Codes do not have the force of law and are only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong as established by the Securities and Futures Commission and the securities and futures industry in Hong Kong.

We have appointed our subsidiary in the U.S., SINOPEC-USA Co., Ltd., 150 E. 52nd Street, 28th Floor, New York, NY 10022, USA, as our agent to receive service of process with respect to any action brought against us in certain courts in New York under the United States federal and New York State's securities laws. However, as the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts within the United States, the United Kingdom, Japan or most other the Organization for Economic Cooperation and Development countries, administrative actions brought by regulatory authorities, such as the Commission, and other actions which result in foreign court judgments, could (assuming such actions are not required by PRC law and the articles of association to be arbitrated) only be enforced in the PRC on a reciprocal basis or according to relevant international treaty to which China is a party if such judgments or rulings do not violate the basic principles of the law of the PRC or the sovereignty, security and public interest of the society of the PRC, as determined by a People's Court of the PRC which has the jurisdiction for recognition and enforcement of judgments. We have been advised by our PRC counsel, Haiwen & Partners, that there is certain doubt as to the enforceability in the PRC of actions to enforce judgments of United States courts arising out of or based on the ownership of H shares or ADSs, including judgments arising out of or based on the civil liability provisions of United States federal or state securities laws.

### Restrictions on Transferability and the Share Register

According to PRC Company Law, our domestic ordinary shares held by Sinopec Group Company may not be transferred within three years of our establishment on February 25, 2000, except as permitted under the March 23, 2000 debt to equity swap agreement executed on March 23, 2000 between Sinopec Group Company and our other shareholders, whereby Sinopec Group Company may transfer our domestic ordinary shares to such other shareholders. H shares may be traded only among investors who are not PRC persons, and may not be sold to PRC investors. There are no restrictions on the ability of investors who are not PRC residents to hold H shares.

As provided in the articles of associations we may refuse to register a transfer of H shares unless:

- o any relevant transfer fee is paid;
- o the instrument of transfer is accompanied by the share certificates to which it relates, or such other evidence is given as may be reasonably necessary to show the right of the transferor to make the transfer;
- o the instrument of transfer is in respect of one class of shares only; and
- o the transfer is conducted in accordance with the laws and administrative regulations of or required by the securities exchanges on which the shares are listed.

We are required to keep a register of our shareholders which shall be comprised of various parts, including one part which is to be maintained in Hong Kong in relation to H shares to be listed on the Hong Kong Stock Exchange.

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Shareholders have the right to inspect and, for a nominal charge, to copy the share register. No transfers of ordinary shares shall be recorded in our share register within 30 days prior to the date of a shareholders' general meeting or within 5 days prior to the record date established for the purpose of distributing a dividend.

We have appointed HKSCC Registrars Limited to act as the registrar of our H shares. This registrar maintains our register of holders of H shares at our offices in Hong Kong and enters transfers of shares in such register upon the presentation of the documents described above.

### C. MATERIAL CONTRACTS

In August 2003, we entered into an agreement on the joint exploration, development and sales of the natural gas, petroleum and condensed oil resources in East China Sea region with CNOOC, Shell and Unocal. The above agreement included 5 contracts, the subject areas of which are all located at the Xihu Trough in East China Sea, including 3 contracted exploration areas and 2 contracted development areas, covering a total area of approximately 22,000 square kilometers. We and CNOOC each has 30% interest and Shell and Unocal each has 20% interest. CNOOC will serve as the operator in the above 5 contracted areas. Under this framework, we will lead the Natural Gas Marketing Department in East China Sea and be jointly responsible for the sales of natural gas produced in this project. This marks the official commencement of the Natural Gas Co-operative Development Project in Xihu Trough of East China Sea.

### D. EXCHANGE CONTROLS

The existing foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. We may undertake current account foreign exchange transactions without prior approval from the State Administration of Foreign Exchange by producing commercial documents evidencing such transactions, provided that they are processed through Chinese banks licensed to engage in foreign exchange transactions. The PRC government has stated publicly that it intends to make the renminbi freely convertible in the future. However, we cannot predict whether the PRC government will continue its existing foreign exchange policy and when the PRC government will allow free conversion of renminbi to foreign currency.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

Since 1994, the conversion of renminbi into Hong Kong and United States dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. Although the renminbi to US dollar exchange rate has been relatively stable since 1994, we cannot predict nor give any assurance of its future stability. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends. We cannot give any assurance that any future movements in the exchange rate of the renminbi against the US dollar and other foreign currencies will not adversely affect our results of operations and financial condition. We do not currently hedge exchange rate fluctuations between the

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renminbi and the US dollar or other currencies and currently have no plans to do so. For further information on our foreign exchange risks, foreign exchange rates, our hedging activities and our historical foreign currency requirements, see "Currencies Exchange Rates" and "Item 11 -- Qualitative and Quantitative Disclosure about Market Risk -- Foreign Exchange Rate Risk."

### E. TAXATION

#### PRC Taxation

The following discussion addresses the principal PRC tax consequences of investing in the H shares or ADSs.

#### Taxation of Dividends

##### Individual Investors

According to the current PRC tax regulations, dividends paid by PRC companies are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. However, such withholding tax is not applicable with respect to those PRC companies which have their shares listed on an overseas stock exchange, such as H shares and ADSs, because of an exemption issued first in 1993 and then confirmed in 1994. The relevant tax authority has not collected withholding tax on dividend payments on H shares or ADSs.

In the event that the exemption is no longer available or is withdrawn, a 20% tax may be withheld on dividends in accordance with the PRC individual income tax law. Such withholding tax may be reduced under an applicable treaty on the avoidance of double taxation.

##### Enterprises

According to the current PRC tax regulations, dividends paid by PRC companies to enterprises are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. However, foreign enterprises with no permanent establishment in China receiving dividends paid with respect to a PRC company's H shares or ADSs have been temporarily exempted from the 20% withholding tax. If such withholding tax becomes applicable in the future, the rate could be reduced under an applicable treaty on the avoidance of double taxation.

#### Tax Treaties

Holders resident in countries which have entered into avoidance of double taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends. The PRC currently has avoidance of double taxation treaties with a number of other countries, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Under a tax treaty between United States and China, China may tax dividends paid by Sinopec Corp. to eligible US Holders up to a maximum of 10% of the gross amount of such dividend. Under the tax treaty, an eligible US Holder is a person who, by reason of domicile, residence, place of head office, place of incorporation or any other criterion of similar nature is liable to tax in the United States, subject to a detailed "treaty shopping" provision.

#### Taxation of Capital Gains

A PRC tax regulation provides that gains realized upon the sale of overseas shares by foreign enterprises and individuals are not subject to tax on capital gains. However, the Provision for Implementing of the Individual

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Income Tax Law of the PRC (the "Detailed Implementing Rules"), promulgated on January 28, 1994, imposes income tax of 20% on gains derived from the sale of equity shares by an individual. A notice issued in 1998 by the Ministry of Finance and State Administration of Tax states that no capital gains tax will be imposed on gains from the sale of shares by individuals from 1997. If such tax exemption relief is no longer available, individual holders of H shares or ADSs may be subject to a 20% capital gains tax unless such tax is reduced or eliminated by an applicable double taxation treaty. As the Amendments and the Detailed Implementing Rules only relate to individual income tax, the tax exemption for foreign enterprises under the PRC tax regulation should still be valid.

### PRC Stamp Tax Considerations

Under the current PRC tax regulation, the PRC stamp tax is not imposed on the transfer of H shares and ADSs of PRC companies publicly listed outside China.

### United States Federal Income Tax Considerations

The following is a summary of United States federal income tax considerations that are anticipated to be material for US Holders (as defined below) who purchase H shares or ADSs. This summary is based upon existing United States federal income tax law, which is subject to change, possibly with retroactive effect. This summary does not discuss all aspects of United States federal income taxation which may be important to particular investors in light of their individual investment circumstances, such as investors subject to special tax rules including: financial institutions, insurance companies, broker-dealers, tax-exempt organizations, except as described below, non-US Holders, investors who own (directly, indirectly, or constructively) 10% or more of our voting stock, that will hold H shares or ADSs as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for United States federal income tax purposes investors that have a functional currency other than the United States dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not discuss any foreign, state, local or alternative minimum tax considerations. This summary assumes that investors will hold their H shares or ADSs as "capital assets" (generally, property held for investment) under the United States Internal Revenue Code. Each prospective investor is urged to consult its tax advisor regarding the United States federal, state, local, and foreign income and other tax considerations of the purchase, ownership, and disposition of H shares or ADSs.

For purposes of this summary, a US Holder is a beneficial owner of H shares or ADSs that is for United States federal income tax purposes:

- o an individual who is a citizen or resident of the United States;
- o a corporation created in or organized under the laws of, the United States or any State or political subdivision thereof;
- o an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source;
- o a trust the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust; or
- o a trust that was in existence on August 20, 1996, was treated as a United States person, for United States federal income tax



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purposes, on the previous day and elected to continue to be so treated.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) holds H shares or ADSs, the tax treatment of a partner in such partnership will depend upon the status of the partner and the activities of the partnership. Partners in a partnership holding our H shares or ADSs are urged to consult their tax advisors as to the particular U.S. federal income tax consequences applicable to them.

A beneficial owner of the H shares or ADSs that is not a US Holder is referred to herein as a "Non-US Holder."

A foreign corporation will be treated as a "passive foreign investment company" (a "PFIC"), for United States federal income tax purposes, if 75% or more of its gross income consists of certain types of "passive" income or 50% or more of its assets are passive. Sinopec Corp. presently believes that it is not a PFIC and does not anticipate becoming a PFIC. This is, however, a factual determination made on an annual basis and is subject to change. The following discussion assumes that Sinopec Corp. will not be subject to treatment as a PFIC for United States federal income tax purposes.

### US Holders

For United States federal income tax purposes, a US Holder of an ADS will be treated as the owner of the proportionate interest of the H shares held by the depository that is represented by an ADS and evidenced by such ADS. Accordingly, no gain or loss will be recognized upon the exchange of an ADS for the holder's proportionate interest in the H shares. A US Holder's tax basis in the withdrawn H shares will be the same as the tax basis in the ADS surrendered therefor, and the holding period in the withdrawn H shares will include the period during which the holder held the surrendered ADS.

### Dividends

Any cash distributions paid by Sinopec Corp. out of earnings and profits, as determined under United States federal income tax principles, will be subject to tax as dividend income and will be includible in the gross income of a US Holder upon receipt. A non-corporate recipient of dividend income will generally be subject to tax on dividend income from a "qualified foreign corporation" at a maximum U.S. federal tax rate of 15% rather than the marginal tax rates generally applicable to ordinary income so long as certain holding period requirements are met. A non-U.S. corporation (other than a foreign personal holding company, foreign investment company, or passive foreign investment company) generally will be considered to be a qualified foreign corporation (i) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information program or (ii) with respect to any dividend it pays on stock which is readily tradable on an established securities market in the United States. There is currently a tax treaty in effect between the United States and the People's Republic of China which the Secretary of Treasury of the United States determined is satisfactory for these purposes. Additionally, our ADSs trade on the New York Stock Exchange, an established securities market in the United States. Cash distributions paid by Sinopec Corp. in excess of its earnings and profits will be treated as a tax-free return of capital to the extent of the US Holder's adjusted tax basis in its shares or ADSs, and after that as gain from the sale or exchange of a capital asset. Dividends paid in Hong Kong dollar will be includible in income in a United States dollar amount based on the United States dollar - Hong Kong dollar exchange rate prevailing at the time of receipt of such dividends by the depository, in the case of ADSs, or by the US Holder, in the case of H shares

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held directly by such US Holder. Gain or loss, if any, recognized on a subsequent sale, conversion or other disposition of Hong Kong dollars generally will be U.S. source income or loss. Dividends received on H shares or ADSs will not be eligible for the dividends received deduction allowed to corporations.

Dividends received on H shares or ADSs will be treated, for United States federal income tax purposes, as foreign source income. A US Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on H shares or ADSs. US Holders who do not elect to claim a foreign tax credit for foreign income tax withheld may instead claim a deduction, for United States federal income tax purposes, in respect of such withholdings, but only for a year in which the US Holder elects to do so for all creditable foreign income taxes.

A distribution of additional shares of Sinopec Corp.'s stock to US Holders with respect to their H shares or ADSs that is pro rata to all Sinopec Corp.'s shareholders may not be subject to United States federal income tax. The tax basis of such additional shares will be determined by allocating the US Holders' adjusted tax basis in the H shares or ADSs between the H shares or ADSs and the additional shares, based on their relative fair market values on the date of distribution.

### Sale or Other Disposition of H shares or ADSs

A US Holder will recognize capital gain or loss upon the sale or other disposition of H shares or ADSs in an amount equal to the difference between the amount realized upon the disposition and the US Holder's adjusted tax basis in such H shares or ADSs, as each is determined in US dollars. Any capital gain or loss will be long-term if the H shares or ADSs have been held for more than one year and may be, under the income tax treaty between the People's Republic of China and the United States, foreign source gain or loss. The claim of a deduction in respect of a capital loss, for United States federal income tax purposes, may be subject to limitations.

### PFIC Considerations

If Sinopec Corp. were to be classified as a PFIC in any taxable year, a U.S. Holder would be subject to special rules generally intended to reduce or eliminate any benefits from the deferral of United States federal income tax that a U.S. Holder could derive from investing in a foreign company that does not distribute all of its earnings on a current basis. In such event, a U.S. Holder of the H shares or ADSs may be subject to tax at ordinary income tax rates on (i) any gain recognized on the sale of the H shares or ADSs and (ii) any "excess distribution" paid on the H shares or ADSs (generally, a distribution in excess of 125% of the average annual distributions paid by Sinopec Corp. in the three preceding taxable years). In addition, a U.S. Holder may be subject to an interest charge on such gain or excess distribution.

The above results may be eliminated if a "mark-to-market" election is available and a US Holder validly makes such an election. If the election is made, such holder generally will be required to take into account the difference, if any, between the fair market value and its adjusted tax basis in H shares or ADSs at the end of each taxable year as ordinary income or ordinary loss (to the extent of any net mark-to-market gain previously included in income). In addition, any gain from a sale or other disposition of H shares or ADSs will be treated as ordinary income, and any loss will be treated as ordinary loss (to the extent of any net mark-to-market gain previously included in income).

### Non-US Holders

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An investment in H shares or ADSs by a Non-US Holder will not give rise to any United States federal income tax consequences unless:

- o the dividends received or gain recognized on the sale of H shares or ADSs by such person is treated as effectively connected with the conduct of a trade or business by such person in the United States as determined under United States federal income tax law; or
- o in the case of gains recognized on a sale of H shares or ADSs by an individual, such individual is present in the United States for 183 days or more and certain other conditions are met.

In order to avoid back-up withholding on dividend payments made in the United States, a Non-US Holder of the H shares or ADSs may be required to complete, and provide the payor with, an Internal Revenue Service Form W-8BEN, or other documentary evidence, certifying that such holder is an exempt foreign person.

### F. DIVIDENDS AND PAYING AGENTS

Not applicable.

### G. STATEMENT BY EXPERTS

Not applicable.

### H. DOCUMENTS ON DISPLAY

We filed with the Securities and Exchange Commission in Washington, D.C. a Registration Statement on Form F-1 (Registration No. 333-12502) under the Securities Act in connection with the ADSs offered in the global offering. The Registration Statement contains exhibits and schedules. Any statement in this annual report about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to the Registration Statement, the contract or document is deemed to modify the description contained in this annual report. You must review the exhibits themselves for a complete description of the contract or documents.

You may inspect and copy our registration statements, including their exhibits and schedules, and the reports and other information we file with the Securities and Exchange Commission in accordance with the Exchange Act at the public reference facilities maintained by the Securities and Exchange Commission at Judiciary Plaza, 450 Fifth Street, Room 1024, N.W., Washington, D.C. 20549 and at the regional offices of the Securities and Exchange Commission located at 233 Broadway, New York, NY 10279 and at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may also inspect the registration statements, including their exhibits and schedules, at the office of the New York Stock Exchange, Wall Street, New York, New York 10005. Copies of such material may also be obtained from the Public Reference Section of the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. You may obtain information regarding the Washington D.C. Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330 or by contacting the Securities and Exchange Commission over the internet at its website at <http://www.sec.gov>.

### I. SUBSIDIARY INFORMATION

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Not applicable.

### ITEM 11. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposures are to fluctuations in oil and gas prices, exchange rates and interest rates.

#### Commodity Price Risk

We are exposed to fluctuations in prices of crude oil, refined products and petrochemicals whose prices are volatile. We purchase substantial volumes of crude oil from domestic and international suppliers and sell substantial volumes of refined products and petrochemicals to domestic buyers. We do not enter into commodity derivative instruments or futures to hedge the potential price fluctuations of these products or for other purposes. Therefore, fluctuations of prices of crude oil, refined products and petrochemicals have a significant effect on our operating expenses and net profits.

#### Foreign Exchange Rate Risk

A portion of the our renminbi revenues are converted into other currencies to meet foreign currency financial instrument obligations and to pay for imported materials and equipment. Foreign currency payments for imported equipment represented 6.9%, 9.6% and 5.6% of our total capital expenditure in 2001, 2002 and 2003, respectively. Foreign currency payments for other imports, principally crude oil, represented 34.0%, 34.5% and 40.5% of our purchased crude oil, products and operating supplies and expenses in 2001, 2002 and 2003, respectively.

The renminbi is not a freely convertible currency. Actions taken by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. Although the renminbi to US dollar exchange rate has been relatively stable since 1994, we cannot predict nor give any assurance of its future stability. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends. We cannot give any assurance that any future movements in the exchange rate of the renminbi against the US dollar and other foreign currencies will not adversely affect our results of operations and financial condition. However, we believe that significant depreciation in the renminbi against major foreign currencies may have a material adverse impact on our capital expenditure program.

The following presents various market risk information regarding market-sensitive financial instruments that we held or issued as of December 31, 2003 and 2002. We conduct our business primarily in renminbi, which is also our functional and reporting currency.

The following tables provide information regarding instruments that are sensitive to foreign exchange rates as of December 31, 2003 and 2002. For debt obligations, the table presents cash flows and related weighted average rates by expected maturity dates.

As of December 31, 2003:

Expected maturity					
2004	2005	2006	2007	2008	thereafter

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	(RMB equivalent in millions, except interest rates)					
<b>Assets</b>						
Cash and cash equivalents						
In United States dollar	968	-	-	-	-	-
In Hong Kong dollar	38	-	-	-	-	-
In Japanese yen	16	-	-	-	-	-
Euro denominated	17	-	-	-	-	-
Time deposits with financial institutions						
In United States dollar	59	-	-	-	-	-
In Hong Kong dollar	37	-	-	-	-	-
<b>Liabilities</b>						
Debts in United States dollar						
Fixed rate	3,741	706	121	32	10	32
Average interest rate	2.7%	5.3%	4.8%	2.0%	0.3%	0.0%
Variable rate	6,456	513	1,550	410	333	851
Average interest rate (1)	1.8%	2.3%	2.3%	2.7%	2.6%	1.4%
Debts in Japanese yen						
Fixed rate	292	248	240	160	80	1,154
Average interest rate	3.4%	3.2%	3.0%	2.8%	2.6%	2.6%
Variable rate	241	242	138	114	-	-
Average interest rate (1)	1.2%	1.2%	1.6%	1.6%	-	-
Debts in Hong Kong dollar						
Fixed rate	116	-	-	-	-	-
Average interest rate	0.7%	-	-	-	-	-
Variable rate	4	2	1	-	-	-
Average interest rate (1)	5.3%	5.3%	5.3%	-	-	-
Debts in Euro						
Fixed rate	-	3	1	1	1	15
Average interest rate	-	2.8%	1.8%	1.8%	1.8%	1.8%

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(1) The average interest rates for variable rate loans are calculated based on the rates reported

As of December 31, 2002:

	Expected maturity					
	2003	2004	2005	2006	2007	thereafter
(RMB equivalent in millions, except interest rates)						
<b>Assets</b>						
<b>Cash and cash equivalents</b>						
In United States dollar	1,269	-	-	-	-	-
In Hong Kong dollar	77	-	-	-	-	-
In Japanese yen	14	-	-	-	-	-
In Great British pound	3	-	-	-	-	-
In Euro	36	-	-	-	-	-
<b>Time deposits with financial institutions In</b>						
United States dollar	58	-	-	-	-	-
<b>Liabilities</b>						
<b>Debts in United States dollar</b>						
Fixed rate	688	537	562	249	93	-
Average interest rate	2.3%	5.0%	5.0%	4.7%	3.2%	0.0%
Variable rate	4,978	586	435	1,122	332	5,453
Average interest rate (1)	2.2%	2.5%	2.5%	2.4%	3.0%	1.1%
<b>Debts in Japanese yen</b>						
Fixed rate	230	231	221	215	144	1,161
Average interest rate	3.7%	3.6%	3.4%	3.4%	3.1%	2.8%
Variable rate	251	241	215	124	101	1,032
Average interest rate (1)	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%

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### Debts in Hong Kong dollar

Variable rate	139	3	2	2	-
Average interest rate (1)	5.4%	5.4%	5.4%	5.4%	-

### Debts in Euro

Fixed rate	50	42	44	34	-
Average interest rate	6.6%	6.5%	6.3%	6.9%	-

(1) The average interest rates for variable rate loans are calculated based on the rates reported in the financial statements.

### Interest Rate Risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our short- and long-term debts. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding floating rate borrowings.

Our debts consist of fixed and variable rate debt obligations with original maturities ranging from 1 to 28 years. Fluctuations in interest rates can lead to significant fluctuations in the fair values of our debt obligations.

The following tables present principal cash flows and related weighted average interest rates by expected maturity dates of our interest rate sensitive financial instruments as of December 31, 2003 and 2002.

As of December 31, 2003:

	Expected maturity					
	2004	2005	2006	2007	2008	thereafter
	(RMB equivalent in millions, except interest rates)					
<b>Assets</b>						
<b>Cash and cash equivalents</b>						
In Renminbi	14,182	-	-	-	-	-
In United States dollar	968	-	-	-	-	-
In Hong Kong dollar	38	-	-	-	-	-
In Japanese yen	16	-	-	-	-	-
Euro denominated	17	-	-	-	-	-

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Time deposits with financial institutions

In Renminbi	2,088	-	-	-	-
In United States dollar	59	-	-	-	-
In Hong Kong dollar	37	-	-	-	-

Liabilities

Debts in Renminbi

Fixed rate	16,240	9,130	6,981	9,213	5,458	36,75
Average interest rate	4.8%	5.0%	5.0%	5.1%	5.1%	5.
Variable rate	1,989	2,301	1,621	65	61	67
Average interest rate (2)	5.1%	5.1%	5.1%	4.9%	4.8%	4.

Debts in United States dollar

Fixed rate	3,741	706	121	32	10	3
Average interest rate	2.7%	5.3%	4.8%	2.0%	0.3%	0.
Variable rate	6,456	513	1,550	410	333	85
Average interest rate (2)	1.8%	2.3%	2.3%	2.7%	2.6%	1.

Debts in Japanese yen

Fixed rate	292	248	240	160	80	1,15
Average interest rate	3.4%	3.2%	3.0%	2.8%	2.6%	2.
Variable rate	241	242	138	114	-	
Average interest rate (2)	1.2%	1.2%	1.6%	1.6%	-	

Debts in Hong Kong dollar

Fixed rate	116	-	-	-	-
Average interest rate	0.7%	-	-	-	-
Variable rate	4	2	1	-	-
Average interest rate (2)	5.3%	5.3%	5.3%	-	-

Debts in Euro

Fixed rate	-	3	1	1	1	1
Average interest rate	-	2.8%	1.8%	1.8%	1.8%	1.



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- (1) Carrying amounts are used for loans from Sinopec Group Company and its affiliates as it is their fair values because the cost of obtaining discount and borrowing rates for comparable
- (2) The average interest rates for variable rate loans are calculated based on the rates reported

As of December 31, 2002:

	Expected maturity					
	2003	2004	2005	2006	2007	thereafter
(RMB equivalent in millions, except interest rates)						
<b>Assets</b>						
<b>Cash and cash equivalents</b>						
In Renminbi	16,762	-	-	-	-	-
In United States dollar	1,269	-	-	-	-	-
In Hong Kong dollar	77	-	-	-	-	-
In Japanese yen	14	-	-	-	-	-
In Great British pound	3	-	-	-	-	-
In Euro	36	-	-	-	-	-
<b>Time deposits with financial institutions</b>						
In Renminbi	955	-	-	-	-	-
In United States dollar	58	-	-	-	-	-
<b>Liabilities</b>						
<b>Debts in Renminbi</b>						
Fixed rate	28,079	6,435	9,960	6,047	3,765	39,286
Average interest rate	5.5%	6.3%	6.6%	5.5%	5.6%	0.0%
Variable rate	1,168	1,409	2,022	1,022	20	5,641
Average interest rate (2)	5.4%	5.5%	5.4%	5.7%	5.6%	3.2%
<b>Debts in United States dollar</b>						
Fixed rate	688	537	562	249	93	2,129
Average interest rate	2.3%	5.0%	5.0%	4.7%	3.2%	0.0%
Variable rate	4,978	586	435	1,122	332	5,453

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Average interest rate (2)	2.2%	2.5%	2.5%	2.4%	3.0%	1.
Debts in Japanese yen						
Fixed rate	230	231	221	215	144	1,1
Average interest rate	3.7%	3.6%	3.4%	3.4%	3.1%	2
Variable rate	251	241	215	124	101	
Average interest rate (2)	0.2%	0.2%	0.2%	0.2%	0.2%	
Debts in Hong Kong dollar						
Variable rate	139	3	2	2	-	
Average interest rate (2)	5.4%	5.4%	5.4%	5.4%	-	
Debts in Euro						
Fixed rate	50	42	44	34	-	
Average interest rate	6.6%	6.5%	6.3%	6.9%	-	8

(1) Carrying amounts are used for loans from Sinopec Group Company and its affiliates as it is their fair values because the cost of obtaining discount and borrowing rates for comparabl

(2) The average interest rates for variable rate loans are calculated based on the rates repor 2002.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELIN QUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. MATERIAL MODIFICATIONS TO THE RIGHTS TO SECURITIES HOLDERS

None.

B. USE OF PROCEEDS

The following use of proceeds information relates to the registration

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statement on Form F-1 (Registration No. 333-12502) filed by us in connection with the global offering of American depository shares underlying our H shares, which went effective on October 11, 2000.

The aggregate net offering proceeds to us from the sale of our H shares registered pursuant to the registration statement were approximately US\$2,938.8 million. In 2003, we used approximately RMB3.273 billion (US\$395.4 million) from the net offering proceeds primarily to fund our capital expenditure programs. By December 31, 2003, we have used up all the proceeds from the issuance of our H Shares.

### ITEM 15. CONTROLS AND PROCEDURES

- (a) Our principal executive officer and principal financial officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) or 15d-15(e), and concluded that, based on their evaluation, our disclosure controls and procedures are effective as of the end of the period covered by this annual report to ensure that material information required to be included in this annual report would be made known to them by others on a timely basis.
- (b) There has been no significant change in our internal controls or in other factors that could significantly affect these controls subsequent to the Evaluation Date.

### ITEM 16. ITEM 16A AUDIT COMMITTEE FINANCIAL EXPERT

The board of directors has determined that Mr. Zhang Youcai qualifies as an audit committee financial expert in accordance with the terms of Item 16.A of Form 20-F. For Mr. Zhang's biographical information, see "Item 6 Directors, Senior Management and Employees - A. Directors, members of the supervisory committee and senior management."

### ITEM 16B CODE OF ETHICS

As of the date of this annual report, we do not have, in form, a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. Our principal executive officers, Mr. Chen Tonghai (Chairman) and Mr. Wang Jiming (President), and our principal financial officer, Mr. Zhang Jiaren (CFO), currently also serve as our directors and are thus subject to the director service contracts that they have with us. Under the director service contracts, each of them agrees that he owes a fiduciary and diligence obligation to our company and that he shall not engage in any activities in competition with our business or carry any activities detrimental to the interests of our company. Each of them also agrees to perform his respective duties as a director and senior officer in accordance with the Company Law of the PRC, relevant rules and regulations promulgated by China Securities Regulatory Commission and the Mandatory Provisions of Articles of Association of Overseas Listed Companies.

### ITEM 16C PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate audit fees, audit-related fees, tax fees of our principal accountants and all other fees billed for products and services provided by our principal accountants other than the audit fees, audit-related fees and tax fees for each of the fiscal years 2002 and 2003:

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	Audit Fees -----	Audit-Related Fees -----	Tax Fees -----
2002	RMB 79 million	--	--
2003	RMB 79 million	RMB 8 million	--

Before our principal accountants were engaged by our company or our subsidiaries to render audit or non-audit services, the engagement has been approved by our audit committee.

### ITEM 16D AUDIT COMMITTEE EXEMPTION

Not applicable.

### PART III

#### ITEM 17. FINANCIAL STATEMENTS

Not applicable.

#### ITEM 18. FINANCIAL STATEMENTS

See F-pages following Item 19.

#### ITEM 19. EXHIBITS

- 1\* Articles of Association of the Registrant, amended and adopted by the shareholders' meeting on April 22, 2004 (English version).
- 4.1 Director Service Contracts, incorporated by reference to Exhibit 4.1 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 18, 2003.
- 4.2 Supervisor Service Contracts, incorporated by reference to Exhibit 4.2 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 18, 2003.
- 4.3 Reorganization Agreement between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.1 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.4 Agreement for Mutual Provision of Products and Ancillary Services between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.3 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.5 Agreement for Provision of Cultural, Educational, Hygiene and Community Services between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.4 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

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- 4.6 Trademark License Agreement between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.6 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.7 Patents and Proprietary Technology License Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.7 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.8 Computer Software License Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.8 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.9 Land Use Rights Leasing Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.10 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.10 Property Leasing Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.11 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 8\* A list of the Registrant's subsidiaries.
- 12.1\* Certification of Chairman pursuant to Rule 13a-14(a).
- 12.2\* Certification of President pursuant to Rule 13a-14(a).
- 12.3\* Certification of CFO pursuant to Rule 13a-14(a).
- 13\* Certification of CEO and CFO pursuant to 18 U.S.C.ss.1350, and Rule 13a-14(b).

\* Filed as part of this annual report.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

## Edgar Filing: CHINA PETROLEUM & CHEMICAL CORP - Form 20-F

Report of independent registered public accounting firm .....	
Consolidated statements of income for the years ended December 31, 2001, 2002 and 2003 .....	
Consolidated balance sheets as of December 31, 2002 and 2003 .....	
Consolidated statements of cash flows for the years ended December 31, 2001, 2002 and 2003.....	
Consolidated statements of shareholders' equity for the years ended December 31, 2001, 2002 and 2003.....	
Notes to consolidated financial statements.....	
Supplemental information on oil and gas producing activities (unaudited).....	

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of  
China Petroleum & Chemical Corporation:

We have audited the accompanying consolidated balance sheets of China Petroleum & Chemical Corporation and subsidiaries (the "Group") as of December 31, 2002 and 2003, and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 2003, all expressed in Renminbi. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Petroleum & Chemical Corporation and subsidiaries as of December 31, 2002 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

International Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 33 to the consolidated financial statements.

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The accompanying consolidated financial statements as of and for the year ended December 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and in our opinion, the consolidated financial statements expressed in Renminbi have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

KPMG  
Hong Kong, China  
March 26, 2004

### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

#### CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003 (Amounts in millions, except per share data)

		Years ended December		
	Note	2001	2002	2003
		----- RMB	----- RMB	----- RMB
Operating revenues				
Sales of goods.....		309,379	329,116	424,3
Other operating revenues.....	3	14,250	16,029	18,8
		-----	-----	-----
		323,629	345,145	443,1
Operating expenses				
Purchased crude oil, products and operating supplies and expenses.....		(222,462)	(237,581)	(37,7
Selling, general and administrative expenses.....		(17,800)	(21,461)	(25,9
Depreciation, depletion and amortization.....		(23,395)	(25,286)	(26,7
Exploration expenses, including dry holes.....		(3,775)	(4,363)	(6,1
Personnel expenses.....	4	(13,655)	(14,417)	(16,1
Employee reduction expenses.....	5	(2,546)	(244)	(1,0
Taxes other than income tax.....	6	(11,977)	(11,956)	(13,4
Other operating expenses, net.....	7	(350)	(1,158)	(3,8
		-----	-----	-----
Total operating expenses.....		(295,960)	(316,466)	(405,8
Operating income.....		27,669	28,679	37,2
Finance costs				
Interest expense.....	8	(4,983)	(4,176)	(3,7
Interest income.....		1,191	345	3
Foreign exchange losses.....		(261)	(384)	(4
Foreign exchange gains.....		760	60	

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Net finance costs.....		(3,293)	(4,155)	(3,8
Gain from issuance of shares by a subsidiary.....	9	—	—	1
Investment income.....		190	229	
Income from associates.....		334	332	4
Income before income tax and minority interests .....		24,900	25,085	34,0
Income tax.....	10	(8,037)	(7,650)	(10,5
Income before minority interests.....		16,863	17,435	23,5
Minority interests.....		(617)	(1,120)	(1,9
Net income		16,246	16,315	21,5
Basic earnings per share.....	11	0.19	0.19	0.
Weighted average number of shares.....	11	85,168	86,702	86,7

See accompanying notes to consolidated financial statements.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2002 AND 2003  
(Amounts in millions)

		December 31,	
	Note	2002	2003
		RMB	RMB
ASSETS			
Current assets			
Cash and cash equivalents.....		18,161	15,221
Time deposits with financial institutions.....		1,013	2,184
Trade accounts receivable, net.....	12	10,800	9,284
Bills receivable.....		5,053	5,953
Inventories.....	13	47,074	46,112
Prepaid expenses and other current assets.....	14	21,881	20,574
Total current assets.....		103,982	99,328
Non-current assets			
Property, plant and equipment, net.....	15	249,589	256,748
Construction in progress.....	16	21,692	28,973
Investments.....	17	2,697	2,582
Interests in associates.....	18	8,049	8,081
Deferred tax assets.....	20	732	2,144



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Lease prepayments.....		829	810
Other assets.....		1,773	2,152
		-----	-----
Total non-current assets.....		285,361	301,490
		-----	-----
Total assets.....		389,343	400,818
		-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term debts.....	21	31,909	25,158
Loans from Sinopec Group Company and its affiliates.....	21	3,674	3,921
Trade accounts payable.....	22	19,477	22,704
Bills payable.....		30,239	23,958
Accrued expenses and other payables.....	23	31,361	42,187
Income tax payable.....		2,780	4,077
		-----	-----
Total current liabilities.....		119,440	122,005
Non-current liabilities			
Long-term debts.....	21	39,479	41,450
Loans from Sinopec Group Company and its affiliates.....	21	37,703	37,771
Deferred tax liabilities.....	20	3,599	4,599
Other liabilities.....		1,290	1,228
		-----	-----
Total non-current liabilities.....		82,071	85,048
		-----	-----
Total liabilities.....		201,511	207,053
Minority interests.....		24,009	25,866
Shareholders' equity			
Share capital.....	24	86,702	86,702
Reserves.....	25	77,121	81,197
		-----	-----
		163,823	167,899
		-----	-----
Total liabilities and shareholders' equity.....		389,343	400,818
		=====	=====

See accompanying notes to consolidated financial statements.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003  
(Amounts in millions)

		Years en	
		-----	-----
	Note	2001	2002
		----	----
		RMB	RMB
Net cash from operating activities.....	(a)	56,671	55,046

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Cash flows from investing activities		
Capital expenditure.....	(56,224)	(42,208)
Capital expenditure of jointly controlled entities.....	--	--
Purchase of investments and investments in associates.....	(3,375)	(2,174)
Proceeds from disposal of investments and investments in associates.....	323	337
Proceeds from disposal of property, plant and equipment.....	382	451
Repayments of loans from associates.....	117	--
Increase in time deposits with financial institutions.....	(18,698)	(1,342)
Maturity of time deposits with financial institutions.....	38,727	2,160
	-----	-----
Net cash used in investing activities.....	(38,748)	(42,776)
	-----	-----
Cash flows from financing activities		
Proceeds from public offering, net of issuing expenses.....	11,648	--
Proceeds from bank and other loans.....	259,065	252,356
Proceeds from bank and other loans of jointly controlled entities.....	--	--
Repayments of bank and other loans.....	(273,597)	(259,274)
Distributions to minority interests.....	(682)	(455)
Contributions from minority interests.....	287	230
Dividend paid.....	(6,712)	(8,670)
Cash and cash equivalents distributed to Sinopec Group Company.....	(6,446)	--
	-----	-----
Net cash used in financing activities.....	(16,437)	(15,813)
	-----	-----
Net increase/(decrease) in cash and cash equivalents.....	1,486	(3,543)
Effect of foreign exchange rate.....	(7)	7
Cash and cash equivalents at beginning of year.....	20,218	21,697
	-----	-----
Cash and cash equivalents at end of year.....	21,697	18,161
	=====	=====

See accompanying notes to consolidated financial statements.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003  
(Amounts in millions)

- (a) Reconciliation of income before income tax and minority interests to net cash from operating activities

The reconciliation of income before income tax and minority interests to net cash from operating activities is as follows:

	Years ended	
	2001	2002
	-----	-----
	2001	2002

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	----- RMB	----- RMB
Income before income tax and minority interests.....	24,890	25,085
Adjustment for:		
Depreciation, depletion and amortization.....	23,395	25,286
Dry hole cost.....	1,770	1,771
Income from associates.....	(320)	(332)
Investment income.....	(189)	(229)
Interest income.....	(1,191)	(345)
Interest expense.....	4,983	4,176
Gain from issuance of shares by a subsidiary.....	--	--
Unrealized foreign exchange (gain)/loss.....	(542)	303
Loss on disposal of property, plant and equipment.....	77	797
Impairment losses on long-lived assets.....	--	--
Decrease in trade accounts receivable.....	1,872	449
Increase in bills receivable.....	(579)	(1,224)
Decrease/(increase) in inventories.....	4,201	(123)
Decrease in prepaid expenses and other current assets.....	572	4,060
Decrease/(increase) in lease prepayments.....	50	(11)
Decrease/(increase) in other assets.....	54	(612)
(Decrease)/increase in trade accounts payable.....	(2,510)	2,428
Increase/(decrease) in bills payable.....	14,830	4,241
(Decrease)/increase in accrued expenses and other payables.....	(4,863)	349
Increase/(decrease) in other liabilities.....	361	622
	-----	-----
Cash flow generated from operations .....	66,861	66,691
Interest received.....	1,245	360
Interest paid.....	(5,334)	(5,745)
Investment and dividend income received.....	293	343
Income tax paid.....	(6,394)	(6,603)
	-----	-----
Net cash from operating activities.....	56,671	55,046
	=====	=====

See accompanying notes to consolidated financial statements.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(Amounts in millions)

	Share capital	Capital reserve	Share premium	Revaluation reserve	Other reser
	RMB	RMB	RMB	RMB	RMB
	---	---	---	---	---
Shareholders' equity at January 1, 2001, as previously reported.....	83,902	(14,579)	9,224	33,257	5,
Adjusted for acquisition of the Acquired Group...	--	--	--	--	9,
	-----	-----	-----	-----	-----
Shareholders' equity at January 1, 2001, as					

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adjusted.....	83,902	(14,579)	9,224	33,257	14,
Final dividend for 2000.....	--	--	--	--	
Issue of shares, net of issuing expenses of RMB 168.....	2,800	--	8,848	--	
Net income.....	--	--	--	--	
Appropriations (Note 25).....	--	--	--	--	2,
Consideration for Acquisition of Sinopec National Star (Note 1).....	--	--	--	--	(6,
Transfer from other reserves to capital reserve.....	--	(4,299)	--	--	4,
Revaluation surplus realized.....	--	--	--	(232)	
Transfer from retained earnings to other reserves.....	--	--	--	--	
Net assets distributed to Sinopec Group Company (Note iii).....	--	--	--	--	(
Shareholders' equity at December 31, 2001.....	86,702	(18,878)	18,072	33,025	15,
Final dividend for 2001 .....	--	--	--	--	
Interim dividend for 2002.....	--	--	--	--	
Net income.....	--	--	--	--	
Appropriations (Note 25).....	--	--	--	--	9,
Revaluation surplus realized.....	--	--	--	(544)	
Elimination of surplus on land use rights (Note ii).....	--	--	--	(840)	
Realization of deferred tax on land use rights (Note ii).....	--	--	--	--	
Transfer from retained earnings to other reserves.....	--	--	--	--	
Net assets contributed from Sinopec Group Company (Note iii).....	--	--	--	--	
Shareholders' equity at December 31, 2002.....	86,702	(18,878)	18,072	31,641	25,
Final dividend for 2002 .....	--	--	--	--	
Interim dividend for 2003.....	--	--	--	--	
Net income.....	--	--	--	--	
Appropriations (Note 25).....	--	--	--	--	3,
Revaluation surplus realized.....	--	--	--	(1,316)	
Revaluation surplus of Refining Assets.....	--	(82)	--	16	
Deferred tax effect of surplus on land use rights (Note ii).....	--	--	--	--	
Realization of deferred tax on land use rights (Note ii).....	--	--	--	--	
Transfer from retained earnings to other reserves.....	--	--	--	--	
Net assets distributed to Sinopec Group Company (Note iii).....	--	--	--	--	(6,
Consideration for Acquisitions of Ethylene Assets and Refining Assets (Note 1).....	--	--	--	--	(3,
Shareholders' equity at December 31, 2003.....	86,702	(18,960)	18,072	30,341	19,
US Dollars equivalent.....	10,475	(2,291)	2,184	3,666	2,

Note:

- (i) Net gains and losses not recognized in the combined statements of income represent revaluation surplus after adjusting for the amount attributable to minority interests. Net gains and losses not recognized in the combined statements of income was nil for the years ended December 31, 2001 and 2002 and amounted to RMB 16 for the year ended December 31, 2003. The recognized gains of the Group, which represents the aggregate of the net income and the revaluation surplus was RMB 16,246, RMB 16,315 and RMB 21,609 for the years ended December 31, 2001, 2002 and 2003, respectively.

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- (ii) Effective January 1, 2002, land use rights which are included in lease prepayments are carried at historical cost. Accordingly, the surplus on the revaluation of land use rights credited to revaluation reserve previously, net of minority interests, was eliminated during the year. The effect of this change did not have a material impact on the Group's financial condition and results of operations in the years prior to the change. As a result of the tax deductibility of the revaluation surplus, a deferred tax asset, net of minority interests, is created with a corresponding increase in other reserves.
- (iii) These represent net assets contributed from and distributed to Sinopec Group Company for no monetary consideration. The net assets distributed to Sinopec Group Company during the year ended December 31, 2003 primarily represent certain assets retained by Sinopec Group Company in connection with the acquisition of the Acquired Group. The transaction was recorded at historical cost and was reflected as a change in other reserves in the year the transaction occurred.

See accompanying notes to consolidated financial statements.

### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (Amounts in millions of Renminbi, except per share data)

#### 1 PRINCIPAL ACTIVITIES, ORGANIZATION AND BASIS OF PRESENTATION

##### Principal activities

China Petroleum & Chemical Corporation (the "Company") is an energy and chemical company that, through its subsidiaries (hereinafter collectively referred to as the "Group"), engages in fully integrated oil and gas and chemical operations in the People's Republic of China (the "PRC"). Oil and gas operations consist of exploring for, developing and producing crude oil and natural gas; transporting crude oil, natural gas and products by pipelines; refining crude oil into finished petroleum products; and marketing crude oil, natural gas and refined petroleum products. Chemical operations include the manufacture and marketing of a wide range of chemicals for industrial uses.

##### Organization

The Company was established in the PRC on February 25, 2000 as a joint stock limited company as part of the reorganization (the "Reorganization") of China Petrochemical Corporation ("Sinopec Group Company"), the ultimate holding company of the Group and a ministry-level enterprise under the direct supervision of the State Council of the PRC. Prior to the incorporation of the Company, the oil and gas and chemical operations of the Group were carried on by oil administration bureaux, petrochemical and refining production enterprises and sales and marketing companies of Sinopec Group Company.

As part of the Reorganization, certain of Sinopec Group Company's core oil and gas and chemical operations and businesses together with the related assets and liabilities that were to be transferred to the Company were segregated such that the operations and businesses were separately managed beginning December 31, 1999. On February 25, 2000, in consideration for Sinopec Group Company transferring such oil and gas and chemical operations and businesses and the

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related assets and liabilities to the Company, the Company issued 68.8 billion domestic state-owned ordinary shares with a par value of RMB 1.00 each to Sinopec Group Company. The shares issued to Sinopec Group Company on February 25, 2000 represented the entire registered and issued share capital of the Company at that date. The oil and gas and chemical operations and businesses transferred to the Company related to (i) the exploration, development and production of crude oil and natural gas, (ii) the refining, transportation, storage and marketing of crude oil and petroleum products, and (iii) the production and sale of chemicals (collectively the "Predecessor Operations").

### Basis of presentation

Pursuant to the resolution passed at the Extraordinary General Meeting held on August 24, 2001, the Company acquired the entire equity interest of Sinopec National Star Petroleum Company ("Sinopec National Star") from Sinopec Group Company for a consideration of RMB 6.45 billion (hereinafter referred to as the "Acquisition of Sinopec National Star").

Pursuant to the resolution passed at the Directors' meeting on October 28, 2003, the Group acquired the equity interest of Sinopec Group Maoming Petrochemical Company ("Sinopec Maoming") from Sinopec Group Company, for a consideration of RMB 3.3 billion (hereinafter referred to as the "Acquisition of Ethylene Assets").

Pursuant to the resolution passed at the Directors' meeting on December 29, 2003, the Group acquired the equity interest of Xi'an Petrochemical Main Factory ("Xi'an Petrochemical") and Tahe Oilfield Petrochemical Factory ("Tahe Petrochemical") from Sinopec Group Company, for considerations of RMB 221 and RMB 135, respectively (hereinafter referred to as the "Acquisition of Refining Assets").

As the Group, Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical and Tahe Petrochemical are under the common control of Sinopec Group Company, the Acquisition of Sinopec National Star, Acquisition of Ethylene Assets and Acquisition of Refining Assets are considered as "combination of entities under common control" which are accounted in a manner similar to a pooling-of-interests ("as-if pooling-of-interests accounting"). Accordingly, the assets and liabilities acquired from Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical and Tahe Petrochemical have been accounted for at historical cost and the financial statements of the Group for periods prior to the combination have been restated to include the accounts and the results of operations of Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical and Tahe Petrochemical on a combined basis. In connection with these acquisitions, certain assets, primarily property, plant and equipment and construction in progress, were retained by Sinopec Group Company. The assets retained by Sinopec Group Company were reflected as a distribution in the shareholders' equity. The considerations for these acquisitions were treated as an equity transaction.

The results of operations and the financial condition previously reported by the Group and Sinopec Maoming, Xi'an Petrochemical and Tahe Petrochemical (collectively the "Acquired Group") and the combined amounts as of December 31, 2002 and for the years ended December 31, 2001 and 2002 presented in the accompanying consolidated financial statements are summarized below.

The Group without the Acquired Group	The Acquired Group
-----	-----
RMB	RMB

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2001

Results of operation:		
Operating revenue.....	318,471	5,158
Net income.....	16,025	221
Basic earnings per share.....	0.19	--

2002

Results of operation:		
Operating revenue.....	340,042	5,103
Net income.....	16,080	235
Basic earnings per share.....	0.19	--

Financial condition:		
Current assets.....	101,884	2,098
Total assets.....	375,881	13,462
Current liabilities.....	117,434	2,006
Total liabilities.....	197,476	4,035
Shareholders' equity.....	154,485	9,338

For the years presented, all significant balances and transactions between the Group and the Acquired Group prior to the acquisitions have been eliminated.

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards ("IAS") and related interpretations. Information relating to the nature and effect of the significant differences between IFRS and accounting principles generally accepted in the United States of America ("US GAAP") are set forth in Note 33.

The accompanying consolidated financial statements are prepared on the historical cost basis as modified by the revaluation of certain property, plant and equipment (Note 15). The accounting policies described in Note 2 have been consistently applied by the Group. As described in note (ii) to the consolidated statement of shareholders' equity, land use rights are carried at cost effective January 2002. The effect of this change resulted in a decrease in the revaluation reserve and an increase in other reserves relating to the recognition of the deferred tax asset as of January 1, 2002. The effect of this change did not have a material impact on the Group's financial condition and results of operations in prior years.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

The accompanying consolidated financial statements are expressed in Renminbi ("RMB"), the national currency of the PRC. Solely for the convenience of the reader, the December 31, 2003 consolidated financial statements have been translated into United States dollars at the noon buying rate in New York City on December 31, 2003 for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York of US\$ 1.00 = RMB 8.2767. No representation is made that the Renminbi could have been, or could be, converted into United States dollars at that rate or at any other certain rate on December 31, 2003, or at any other certain date.

### 2. PRINCIPAL ACCOUNTING POLICIES

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### (a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries are included in the consolidated statements of income from the date that control effectively commences until the date that control effectively ceases, and the share attributable to minority interests is deducted from or added to income before minority interests. All significant inter-company balances and transactions and any unrealized gains arising from inter-company transactions, are eliminated on consolidation.

The particulars of the Group's principal subsidiaries are set out in Note 31.

### (b) Translation of foreign currencies

The functional and reporting currency of the Group is Renminbi. Foreign currency transactions during the year are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China ("PBOC rates") prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into Renminbi at the applicable PBOC rates at the balance sheet date.

Exchange differences, other than those capitalized as construction in progress, are recognized as income or expenses in the consolidated statements of income. There were no exchange differences capitalized for the years ended December 31, 2001, 2002 and 2003.

### (c) Cash and cash equivalents

Cash equivalents consist of time deposits with financial institutions with an initial term of less than three months when purchased. Cash equivalents are stated at cost, which approximates fair value.

### (d) Trade accounts receivable

Trade accounts receivable are stated at cost less allowance for doubtful accounts. An allowance for doubtful accounts is provided based upon the evaluation of the recoverability of these accounts at the balance sheet date.

### (e) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realizable value. Cost includes the cost of purchase computed using the weighted average method and, in the case of work in progress and finished goods, direct labor and an appropriate proportion of production overheads. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Spare parts and consumables are stated at cost less any provision for obsolescence.



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### (f) Property, plant and equipment

An item of property, plant and equipment is initially recorded at cost, less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent to the revaluation (Note 15), which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Expenditure incurred after the asset has been put into operation is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the consolidated statements of income in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of property, plant and equipment, other than oil and gas properties, are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized as income or expense in the consolidated statements of income on the date of retirement or disposal. On disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings.

Depreciation is provided to write off the cost/revalued amount of each asset, other than oil and gas properties, over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

Buildings	15 to 45 years
Plant, machinery, equipment and others	4 to 18 years
Service stations	25 years

### (g) Oil and gas properties

The Group uses the successful efforts method of accounting for its oil and gas producing activities. Under this method, costs of development wells and the related support equipment are capitalized. The cost of exploratory wells is initially capitalized as construction in progress pending determination of whether the well has found proved reserves. The impairment of exploratory well costs occurs upon the determination that the well has not found proved reserves. Exploratory wells that find oil and gas reserves in any area requiring major capital expenditure are expensed unless the well has found a sufficient quantity of reserves to justify its completion as a producing well if the required capital expenditure is made, and drilling of the additional exploratory wells is under way or firmly planned for the near future. However, in the absence of a determination of the discovery of proved reserves, exploratory well costs are not carried as an asset for more than one year following completion of drilling. If, after one year has passed, a determination of the discovery of proved reserves cannot be made, the exploratory well costs are impaired and charged to expense. All other exploration costs, including geological and geophysical costs, other dry hole costs and annual lease rentals, are expensed as incurred. Capitalized costs relating to proved properties are amortized at the field level on a unit-of-production method. The amortization rates are determined based on oil and gas reserves estimated to be recoverable from existing facilities over the shorter of the economic lives of crude oil and natural gas reservoirs and the terms of the relevant production licenses.

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Gains and losses on the disposal of proved oil and gas properties are not recognized unless the disposal encompasses an entire property. The proceeds on such disposals are credited to the carrying amounts of oil and gas properties.

### (h) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's land bureau. Land use rights are carried at cost and amortized on a straight-line basis over the respective periods of the rights.

### (i) Construction in progress

Construction in progress represents buildings, oil and gas properties, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

### (j) Investments

Investments in unlisted equity securities are stated at cost less provision for impairment losses. A provision is made where, in the opinion of management, the carrying amount of the investments exceeds its recoverable amount.

### (k) Interests in associates

An associate is a company, not being a subsidiary, in which the Group exercises significant influence over its management. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

The consolidated statements of income include the Group's share of the results of its associates for the period. In the consolidated balance sheets, interests in associates are stated at the Group's attributable share of net assets.

### (l) Interests in jointly controlled entities

A jointly controlled entity is an entity over which the Group can exercise joint control with other ventures. Joint control is the contractually agreed sharing of control over an economic activity.

The Group's interests in jointly controlled entities are accounted for on a proportionate consolidation basis. Under this method, the Group combines its proportionate share of the jointly controlled entity's operating revenues and expenses with each major operating revenues and expenses caption of the Group's statements of income and combines its proportionate share of the jointly controlled entity's assets and liabilities with each major asset and liability caption of the Group's balance sheet.

### (m) Provisions

A provision is recognized in the consolidated balance sheets when the Group has a legal or constructive obligation as a result of a past event, and

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it is probable that an outflow of economic benefits will be required to settle the obligation.

### (n) Revenue recognition

Revenues associated with the sale of crude oil, natural gas, petroleum and chemical products and all other items are recorded when the customer accepts the goods and the significant risks and rewards of ownership and title have been transferred to the buyer. Revenue from the rendering of services is recognized in the consolidated statements of income upon performance of the services. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

Interest income is recognized on a time apportioned basis that takes into account the effective yield on the asset.

Gains arising from the issuance of shares by subsidiaries are recognized in the consolidated statements of income. Further information is set out in Note 9.

### (o) Borrowing costs

Borrowing costs are expensed in the consolidated statements of income in the period in which they are incurred, except to the extent that they are capitalized as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use.

### (p) Repairs and maintenance expenditure

Repairs and maintenance expenditure, including cost of major overhaul, is expensed as incurred.

### (q) Environmental expenditures

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed as incurred.

Liabilities related to future remediation costs are recorded when environmental assessments and/or cleanups are probable and the costs can be reasonably estimated. As facts concerning environmental contingencies become known to the Group, the Group reassesses its position both with respect to accrued liabilities and other potential exposures.

### (r) Research and development costs

Research and development costs are recognized as expenses in the period in which they are incurred. Research and development costs amounted to RMB 1,304, RMB 1,520 and RMB 2,111 for the years ended December 31, 2001, 2002 and 2003, respectively.

### (s) Operating leases

Operating lease payments are charged to the consolidated statements of income on a straight-line basis over the period of the respective leases. Operating lease charges amounted to RMB 2,834, RMB 3,195 and RMB 3,586 for the years ended December 31, 2001, 2002 and 2003, respectively.

### (t) Retirement benefits

The contributions payable under the Group's retirement plans are charged

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to the consolidated statements of income according to the contribution determined by the plans. Further information is set out in Note 29.

### (u) Impairment loss

The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value. The amount of the reduction is recognized as an expense in the consolidated statements of income unless the asset is carried at revalued amount for which an impairment loss is recognized directly against any related revaluation reserve to the extent that the impairment loss does not exceed the amount held in the revaluation reserve for that same asset.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognized for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognized as income unless the asset is carried at revalued amount. Reversal of an impairment loss on a revalued asset is credited to the revaluation reserve except for impairment loss which was previously recognized as an expense in the consolidated statements of income; a reversal of such impairment loss is recognized as income. The reversal is reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

### (v) Income tax

Income tax comprises current and deferred tax. Current tax is calculated on taxable income by applying the applicable tax rates. Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is calculated on the basis of the enacted tax rates that are expected to apply in the period when the asset is realized or the liability is settled. The effect on deferred tax of any changes in tax rates is charged or credited to the consolidated statements of income.

The tax value of losses expected to be available for utilization against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction to the extent appropriate, and is not available for set-off against the taxable profit of another legal tax unit. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### (w) Dividends

Dividends are recognized as a liability in the period in which they are declared.

### (x) Segmental reporting

A business segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments.

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### 3. OTHER OPERATING REVENUES

Other operating revenues represent:

	Years ended December 31,		
	2001	2002	2003
	RMB	RMB	RMB
Sale of materials, service and others.....	14,074	15,683	18,420
Rental income.....	176	346	398
	14,250	16,029	18,818

### 4. PERSONNEL EXPENSES

Personnel expenses represent:

	Years ended December 31,		
	2001	2002	2003
	RMB	RMB	RMB
Wages and salaries.....	9,846	10,360	11,866
Staff welfare.....	1,373	1,434	1,544
Contribution to retirement schemes.....	1,472	1,656	1,799
Social security contributions.....	964	967	988
	13,655	14,417	16,197

### 5. EMPLOYEE REDUCTION EXPENSES

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 2,546 during the year ended December 31, 2001 in respect of the voluntary termination and the transfer to Sinopec Group Company totalling approximately 68,000 employees. The RMB 2,546 expense included approximately RMB 1,245 paid to employees that accepted offers to transfer to Sinopec Group Company. As of December 31, 2001, all payments to these employees have been made by the Group. For employees that were transferred to Sinopec Group Company, the employees were entitled to receive termination benefits from Sinopec Group Company to the extent that their employment was subsequently terminated.

During the year ended December 31, 2002, in connection with the assets swap agreement between the Company and Sinopec Group Company (Note 28), the Company made payments of RMB 244 relating to approximately 11,000 employees that were transferred to Sinopec Group Company.

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 1,014 during the year ended December 31, 2003 in respect of the voluntary termination totalling approximately 21,000 employees.

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6. TAXES OTHER THAN INCOME TAX

Taxes other than income tax represent:

	Years ended December 31	
	2001	2002
	RMB	RMB
Consumption tax.....	9,053	8,851
City construction tax.....	1,638	1,662
Education surcharge.....	717	793
Resources tax.....	406	499
Business tax.....	139	151
Others.....	24	--
	-----	-----
	11,977	11,956

Consumption tax is levied on producers of gasoline and diesel based on a tariff rate applied to the volume of sales. City construction tax is levied on an entity based on its total amount of value-added tax, consumption tax and business tax.

7. OTHER OPERATING EXPENSES, NET

Other operating expenses, net represent:

	Years ended December 31	
	2001	2002
	RMB	RMB
Fines, penalties and compensations.....	84	74
Donations.....	62	68
Loss on disposal of property, plant and equipment, net.....	137	797
Impairment losses on long-lived assets.....	--	--
Others.....	67	219
	-----	-----
	350	1,158

Asset impairment

In accordance with IAS 36, the carrying amounts of impaired oil and gas properties and long-lived assets are written down to a recoverable value.

There were no impairment losses and reversal of impairment losses recognized on long-lived assets for the years ended December 31, 2001 and 2002.

The factors resulting in the exploration and production ("E&P") segment

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impairment losses of RMB 310 for the year ended December 31, 2003, were unsuccessful development drilling and high operating and development costs for certain oil fields. The carrying values of these E&P properties, were written down to a recoverable value which was determined based on the present values of the expected future cash flows of the assets. The oil and gas pricing was a factor used in the determination of the present values of the expected future cash flows of the assets and had an impact on the recognition of the asset impairment.

Impairment losses recognized on long-lived assets of the refining and chemicals segments of RMB 114 and RMB 453 for the year ended December 31, 2003, primarily relate to write-downs of certain refining and chemicals production facilities that are held for use. The carrying values of these facilities were written down to their recoverable values which were based on the asset held for use model using the present value of estimated future cash flows.

### 8. INTEREST EXPENSE

Interest expense represents:

	Years ended Decem	
	2001	2002
	RMB	RMB
Interest expense incurred.....	5,969	5,109
Less: Interest expense capitalized*.....	(986)	(933)
Interest expense.....	4,983	4,176
* Interest rates per annum at which borrowing costs were capitalized for construction in progress.....	3.4% to 8.0%	3.1% to 6.2%

### 9. GAIN FROM ISSUANCE OF SHARES BY A SUBSIDIARY

The gain for the year ended December 31, 2003 represents the increase in the Company's share of net assets of a subsidiary after the sale of additional shares by the subsidiary.

Nature of company	Principal activities	Type of transactions	No. of shares issued	Price per share	Amount of gross proceeds	Percenta
						owners before issuance
				RMB	RMB	
Sinopec Zhongyuan Petroleum Company Limited	Exploration and production of crude oil and natural gas	Placement of A shares	58,650,000	9.10	534	75.00%

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10. INCOME TAX

Income tax in the consolidated statements of income represents:

	Years ended Decem	
	2001	2002
	RMB	RMB
Provision for PRC income tax		
- the Group.....	6,418	6,574
- associates.....	27	50
Deferred taxation (Note 20).....	1,592	1,026
	8,037	7,650
	=====	=====

A reconciliation of the expected tax with the actual tax expense is as follows:

	Years ended Decem	
	2001	2002
	RMB	RMB
Income before income tax and minority interests.....	24,900	25,085
Expected PRC income tax expense at a statutory tax rate of 33%.....	8,218	8,278
Non-deductible expenses.....	398	212
Non-taxable income.....	(493)	(594)
Differential tax rate on subsidiaries' income (Note).....	(394)	(496)
Tax losses not recognized for deferred tax.....	308	250
Income tax.....	8,037	7,650
	=====	=====

Note: The provision for PRC current income tax is based on a statutory rate of 33% of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries of the Company, which are taxed at a preferential rate of 15%.

11. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net income of RMB 16,246, RMB 16,315 and RMB 21,593 and the weighted average number of shares in issue during the year of 85,168,192,425, 86,702,439,000 and 86,702,439,000, for the years ended December 31, 2001, 2002 and 2003, respectively. The weighted average number of shares for the year ended December 31, 2001 reflects the issuance of 2,800,000,000 shares in July 2001 in connection with the Company's



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public offering of domestically listed ordinary shares in the Shanghai Stock Exchange (Note 24).

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for each of the years in the three-year period ended December 31, 2003.

### 12. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable are analyzed as follows:

	Decem
	2002
	RMB
Third parties.....	10,987
Sinopec Group Company and its affiliates.....	2,575
Associates.....	65
	13,627
Less: Allowance for doubtful accounts.....	(2,827)
	10,800

The allowance for doubtful accounts is analyzed as follows:

	Years ended Decem	
	2001	2002
	RMB	RMB
At beginning of year.....	3,026	2,642
Provision for the year.....	391	556
Written-off/back.....	(775)	(371)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Ethylene Assets.....	--	--
	2,642	2,827
At end of year.....	2,642	2,827

Sales are generally on a cash term. Credit is generally only available for major customers with well-established trading records. Amounts due from Sinopec Group Company and its affiliates are repayable under the same terms.

### 13. INVENTORIES

Inventories represent:

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	Decemb
	----- 2002 ----- RMB -----
Crude oil and other raw materials.....	21,443
Work in progress.....	6,321
Finished goods.....	15,315
Spare parts and consumables.....	4,481
	-----
Less: Allowance for diminution in value of inventories.....	47,560 (486)
	----- 47,074 =====

The allowance for diminution in value of inventories is analyzed as follows:

	Years ended Dec	
	----- 2001 ----- RMB	----- 2002 ----- RMB
At beginning of year.....	849	602
Provision for the year.....	106	172
Written-off.....	(353)	(288)
	-----	-----
At end of year.....	602	486

The carrying amount of inventories carried at net realizable value amounted to RMB 1,624 and RMB 1,551 as of December 31, 2002 and 2003, respectively.

The cost of inventories recognized as an expense in the consolidated statements of income amounted to RMB 159,492, RMB 262,273 and RMB 338,440 for the years ended December 31, 2001, 2002 and 2003, respectively.

14. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets represent:

Decem  
-----  
2002

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	----- RMB
Advances to third parties.....	3,500
Amounts due from Sinopec Group Company and its affiliates.....	11,743
Other receivables.....	1,742
Purchase deposits.....	1,773
Prepayments in connection with construction work and equipment purchases.....	1,233
Prepaid value-added tax and customs duty.....	1,545
Amounts due from associates.....	345
	----- 21,881 =====

15. PROPERTY, PLANT AND EQUIPMENT, NET

By segment:

	Exploration and production	Refining	Marketing and distribution	Chemical
	----- RMB	----- RMB	----- RMB	----- RMB
Cost/valuation:				
Balance at January 1, 2003.....	157,929	99,341	49,478	134,500
Additions.....	1,360	897	1,094	1,360
Transferred from construction in progress.....	19,459	6,326	5,219	5,743
Revaluations.....	--	16	--	(1,360)
Disposals.....	(786)	(2,285)	(1,309)	(4,900)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Ethylene Assets.....	--	--	--	(2,900)
Balance at December 31, 2003.....	----- 177,962	----- 104,295	----- 54,482	----- 133,403
Accumulated depreciation:				
Balance at January 1, 2003.....	75,546	45,443	8,476	66,700
Depreciation charge for the year.....	9,393	6,399	2,322	7,700
Impairment losses for the year.....	310	114	--	400
Written back on disposals.....	(645)	(1,517)	(784)	(3,800)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Ethylene Assets.....	--	--	--	(700)
Balance at December 31, 2003.....	----- 84,604	----- 50,439	----- 10,014	----- 70,300
Net book value:				
At December 31, 2003.....	----- 93,358	----- 53,856	----- 44,468	----- 63,103
At December 31, 2002.....	----- 82,383	----- 53,898	----- 41,002	----- 67,700

By asset class:

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	Buildings RMB	Oil and gas properties RMB	Oil depots, storage tanks and service stations RMB	Pl machin equip and o RMB
Cost/valuation:				
Balance at January 1, 2003.....	40,434	140,932	36,927	230,6
Additions.....	583	202	664	3,3
Transferred from construction in progress.....	1,465	17,912	5,830	11,8
Reclassification.....	1,420	--	3,722	(5,1
Revaluations.....	(203)	--	--	1
Disposals.....	(933)	(412)	(806)	(7,3
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Ethylene Assets.....	(3,374)	--	--	(5,0
Balance at December 31, 2003.....	39,392	158,634	46,337	228,3
Accumulated depreciation:				
Balance at January 1, 2003.....	16,097	69,633	6,382	107,2
Depreciation charge for the year.....	1,649	7,961	1,693	15,0
Impairment losses for the year.....	8	310	--	5
Reclassification.....	512	--	1,080	(1,5
Written back on disposals.....	(448)	(322)	(370)	(5,7
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Ethylene Assets.....	(941)	--	--	(2,6
Balance at December 31, 2003.....	16,877	77,582	8,785	112,7
Net book value:				
At December 31, 2003.....	22,515	81,052	37,552	115,6
At December 31, 2002.....	24,337	71,299	30,545	123,4

As required by the relevant PRC regulations with respect to the Reorganization, the property, plant and equipment of the Group as of September 30, 1999 were valued for each asset class by China United Assets Appraisal Corporation, Beijing Zhong Zheng Appraisal Company, CIECC Assets Appraisal Corporation and Zhong Fa International Properties Valuation Corporation, independent valuers registered in the PRC, on a depreciated replacement cost basis. The value of property, plant and equipment has been determined at RMB 159,788. The surplus on revaluation of RMB 32,320, net of amounts allocated to minority interests, has been incorporated in the financial statements of the Group at December 31, 1999.

In connection with the Acquisition of Sinopec National Star, the property, plant and equipment of Sinopec National Star were revalued at December 31, 2000, by a firm of independent valuers and approved by the Ministry of Finance. The value of property, plant and equipment of Sinopec National Star pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB 4,373, resulting in a surplus on revaluation of RMB 1,136, net of amounts allocated to minority interest.

In connection with the Acquisition of Ethylene Assets, the property, plant and equipment of Sinopec Maoming were revalued at June 30, 2003, by a firm of independent valuers in accordance with the relevant rules and regulations. The value of property, plant and equipment of Sinopec Maoming pursuant to the

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valuation, based on a depreciated replacement cost basis, was determined at RMB 5,100, which approximated the net historical carrying value of the assets.

In connection with the Acquisition of Refining Assets, the property, plant and equipment of the Refining Assets were revalued at October 31, 2003, by a firm of independent valuers in accordance with the relevant rules and regulations. The value of property, plant and equipment of the Refining Assets pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB 461, which approximated the net historical carrying value of the assets.

### 16. CONSTRUCTION IN PROGRESS

	Exploration and production	Refining	Marketing and distribution	Chemicals
	RMB	RMB	RMB	RMB
Balance at January 1, 2003.....	4,526	5,953	7,428	3,318
Additions.....	22,057	8,832	5,732	6,037
Additions of jointly controlled entities.....	1,200	--	--	2,993
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Ethylene Assets.....	--	--	--	(9)
Dry hole costs written off.....	(2,789)	--	--	--
Transferred to property, plant and equipment...	(19,459)	(6,326)	(5,219)	(5,702)
Balance at December 31, 2003.....	5,535	8,459	7,941	6,637
	=====	=====	=====	=====

### 17. INVESTMENTS

	Decem
	-----
	2002
	----
	RMB
Unlisted investments, at cost.....	3,171
Less: Provision for impairment losses.....	(474)
	2,697
	=====

Provision for impairment losses is analyzed as follows:

	Years ended Dec	
	-----	-----
	2001	2002

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	----- RMB	----- RMB
At beginning of year.....	476	466
Provision for the year.....	37	13
Written-off.....	(47)	(5)
Less: Amount distributed to CPC in connection with the Acquisition of Ethylene Assets.....	--	--
	-----	-----
At end of year .....	466	474
	=====	=====

Unlisted investments represent the Group's interests in PRC domiciled enterprises which are mainly engaged in non-oil and gas activities and operations. The Group has no investments in marketable securities.

18. INTERESTS IN ASSOCIATES

	----- 2002 ----- RMB
Share of net assets	8,049 =====

The Group's investments in associates are with companies primarily engaged in the oil and gas and chemical operations in the PRC. These investments are individually and in the aggregate not material to the Group's financial condition or results of operations for all periods presented. The principal investments in associates, all of which are incorporated in the PRC, are as follows:

Details of the Group's principle subsidiaries are as follows:

Name of company	Form of business Structure	Particulars of issued and paid if capital	Percentage of equity held by the Company	%	
Shengli Oil Field Dynamic Company Limited ("Dynamic")*	Incorporated	364,027,608 ordinary shares of RMB 1.00 each	26.33	—	Expl dist prod
Sinopec Shandong Taishan Petroleum Company Limited ("Taishan")*	Incorporated	480,793,320 ordinary shares of RMB 1.00 each	38.68	—	Trad and stat
Sinopec Finance Company Limited	Incorporated	Registered capital RMB 2,500,000,000	32.00	8.22	Prov fina

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Shanghai Petroleum National Gas Corporation	Incorporated	Registered capital RMB 900,000,000	30.00	---	Expl crud
BASF-YPC Company Limited	Incorporated	Registered capital RMB 8,793,000,000	30.00	10.00	Manu dist prod
Shanghai Chemical Industry Park Development Company Limited	Incorporated	Registered capital RMB 2,372,439,000	---	38.26	Plan oper Indu the
China Shipping & Sinopec Suppliers Incorporated Company Limited	Incorporated	Registered capital RMB 876,660,000	---	50.00	Tran prod

\* Shares of Dynamic and Taishan are listed on the Shenzhen Stock Exchange. Shares held by the Company are domestic state-owned A shares which are not admitted for trading in any stock exchange in the PRC. The market value of the investments in Dynamic based on the quoted market price are RMB 625 and RMB 783 as of December 31, 2002 and 2003. The market value of the investments in Taishan based on the quoted market price are RMB 1,764 and RMB 1,971 as of December 31, 2002 and 2003.

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

Share of net assets.....

The Group's principal interests in jointly controlled entities are as follows:

Name of company	Form of business Structure	Particulars of issued and paid if capital	Percentage of equity held by the Company		
			%		
Shanghai Secco Petrochemical Company Limited	Incorporated	Registered capital USD 901,440,964	30.00	20.00	Manu of p
Yueyang Sinopec and Shell Coal Gasification Company Limited	Incorporated	Registered capital USD 45,588,700	50.00	--	Manu of i

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Block A Oil Field in the Western Unincorporated -- -- 43.00 Expl  
 Area Chengda in Bohai Bay crud

The Group's proportionate share of the jointly controlled entities' current and non-current assets, current and non-current liabilities, and operating revenues and expenses is not material to the Group's financial condition or results of operations for all years presented.

20. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and deferred tax liabilities are attributable to the items detailed in the table below:

	Assets		Liabilities	
	December 31,		December 31,	
	2002	2003	2002	2003
	RMB	RMB	RMB	RMB
Current				
Provisions, primarily for receivables and inventories	275	1,446	--	--
Non-current				
Property, plant and equipment.....	47	272	(627)	(981)
Accelerated depreciation.....	--	--	(2,958)	(3,618)
Tax value of losses carried forward, net of				
valuation allowance.....	30	--	--	--
Lease prepayment (Note) .....	364	373	--	--
Others.....	16	53	(14)	--
Deferred tax assets/(liabilities) .....	732	2,144	(3,599)	(4,599)

A valuation allowance on deferred tax assets is recorded if it is more likely than not that some portion or all of the deferred tax assets will not be realized through the recovery of taxes previously paid and/or future taxable income. The allowance is subject to ongoing adjustments based on changes in circumstances that affect the Group's assessment of the realizability of the deferred tax assets. The Group has reviewed its deferred tax assets as of December 31, 2001, 2002 and 2003. Based on this review, valuation allowances of RMB 224, RMB 250 and RMB 248 were provided for the years ended December 31, 2001, 2002 and 2003, respectively. The Group determined the valuation allowance based on management's assessment of the probability that taxable profits will be available over the period which the deferred tax assets can be realized or utilized. In assessing the probability, both positive and negative evidence was considered, including whether it is more likely than not that the operations will have future taxable profits over the periods which the deferred tax assets are deductible or utilized and whether the tax losses result from identifiable causes which are unlikely to recur. Based on this assessment, a valuation allowance was provided to reduce the deferred tax asset to the amount that is more likely than not to be realized.

The valuation allowance is analyzed as follows:



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	Years ended Decem	
	2001	2002
	RMB	RMB
At beginning of year.....	469	693
Allowance during the year.....	224	250
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Ethylene Assets.....	--	--
At end of year .....	693	943

Movements in temporary differences between calculations of certain items for accounting and for taxation purposes can be specified as follows:

	Balance at January 1, 2001 RMB	Recognized in consolidated statements of income RMB
Current		
Provisions, primarily for receivables and inventories.....	1,023	(591)
Non-current		
Property, plant and equipment.....	(346)	(407)
Accelerated depreciation.....	(1,329)	(856)
Tax value of losses carried forward, net of valuation allowance...	18	155
Others.....	14	107
Net deferred tax liabilities .....	(620)	(1,592)

(Note 10)

	Balance at January 1, 2002 RMB	Recognized in consolidated statements of income RMB	Recognized in consolidated statements of shareholders' equity RMB
Current			
Provisions, primarily for receivables and inventories.	432	(157)	—
Non-current			
Property, plant and equipment.....	(753)	173	—
Accelerated depreciation.....	(2,185)	(773)	—
Tax value of losses carried forward, net of valuation allowance.....	173	(143)	—
Lease prepayments (Note).....	—	(7)	371

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Others.....	121	(119)	---
	-----	-----	-----
Net deferred tax (liabilities)/assets.....	(2,212)	(1,026)	371
	=====	=====	=====
		(Note 10)	

	Balance at January 1, 2003 ----	Recognized in consolidated statements of income -----	Recognized in consolidated statements of shareholders' equity -----
	RMB	RMB	RMB
Current			
Provisions, primarily for receivables and inventories.	275	1,171	---
Non-current			
Property, plant and equipment.....	(580)	(129)	---
Accelerated depreciation.....	(2,958)	(660)	---
Tax value of losses carried forward, net of valuation allowance.....	30	(30)	---
Lease prepayments (Note).....	364	(7)	16
Others.....	2	51	---
	-----	-----	-----
Net deferred tax (liabilities)/assets.....	(2,867)	396	16
	=====	=====	=====
		(Note 10)	

Note: As described in note (ii) to the consolidated statements of shareholder's equity, land use rights are carried at cost effective January 1, 2002. The effect of this change resulted in a decrease in the revaluation reserve and an increase in other reserves relating to the recognition of the deferred tax asset of RMB 371 as of January 1, 2002. During the year ended December 31, 2003, in connection with the acquisition of the Acquired Group, the land use rights of the Acquired Group were revalued resulting in a surplus of RMB 66 as required by the relevant PRC rules and regulations but were not revalued for financial reporting purposes and, accordingly, deferred tax assets of RMB 16 were created with corresponding increase in other reserves.

21. SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND ITS AFFILIATES

Short-term debts represent:

	Decem
	-----
	2002
	----
	RMB
Third parties' debts	

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Short-term bank loans.....	22,954
Short-term other loans.....	19
	-----
	22,973
	-----
Current portion of long-term bank loans.....	8,636
Current portion of long-term other loans.....	300
Current portion of convertible bonds	--
	-----
	8,936
	-----
	31,909
	-----
Loans from Sinopec Group Company and its affiliates	
Short-term loans.....	3,521
	-----
Current portion of long-term loans.....	153
	3,674
	-----
	35,583
	=====

The Group's weighted average interest rate on short-term loans were 4.3% and 3.2% as of December 31, 2002 and 2003 respectively.

As of December 31, 2003, the Company had standby credit facilities with several PRC financial institutions which allowed the Company to borrow up to RMB 103,500 on an unsecured basis, at rates ranging from 1.65% to 5.31%. As of December 31, 2003, the Company's outstanding borrowings under these facilities totalled RMB 11,970 which are included in short-term bank loans. These facilities expire at various dates in 2004 and contain no financial covenants.

Long-term debts comprise:

	Interest rate and final maturity	
	-----	-----
		2002
		-----
		RMB
Third parties' debts		
Long-term bank loans		
Renminbi denominated	Interest rates ranging from interest free to 6.2% per annum as of December 31, 2003 with maturities through 2013	37,08
Japanese Yen denominated	Interest rates ranging from 1.0% to 8.1% per annum as of December 31, 2003 with maturities through 2024	3,07
US Dollar denominated	Interest rates ranging from interest free to 7.4% per annum as of December 31, 2003 with maturities through 2031	5,85
Hong Kong Dollar denominated	Floating rate at Hong Kong Prime Rate plus	1

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	0.3% per annum as of December 31, 2003 with maturities through 2006	
Euro denominated	Interest rates ranging from 6.0% to 7.9% per annum as of December 31, 2002 with maturities through 2006. Paid off as of December 31, 2003	16 ----- 46,18 =====
Long-term other loans		
Renminbi denominated	Interest rates ranging from interest free to 5.0% per annum as of December 31, 2003 with maturities through 2008	27
US Dollar denominated	Interest rates ranging from interest free to 3.2% per annum as of December 31, 2003 with maturities through 2015	43
Euro denominated	Interest rates ranging from 1.8% to 8.1% per annum as of December 31, 2003 with maturities through 2025	1 ----- 73 =====
Convertible bonds		
Renminbi denominated	Interest rate at 2.5% per annum as of December 31, 2003 (a)	1,50 =====
Total long-term banks and other loans carried forward		48,41
	Interest rate and final maturity	Dec
	-----	-----
		2002 ----
		RMB
Total long-term banks and other loans carried forward		48,415
Long-term bank loans of jointly controlled entities		
Renminbi denominated	Floating rate at 90% of PBOC's base lending rate per annum as of December 31, 2003 with maturities through 2021	--
US Dollar denominated	Floating rate at London Interbank Offer Rate plus 0.7% per annum as of December 31, 2003 with maturities through 2013	-- ----- -- =====
Total third parties' long-term debts		48,415
Less: Current portion		(8,936 =====
		39,479

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Long-term loans from Sinopec Group Company and its affiliates			=====
Renminbi denominated	Interest free with maturity in 2020		35,561
Renminbi denominated	Interest rate at 5.0% per annum as of December 31, 2003 with maturities through 2005		2,272
US Dollar denominated	Interest rates ranging from London Interbank Offer Rate plus 1.4% per annum as of December 31, 2003 with maturities through 2005		23
			-----
			37,856
Less: Current portion			(153)
			=====
			37,703
			=====
			77,182
			=====

(a) Convertible bonds amounting to RMB 1,500 were issued by a subsidiary on July 28, 1999. The bonds are convertible upon an initial public offering into ordinary shares of the subsidiary at the option of the holders during the period from July 28, 2000 to July 27, 2004. Pursuant to the subsidiary's shareholders' approval at the Annual General Meeting held on March 23, 2004, the subsidiary decided not to undergo an initial public offering.

Third parties' loans of RMB 85 and RMB 103 as of December 31, 2002 and 2003 respectively were secured by certain of the Group's property, plant and equipment. The net book value of property, plant and equipment of the Group pledged as security amounted to RMB 146 and RMB 519 as of December 31, 2002 and 2003, respectively.

The aggregate maturities of long-term debts and loans from Sinopec Group Company and its affiliates subsequent to December 31, 2003 are as follows:

2004.....	.....
2005.....	.....
2006.....	.....
2007.....	.....
2008.....	.....
Thereafter.....	.....

22. TRADE ACCOUNTS PAYABLE

Trade accounts payable are analyzed as follows:

December  
-----  
2002

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	----- RMB
Third parties.....	17,395
Sinopec Group Company and its affiliates.....	2,082
Associates.....	--
	----- 19,477 =====

Amounts due to Sinopec Group Company and its affiliates are repayable in accordance with normal commercial terms.

23. ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables represent:

	December ----- 2002 ----- RMB
Amounts due to Sinopec Group Company and its affiliates.....	10,239
Accrued expenditure.....	9,475
Taxes other than income tax.....	2,219
Receipts in advance.....	3,665
Advances from third parties.....	1,441
Others.....	4,322
	----- 31,361 =====

24. SHARE CAPITAL

	December ----- 2002 ----- RMB
Registered, issued and fully paid	
67,121,951,000 domestic state-owned A shares of RMB 1.00 each	67,122
16,780,488,000 overseas listed H shares of RMB 1.00 each	16,780
2,800,000,000 domestic listed A shares of RMB 1.00 each	2,800
-----	----- 86,702 =====

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The Company was established on February 25, 2000 with a registered capital of 68.8 billion domestic state-owned shares with a par value of RMB 1.00 each. Such shares were issued to Sinopec Group Company in consideration for the assets and liabilities related to the Predecessor Operations transferred to the Company (Note 1).

Pursuant to the resolutions passed at an Extraordinary General Meeting held on July 25, 2000 and approvals from relevant government authorities, the Company is authorized to increase its share capital to a maximum of 88.3 billion shares with a par value of RMB 1.00 each and offer not more than 19.5 billion shares with a par value of RMB 1.00 each to investors outside the PRC. Sinopec Group Company is authorized to offer not more than 3.5 billion shares of its shareholdings in the Company to investors outside the PRC. The shares sold by Sinopec Group Company to investors outside the PRC would be converted into H shares.

In October 2000, the Company issued 15,102,439,000 H shares with a par value of RMB 1.00 each, representing 12,521,864,000 H shares and 25,805,750 American Depositary Shares ("ADSs", each representing 100 H shares), at prices of HK\$ 1.59 per H share and US\$ 20.645 per ADS, respectively, by way of a global initial public offering to Hong Kong and overseas investors. As part of the global initial public offering, 1,678,049,000 domestic state-owned ordinary shares of RMB 1.00 each owned by Sinopec Group Company were converted into H shares and sold to Hong Kong and overseas investors.

In July 2001, the Company issued 2.8 billion domestic listed A shares with a par value of RMB 1.00 each at RMB 4.22 by way of a public offering to natural persons and institutional investors in the PRC.

All A shares and H shares rank pari passu in all material respects.

### 25. RESERVES

	Dece 2002 ----RMB
Revaluation reserve	
At January 1.....	33,025
Revaluation surplus realized.....	(544)
Elimination of surplus on land use rights (Note (f)).....	(840)
Revaluation surplus of Refining Assets.....	--
At December 31.....	31,641
Capital reserve (Note (a))	
At January 1.....	(18,878)
Transfer from other reserves.....	--
December 31.....	(18,878)
Share premium (Note (b))	
At January 1 and December 31.....	18,072

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Statutory surplus reserve (Note (c))	
At January 1.....	3,017
Appropriation of net income.....	1,412
At December 31.....	4,429
Statutory public welfare fund (Note (d))	
At January 1.....	3,017
Appropriation of net income.....	1,412
At December 31.....	4,429
Discretionary surplus reserve (Note (e))	
At January 1.....	--
Appropriation of net income.....	7,000
At December 31.....	7,000
Other reserves	
At January 1.....	9,035
Deferred tax effect of surplus on land use rights (Note (f) and Note 20).....	246
Realization of deferred tax on land use rights (Note (f)).....	(5)
Transfer from retained earnings.....	235
Revaluation surplus of Refining Assets.....	--
Consideration for Acquisitions of Ethylene Assets and Refining Assets (Note 1)...	--
Net assets contributed from/(distributed to) Sinopec Group Company (Note (g))....	68
At December 31.....	9,579
Retained earnings (Note (h))	
At January 1.....	22,714
Final dividend in respect of the previous financial years, approved and paid during the year (Note (i)).....	(6,936)
Interim dividend (Note (j)).....	(1,734)
Net income.....	16,315
Transfer to statutory surplus reserve.....	(1,412)
Proposed transfer to statutory public welfare fund.....	(1,412)
Proposed transfer to discretionary surplus reserve.....	(7,000)
Revaluation surplus realized.....	544
Realization of deferred tax on land use rights.....	5
Transfer to other reserves.....	(235)
At December 31.....	20,849
	77,121
	=====

Notes:

- (a) The capital reserve represents (i) the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from Sinopec Group Company in connection with the Reorganization and (ii) the difference between the considerations paid over the amount of the net assets acquired from Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical and Tahe Petrochemical.



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- (b) The application of the share premium account is governed by Sections 178 and 179 of the PRC Company Law.
- (c) According to the Company's Articles of Association, the Company is required to transfer 10% of its net income, as determined in accordance with the PRC Accounting Rules and Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital. During the years ended December 31, 2002 and 2003, the Company transferred RMB 1,412 and RMB 1,901, respectively, being 10% of the current year's net income determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

- (d) According to the Company's Articles of Association, the Company is required to transfer 5% to 10% of its net income, as determined in accordance with the PRC Accounting Rules and Regulations, to the statutory public welfare fund. This fund can only be utilized on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

Pursuant to the shareholders' approval at the Annual General Meeting on June 10, 2003, the Board of Directors was authorized to determine the amount of the transfer for the six-month period ended June 30, 2003. The directors authorized the transfer of RMB 977, being 10% of the net income for the six-month period ended June 30, 2003 as determined in accordance with the PRC Accounting Rules and Regulations, to this fund.

The directors authorized the transfer of RMB 924, subject to shareholders' approval, being 10% of the net income for the six-month period ended December 31, 2003 determined in accordance with the PRC Accounting Rules and Regulations, to this fund. The transfer to this fund for the years ended December 31, 2002 and 2003 were RMB 1,412 and RMB 1,901, respectively.

- (e) The directors authorized the transfer of RMB 7,000, which was approved by the shareholders at the Annual General Meeting on June 10, 2003, to the discretionary surplus reserve for the year ended December 31, 2002. The usage of the discretionary surplus reserve is similar to that of statutory surplus reserve.
- (f) Effective January 1, 2002, land use rights which are included in lease prepayments are carried at historical cost. Accordingly, the surplus on the revaluation of land use rights credited to revaluation reserve previously, net of minority interests, was eliminated during the year. The effect of this change did not have a material impact on the Group's financial condition and results of operations in the periods prior to the change. As a result of the tax deductibility of the revaluation surplus, a deferred tax asset, net of minority interests, is created with a corresponding increase in other

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reserves.

- (g) These represent net assets contributed from and distributed to Sinopec Group Company for no monetary consideration. The net assets distributed to Sinopec Group Company during the year ended December 31, 2003 primarily represent certain assets retained by Sinopec Group Company in connection with the acquisition of the Acquired Group. The transaction was recorded at historical cost and was reflected as a change in other reserves in the year the transaction occurred.
- (h) According to the Company's Articles of Association, the amount of retained earnings available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRS. As of December 31, 2002 and 2003, the amounts of retained earnings available for distribution were RMB 12,569 and RMB 19,732, respectively, being the amount determined in accordance with the PRC Accounting Rules and Regulations.

Subject to the relevant provisions of the PRC Company Law and the Company's Articles of Association, Sinopec Group Company may seek to influence the Company's determination of dividends with a view to satisfying Sinopec Group Company's cash flow requirements.

- (i) Pursuant to the shareholders' approval at the Annual General Meeting on June 13, 2002, a final dividend of RMB 0.08 per share totaling RMB 6,936 in respect of the year ended December 31, 2001 was declared and paid on August 8, 2002.

Pursuant to the shareholders' approval at the Annual General Meeting on June 10, 2003, a final dividend of RMB 0.06 per share totaling RMB 5,202 in respect of the year ended December 31, 2002 was declared and paid on June 30, 2003.

- (j) Pursuant to the shareholders' approval at the Annual General Meeting on June 13, 2002, the Board of Directors was authorised to declare the interim dividends for the year ended December 31, 2002. According to the resolution passed at the Directors' meeting on August 16, 2002, an interim dividend of RMB 0.02 per share totaling RMB 1,734 was declared.

Pursuant to the shareholders' approval at the Annual General Meeting on June 10, 2003, the Board of Directors was authorised to declare the interim dividends for the year ended December 31, 2003. According to the resolution passed at the Directors' meeting on August 22, 2003, an interim dividend of RMB 0.03 per share totaling RMB 2,601 was declared.

## 26. COMMITMENTS AND CONTINGENT LIABILITIES

### Operating lease commitments

The Group leases service stations and other equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

As of December 31, 2003, the future minimum lease payments under operating leases are as follows:

RMB

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2004.....	3,276
2005.....	3,229
2006.....	3,200
2007.....	3,175
2008.....	3,162
Thereafter.....	99,619
	-----
Total minimum lease payments.....	115,661
	=====

The Group's leasing arrangement impose no restrictions on dividends, additional debt and/or further leasing.

Capital commitments

As of December 31, 2003, the Group had capital commitments as follows:

	RMB
The Group	
Authorized and contracted for.....	48,107
Authorized but not contracted for.....	47,716
	-----
	95,823
	=====
Jointly controlled entities	
Authorized and contracted for.....	6,923
Authorized but not contracted for.....	3,432
	-----
	10,355
	=====

These capital commitments relate to oil and gas exploration and development, refining and petrochemical production capacity expansion projects, the construction of service stations and oil depots, and capital contributions to the Group's investments and interests in associates.

Exploration and production licenses

Exploration licenses for exploration activities are registered with the Ministry of Land and Resources. The maximum term of the Group's exploration licenses is 7 years, and may be renewed twice within 30 days prior to expiration of the original term with each renewal being for a two-year term. The Group is obligated to make progressive annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. The Ministry of Land and Resources also issues production licenses to the Group on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation was given by the State Council. The maximum term of production licenses issued to the Group is 55 years as a special dispensation was given to the Group by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration.

The Group is required to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed as incurred. Payments incurred were approximately RMB 29, RMB 65 and RMB 97 for the years ended December 31, 2001, 2002 and 2003, respectively.

Estimated future annual payments as of December 31, 2003 are as follows:

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	RMB
2004.....	87
2005.....	117
2006.....	87
2007.....	72
2008.....	65
Thereafter.....	361
Total payments.....	789

### Contingent liabilities

(a) The Company has been advised by its PRC lawyers that, except for liabilities constituting or arising out of or relating to the business assumed by the Company in the Reorganization, no other liabilities were assumed by the Company, and the Company is not jointly and severally liable for other debts and obligations incurred by Sinopec Group Company prior to the Reorganization.

(b) As of December 31, 2003, guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

	RMB
Associates.....	4,955

The Company monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognize any such losses under guarantees when those losses are estimable.

As of December 31, 2003, the Company's guarantees were primarily provided to BASF-YPC Company Limited ("BASF-YPC"), an associate. BASF-YPC signed domestic and foreign currencies denominated loan agreements equivalent to RMB 11,700 in March 2003. To enhance the credit standing of BASF-YPC, the Company guarantees the interest payments as well as the repayment of the loans to an amount of RMB 4,680. Payments are due if the Company is notified that BASF-YPC is not able to fulfill its obligations at the maturity date. No collateral secures BASF-YPC's obligation or the Company's guarantee. As of December 31, 2003, it is not probable that the Company will be required to make payments under the guarantee. Thus no liability has been accrued for a loss related to the Company's obligation under this guarantee arrangement.

### Environmental contingencies

To date, the Group has not incurred any significant expenditures for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold, ii) the extent of required cleanup efforts, iii) varying costs of alternative remediation strategies, iv) changes in environmental remediation requirements, and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental

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legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fees of approximately RMB 221, RMB 287 and RMB 245 for the years ended December 31, 2001, 2002 and 2003, respectively.

### Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

## 27. CONCENTRATION OF RISKS

### Credit risk

The carrying amounts of cash and cash equivalents, time deposits with financial institutions, trade accounts and bills receivables, and other current assets, except for prepayments and deposits, represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's trade accounts receivable relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an allowance for doubtful accounts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total revenues during the years ended December 31, 2001, 2002 and 2003.

No other financial assets carry a significant exposure to credit risk.

### Concentration of economic risk

The Group's operations may be adversely affected by significant political, economic, and social uncertainties in the PRC. In addition, the ability to negotiate and implement specific projects in a timely and favorable manner may be impacted by political considerations unrelated to or beyond the control of the Group. Although the PRC government has been pursuing economic reform policies for the past two decades, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective and as a result, changes in the rate or method of taxation, reduction in tariff protection and other import restrictions, and changes in state policies affecting the industries to which the Group sells its products, may have a negative effect on its operating results and financial conditions.

### Currency risk

Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not fully convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China. However, the unification of the exchange rate does not imply convertibility of Renminbi into United States dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the

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exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

### Business risk

The Group conducts its principal operations in China and accordingly is subject to special considerations and significant risks not typically associated with investments in equity securities of the United States and Western European companies. These include risks associated with, among others, the political, economic and legal environment, influence of the State Council over substantially all aspects of its operations and competition in the oil and gas industry.

### Interest rate risk

The interest rates and terms of repayment of short-term and long-term debts of the Group are disclosed in Note 21.

### Supply risk

The Group's largest domestic supplier of crude oil is PetroChina Company Limited. Negotiating another contract with a key supplier at similar terms and costs could have a severe and significant impact on the Group's results of operations.

## 28. RELATED PARTY TRANSACTIONS

Companies are considered to be related if one company has the ability, directly or indirectly, to control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

The Group is part of a larger group of companies under Sinopec Group Company and has significant transactions and relationships with members of the Sinopec Group. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Sinopec Group Company itself is owned by the PRC government. There are also many other enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"). Under IFRS, state-owned enterprises, other than Sinopec Group Company and its affiliates, are not considered related parties. Related parties refer to enterprises over which Sinopec Group Company is able to exercise significant influence.

The Group conducts business with state-owned enterprises. Furthermore, the PRC government itself represents a significant customer of the Group both directly through its numerous authorities and indirectly through its numerous affiliates and other organizations. Sales of certain products to PRC government authorities and affiliates and other state-owned enterprises may be at regulated prices, which differ from market prices. The Group considers that these sales are activities in the ordinary course of business in the PRC and has not disclosed such sales as related party transactions.

The principal related party transactions with Sinopec Group Company, which were carried out in the ordinary course of business, are as follows:

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	Note	Years ended	
		2001	2002
		RMB	
Sales of goods.....	(i)	34,286	32,286
Purchases.....	(ii)	19,029	26,029
Transportation and storage.....	(iii)	1,732	1,732
Exploration and development services.....	(iv)	10,250	10,250
Production related services.....	(v)	6,258	7,258
Ancillary and social services.....	(vi)	2,049	1,049
Operating lease charges.....	(vii)	2,489	2,489
Agency commission income.....	(viii)	7	7
Intellectual property licence fee paid.....	(ix)	10	10
Interest received.....	(x)	153	153
Interest paid.....	(xi)	534	534
Net deposits withdrawn from related parties.....	(xii)	780	780
Net loans (repaid to)/obtained from related parties.....	(xiii)	(5,034)	(5,034)

The amounts set out in the table above in respect of each of the years in the three-year period ended December 31, 2003 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties.

There were no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and its affiliates as of December 31, 2002 and 2003.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the independent non-executive directors.

Notes:

- (i) Sales of goods represent the sale of crude oil, intermediate petrochemical products, petroleum products and ancillary materials.
- (ii) Purchases represent the purchase of material and utility supplies directly related to the Group's operations such as the procurement of raw and ancillary materials and related services, supply of water, electricity and gas.
- (iii) Transportation and storage represent the cost for the use of railway, road and marine transportation services, pipelines, loading, unloading and storage facilities.
- (iv) Exploration and development services comprise direct costs incurred in the exploration and development such as geophysical, drilling, well testing and well measurement services.
- (v) Production related services represent ancillary services rendered in relation to the Group's operations such as equipment repair and general maintenance, insurance premium, technical research, communications, fire fighting, security, product quality testing and analysis, information technology, design and engineering, construction which includes the construction of oilfield ground facilities, refineries and chemical plants, manufacture of replacement parts and machinery, installation,

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project management and environmental protection.

- (vi) Ancillary and social services represent expenditures for social welfare and support services such as educational facilities, media communication services, sanitation, accommodation, canteens, property maintenance and management services.
- (vii) Operating lease charges represent the rental paid to Sinopec Group Company for operating leases in respect of land, buildings and service stations.
- (viii) Agency commission income represents commission earned for acting as an agent in respect of sales of products of certain entities owned by Sinopec Group Company.
- (ix) Intellectual property license fee represents reimbursement paid to Sinopec Group Company for fees required to maintain the validity of certain licenses, trademarks, patents, technology and computer software.
- (x) Interest received represents interest received from deposits placed with Sinopec Finance Company Limited, a finance company controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balance of deposits as of December 31, 2002 and 2003 were RMB 5,805 and RMB 4,264, respectively.
- (xi) Interest paid represents interest charges on the loans and advances obtained from Sinopec Group Company and Sinopec Finance Company Limited.
- (xii) Deposits were withdrawn from Sinopec Finance Company Limited.
- (xiii) The Group obtained/repaid loans from/to Sinopec Group Company and Sinopec Finance Company Limited.

In connection with the Reorganization, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. The terms of these agreements are summarized as follows:

- (a) The Company has entered into a non-exclusive Agreement for Mutual Provision of Products and Ancillary Services ("Mutual Provision Agreement") with Sinopec Group Company effective from January 1, 2000 in which Sinopec Group Company has agreed to provide the Group with certain ancillary production services, construction services, information advisory services, supply services and other services and products. While each of Sinopec Group Company and the Company is permitted to terminate the Mutual Provision Agreement upon at least six months notice, Sinopec Group Company has agreed not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows:
  - o the government-prescribed price;
  - o where there is no government-prescribed price, the government-guidance price;
  - o where there is neither a government-prescribed price nor a government-guidance price, the market price; or



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o where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.

- (b) The Company has entered into a non-exclusive Agreement for Provision of Cultural and Educational, Health Care and Community Services with Sinopec Group Company effective from January 1, 2000 in which Sinopec Group Company has agreed to provide the Group with certain cultural, educational, health care and community services on the same pricing terms and termination conditions as agreed to in the above Mutual Provision Agreement.
- (c) The Company has entered into lease agreements with Sinopec Group Company effective from January 1, 2000 to lease certain land and buildings at a rental of approximately RMB 2,007 and RMB 482, respectively, per annum. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and every year for buildings, such amount not to exceed the market price as determined by an independent third party. The Group has the option to terminate these leases upon six months notice to Sinopec Group Company.

In August 2003, the Company has entered into additional lease agreements with Sinopec Group Company effective from January 1, 2003 to lease additional land at a rental of approximately RMB 273 per annum.

- (d) The Company has entered into agreements with Sinopec Group Company effective from January 1, 2000 under which the Group has been granted the right to use certain trademarks, patents, technology and computer software developed by Sinopec Group Company. The Group will reimburse Sinopec Group Company for fees required to maintain the validity of these licenses.
- (e) The Company has entered into agency agreements effective from January 1, 2000 with certain entities owned by Sinopec Group Company under which the Group acts as a sole agent in respect of the sale of all the products of these entities. In exchange for the Group's sales agency services, Sinopec Group Company has agreed to pay the Group a commission of between 0.2% and 1.0% of actual sales receipts depending on the products and to reimburse the Group for reasonable costs incurred in the capacity as its sales agent.
- (f) The Company has entered into a service stations franchise agreement with Sinopec Group Company effective from January 1, 2000 under which its service stations and retail stores would exclusively sell the refined products supplied by the Group.

On December 19, 2002, the Company and Sinopec Group Company entered into an asset swap agreement whereby the Company transferred to Sinopec Group Company certain individual assets and liabilities, consisting principally of, water plants, inspection, maintenance, geology and geophysical assets and related liabilities. The carrying amount of the net assets transferred to Sinopec Group Company approximated the net appraised amount of RMB 1,021. In return, Sinopec Group Company transferred to the Company certain gas stations and oil depot assets. The carrying and appraised amounts of such assets transferred to the Company were RMB 462 and RMB 1,040, respectively. The difference between the appraised amounts of the assets exchanged of RMB 19 was paid in cash by the Company.

As discussed in Note 1, the Group acquired the equity interest of Sinopec Maoming from Sinopec Group Company for a consideration of RMB 3,300. As of the valuation date, the carrying amount of the net asset acquired approximated the

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net appraised amount of RMB 3,300.

As discussed in Note 1, the Group acquired the equity interest of Tahe Petrochemical and Xi'an Petrochemical from Sinopec Group Company for a consideration of RMB 356. As of the valuation date, the carrying amount of the net asset acquired approximated the net appraised amount of RMB 356.

In December 2003, Sinopec Group Company repaid a bank loan of RMB 962 on behalf of a subsidiary of the Group in exchange for a receivable from that subsidiary.

### 29. EMPLOYEE BENEFITS PLAN

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organized by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 17.0% to 30.0% of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the years ended December 31, 2001, 2002 and 2003 were RMB 1,472, RMB 1,656 and RMB 1,791, respectively.

The Company implemented a plan of share appreciation rights for members of its senior management in order to provide further incentives to these employees. Under this plan, share appreciation rights were granted in units with each unit representing one H share. No shares will be issued under the share appreciation rights plan.

Under the plan, all share appreciation rights have an exercise period of five years. A recipient of share appreciation rights may not exercise the rights in the first 3 years after the date of grant. As of each of the third, fourth and fifth anniversary of the date of grant, the total number of share appreciation rights exercisable may not in aggregate exceed 30%, 70% and 100%, respectively, of the total share appreciation rights granted to such person.

During 2003, the Company granted 258.6 million share appreciation right units to eligible employees accordingly.

The exercise price of share appreciation rights initially granted is the initial public offering price of the Company's H shares. Upon exercise of the share appreciation rights, a recipient will receive, subject to any applicable withholding tax, a cash payment in RMB, translated from the Hong Kong dollar amount equal to the product of the number of share appreciation rights exercised and the difference between the exercise price and average market price of the Company's H shares for the exercise period based on the applicable exchange rate between RMB and Hong Kong dollar at the date of the exercise.

The Company recognizes compensation expense of the share appreciation rights over the applicable vesting period. For the year ended December 31, 2003, compensation expense recognized was RMB 120.

### 30. SEGMENTAL REPORTING

The Group has five operating segments as follows:

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- (i) Exploration and production, which explores and develops oil fields, produces crude oil and natural gas and sells such products to the Refining Segment of the Group and external customers.
- (ii) Refining, which processes and purifies crude oil, which is sourced from the Exploration and Production Segment of the Group and external suppliers, and manufactures and sells petroleum products to the Chemicals and Marketing and Distribution Segments of the Group and external customers.
- (iii) Marketing and distribution, which owns and operates oil depots and service stations in the PRC, and distributes and sells refined petroleum products (mainly gasoline and diesel) in the PRC through wholesale and retail sales networks.
- (iv) Chemicals, which manufactures and sells petrochemical products, derivative petrochemical products and other chemical products mainly to external customers.
- (v) Corporate and others, which largely comprise the trading activities of the import and export companies of the Group and research and development undertaken by other subsidiaries.

The segments were determined primarily because the Group manages its exploration and production; refining; marketing and distribution; chemicals; and corporate and others businesses separately. The reportable segments are each managed separately because they manufacture and/or distribute distinct products with different production processes and due to their distinct operating and gross margin characteristics. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs or investment income. The accounting policies of the Group's segments are the same as those described in the principal accounting policies (see Note 2). Corporate administrative costs and assets are not allocated to the operating segments; instead, operating segments are billed for direct corporate services. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Group's policy.

### CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(Amounts in millions of Renminbi, except per share data)

Reportable information on the Group's business segments is as follows:

	Years ended Dec 31	
	2001	2002
	RMB	RMB
Sales of goods		
Exploration and production		
External sales.....	11,095	10,920
Inter-segment sales.....	43,332	39,407

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	-----	-----
	54,427	50,327
Refining		
External sales.....	47,880	46,165
Inter-segment sales.....	159,757	164,560
	-----	-----
	207,637	210,725
Marketing and distribution		
External sales.....	180,610	184,378
Inter-segment sales.....	2,460	2,329
	-----	-----
	183,070	186,707
Chemicals		
External sales.....	53,301	63,071
Inter-segment sales.....	6,291	7,878
	-----	-----
	59,592	70,949
Corporate and others		
External sales.....	16,493	24,582
Inter-segment sales.....	8,916	19,884
	-----	-----
	25,409	44,466
Elimination of inter-segment sales.....	(220,756)	(234,058)
	-----	-----
Total sales of goods.....	309,379	329,116
	-----	-----
Other operating revenues		
Exploration and production.....	6,168	7,305
Refining.....	2,775	3,074
Marketing and distribution.....	201	342
Chemicals.....	4,458	4,117
Corporate and others.....	648	1,191
	-----	-----
Total other operating revenues.....	14,250	16,029
	-----	-----
Total operating revenues.....	323,629	345,145
	=====	=====

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(Amounts in millions of Renminbi, except per share data)

Result	Years ended Decem	
	-----	-----
	2001	2002
	RMB	RMB
Operating income by segment		
- Exploration and production.....	23,185	14,787
- Refining.....	2,141	5,996
- Marketing and distribution.....	2,443	8,401
- Chemicals.....	(225)	596

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- Corporate and others.....	125	(1,101)
	-----	-----
Total operating income.....	27,669	28,679
	-----	-----
Income/(loss) from associates		
- Exploration and production.....	258	152
- Refining.....	10	1
- Marketing and distribution.....	71	63
- Chemicals.....	(12)	32
- Corporate and others.....	7	84
	-----	-----
Aggregate income from associates .....	334	332
	-----	-----
Finance costs		
Interest expense.....	(4,983)	(4,176)
Interest income.....	1,191	345
Foreign exchange losses.....	(261)	(384)
Foreign exchange gains.....	760	60
	-----	-----
Net finance costs.....	(3,293)	(4,155)
'Investment income.....	190	229
Gain from issuance of shares by a subsidiary.....	--	--
	-----	-----
Income before income tax and minority interests.....	24,900	25,085
Income tax.....	(8,037)	(7,650)
	-----	-----
Income before minority interests.....	16,863	17,435
Minority interests.....	(617)	(1,120)
	-----	-----
Net income.....	16,246	16,315
	=====	=====

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Assets which benefit more than one segment or are considered to be corporate assets are not allocated. "Unallocated assets" consists primarily of cash and cash equivalents, time deposits with financial institutions, investments and deferred tax assets. "Unallocated liabilities" consists primarily of short-term and long-term debts, loans from Sinopec Group Company and its affiliates, income tax payable, deferred tax liabilities and other liabilities.

Interests in and income from associates are included in the segments in which the associates operate. Information on associates is included in Note 18. Additions to long-lived assets by operating segment are included in Notes 15 and 16.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(Amounts in millions of Renminbi, except per share data)

	December 31,	
	-----	-----
	2001	2002
	-----	-----
	RMB	RMB

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Assets		
Segment assets		
- Exploration and production.....	80,063	90,983
- Refining.....	89,160	90,581
- Marketing and distribution.....	72,014	71,516
- Chemicals.....	87,326	86,587
- Corporate and others.....	17,014	18,227
	-----	-----
Total segment assets.....	345,577	357,894
	-----	-----
Interests in associates		
- Exploration and production.....	1,032	1,583
- Refining.....	120	147
- Marketing and distribution.....	1,168	1,435
- Chemicals.....	1,796	3,609
- Corporate and others.....	1,189	1,275
	-----	-----
Aggregate interests in associates.....	5,305	8,049
	-----	-----
Unallocated assets.....	29,863	23,400
	-----	-----
Total assets.....	380,745	389,343
	=====	=====
Liabilities		
Segment liabilities		
- Exploration and production.....	13,419	16,126
- Refining.....	24,341	22,228
- Marketing and distribution.....	18,700	19,472
- Chemicals.....	9,997	13,885
- Corporate and others.....	8,123	8,768
	-----	-----
Total segment liabilities.....	74,580	80,479
	-----	-----
Unallocated liabilities.....	125,902	121,032
	-----	-----
Total liabilities.....	200,482	201,511
	=====	=====

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

	Years ended Dec 31	
	2001	2002
	----	----
	RMB	RMB
Capital expenditure		
Exploration and production.....	20,276	20,228
Refining.....	9,121	6,660
Marketing and distribution.....	17,256	6,982
Chemicals.....	11,996	7,415
Corporate and others.....	528	816
	-----	-----
	59,177	42,101
	=====	=====
Capital expenditure of jointly controlled entities		
Exploration and production.....	--	--
Chemicals.....	--	--
	-----	-----
	--	--

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Depreciation, depletion and amortization		
Exploration and production.....	8,081	9,033
Refining.....	5,948	6,086
Marketing and distribution.....	1,661	1,968
Chemicals.....	7,443	7,877
Corporate and others.....	262	322
	-----	-----
	23,395	25,286
	=====	=====
Impairment losses on long-lived assets		
Exploration and production.....	--	--
Refining.....	--	--
Chemicals.....	--	--
	-----	-----
	--	--
	=====	=====

31. PRINCIPAL SUBSIDIARIES

Details of the Group's principle subsidiaries are as follows:

Name of company	Particulars of issued capital and debt securities	Type of legal entity	Percentage of equity		P
			held by the Company	held by Subsidiary	
			%	%	
China Petrochemical International Company Limited	RMB1,400	Limited company	100.00	—	Tradi petro
Sinopec Beijing Yanhua Petrochemical Company Limited	RMB 3,374	Limited company	70.01	—	Manuf
Sinopec Sales Company Limited	RMB 1,700	Limited company	100.00	—	Marke petro
Sinopec Shengli Oilfield Company Limited	RMB 30,028	Limited company	100.00	—	Explo oil a
Sinopec Fujian Petrochemical Company Limited (i)	RMB 2,253	Limited company	50.00	—	Manuf inter and p
Sinopec Maoming Refining and Chemical Company Limited	RMB 1,064 and RMB 1,500 convertible bonds	Limited company	99.81	—	Manuf petro produ
Sinopec Qilu Petrochemical Company Limited	RMB 1,950	Limited company	82.05	—	Manuf petro produ
Sinopec Shanghai Petrochemical Company Limited	RMB 7,200	Limited company	55.56	—	Manuf resin petro

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Sinopec Shijiazhuang Refining-Chemical Company Limited	RMB 1,154	Limited company	79.73	—	Manufacturing petrochemical products
Sinopec Kantonnes Holdings Limited	HK\$ 104	Limited company	—	72.40	Trading products
Sinopec Wuhan Petroleum Group Company Limited (i)	RMB 147	Limited company	46.25	—	Marketing petrochemical products
Sinopec Wuhan Phoenix Company Limited (i)	RMB 519	Limited company	40.72	—	Manufacturing petrochemical products
Sinopec Yangzi Petrochemical Company Limited	RMB 2,330	Limited company	84.98	—	Manufacturing petrochemical products
Sinopec Yizheng Chemical Fiber Company Limited (i)	RMB 4,000	Limited company	42.00	—	Producing chemical fibers
Sinopec Zhenhai Refining and Chemical Company Limited	RMB 2,524	Limited company	71.32	—	Manufacturing petrochemical products
Sinopec Zhongyuan Petroleum Company Limited	RMB 875	Limited company	70.85	—	Exploring and producing oil and gas

Except for Sinopec Kantonnes Holdings Limited, which is incorporated in Bermuda, all of the subsidiaries are incorporated in the PRC.

- (i) The Group consolidated the results of the entity because the Group controlled the board of power to govern its financial and operating policies.

### 32. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, time deposits, investments, trade accounts receivable, bills receivable, amounts due from Sinopec Group Company and its affiliates, advances to third parties, amounts due from associates, and other receivables. Financial liabilities of the Group include bank and other loans, loans from Sinopec Group Company and its affiliates, trade accounts payable, bills payable, amounts due to Sinopec Group Company and its affiliates, receipts in advance, and advances from third parties. The Group has no derivative instruments that are designated and qualified as hedging instruments as of December 31, 2002 and 2003.

The disclosures of the fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made to comply with the requirements of IAS 32 and IAS 39 and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.



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The Group has not developed an internal valuation model necessary to make the estimate of the fair value of loans from Sinopec Group Company and its affiliates as it is not considered practicable to estimate their fair value because the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive based on the Reorganization of the Group, its existing capital structure, and the terms of the borrowings.

The following table presents the carrying amount and fair value of the Group's long-term indebtedness other than loans from Sinopec Group Company and its affiliates as of December 31, 2002 and 2003:

	December 31,	
	2002	2003
	RMB	RMB
Carrying amount.....	48,415	49,600
Fair value.....	48,875	49,698

The fair value of long-term indebtedness is estimated by discounting future cash flows thereon using current market interest rates offered to the Group for debt with substantially the same characteristics and maturities.

Investments are unquoted equity interests and there are no quoted market prices for such interests in the PRC. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

The fair values of all other financial instruments approximate their carrying amounts due to the nature or short-term maturity of these instruments.

### 33. SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

The Group's accounting policies conform with IFRS which differ in certain significant respects from US GAAP. Information relating to the nature and effect of such differences are set out below.

#### (a) Foreign exchange gains and losses

In accordance with IFRS, foreign exchange differences on funds borrowed for construction are capitalized as property, plant and equipment to the extent that they are regarded as an adjustment to interest costs during the construction period. Under US GAAP, all foreign exchange gains and losses on foreign currency debts are included in current earnings.

#### (b) Capitalization of property, plant and equipment

In the years prior to those presented herein, certain adjustments arose between IFRS and US GAAP with regard to the capitalization of interest and pre-production results under IFRS that were reversed and expensed under US GAAP. For the years presented herein, there were no adjustments related to the capitalization of interest and pre-production results. Accordingly, the US GAAP adjustments represent the amortization effect of such originating adjustments described above.

#### (c) Revaluation of property, plant and equipment

As required by the relevant PRC regulations with respect to the Reorganization, the property, plant and equipment of the Group were revalued as of September 30, 1999. In addition, the property, plant and equipment of Sinopec National Star, Sinopec Maoming and Refining Assets were revalued as of December 31, 2000, June 30, 2003 and October 31, 2003, respectively in

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connection with the Acquisitions. Under IFRS, such revaluations result in an increase in shareholders' equity with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases and a charge to income with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases.

Under US GAAP, property, plant and equipment, including land use rights, are stated at their historical cost less accumulated depreciation. However, as a result of the tax deductibility of the net revaluation surplus, a deferred tax asset related to the reversal of the revaluation surplus is created under US GAAP with a corresponding increase in shareholders' equity.

Under IFRS, effective January 1, 2002, land use rights, which were previously carried at revalued amount, are carried at cost under IFRS. The effect of this change resulted in a decrease to revaluation reserve net of minority interests of RMB 840 as of January 1, 2002. This revaluation reserve was previously included as part of the revaluation reserve of property, plant and equipment. This change under IFRS eliminated the US GAAP difference relating to the revaluation of land use rights. However, as a result of the tax deductibility of the revalued land use rights, the reversal of the revaluation reserve resulted in a deferred tax asset.

In addition, under IFRS, on disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings. Under US GAAP, the gain and loss on disposal of an asset is determined with reference to the asset's historical carrying amount and included in current earnings.

### (d) Exchange of assets

As described in Note 28, the Company and Sinopec Group Company entered into an asset swap transaction on December 19, 2002. Under IFRS, the cost of property, plant and equipment acquired in an exchange for a dissimilar item of property, plant and equipment is measured at fair value. Under US GAAP, as the exchange of assets was between entities under common control, the assets received from Sinopec Group Company are measured at historical cost. The difference between the historical cost of the net assets transferred and the net assets received is accounted for as an equity transaction.

### (e) Impairment of long-lived assets

Under IFRS, impairment charges are recognized when a long-lived asset's carrying amount exceeds the higher of an asset's net selling price and value in use, which incorporates discounting the asset's estimated future cash flows.

Under US GAAP, determination of the recoverability of a long-lived asset is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized. Measurement of an impairment loss for a long-lived asset is based on the fair value of the asset.

In addition, under IFRS, a subsequent increase in the recoverable amount of an asset is reversed to the consolidated statements of income to the extent that an impairment loss on the same asset was previously recognized as an expense when the circumstances and events that led to the write-down or write-off cease to exist. The reversal is reduced by the amount that would have been recognized as depreciation had the write-off not occurred. Under US GAAP, an impairment loss establishes a new cost basis for the impaired asset and the new cost basis should not be adjusted subsequently other than for further impairment losses.

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The US GAAP adjustment represents the effect of reversing the recovery of previous impairment charges recorded under IFRS.

### (f) Employee reduction expenses

As described in Note 5, certain employees of the Group were transferred to Sinopec Group Company. During the year ended December 31, 2001, Sinopec Group Company paid RMB 2,885 to employees that were transferred to Sinopec Group Company and were subsequently terminated. Under IFRS, the payment made to these employees by Sinopec Group Company is not recorded in current earnings. Under US GAAP, with reference to Interpretation No. 1 to Accounting Principles Board Opinion ("APB") No. 25, such payment made by Sinopec Group Company is charged to current earnings with a corresponding increase in shareholders' equity.

### (g) Capitalized interest on investment in associates

Under IFRS, investment accounted for by the equity method is not considered a qualifying asset for which interest is capitalized. Under US GAAP, an investment accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations, is a qualifying asset for which interest is capitalized.

### (h) Goodwill amortization

Under IFRS, goodwill and negative goodwill are amortized on a systematic basis over their useful lives.

Under US GAAP, with reference to Statement of Financial Accounting Standards No.142, "Goodwill and Other Intangible Assets" ("SFAS No.142"), goodwill is no longer amortized beginning January 1, 2002, the date that SFAS No. 142 was adopted. Instead, goodwill is reviewed for impairment upon adoption of SFAS No.142 and annually thereafter. In connection with SFAS No.142's transitional goodwill impairment evaluation, the Group determined that no goodwill impairment existed as of the date of adoption. In addition, under US GAAP, negative goodwill of RMB 11, net of minority interests, that existed at the date of adoption of SFAS No.142 was written off as a cumulative effect of a change in accounting principle.

### (i) Companies included in consolidation

Under IFRS, the Group consolidates less than majority owned entities in which the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities, and proportionately consolidates jointly controlled entities in which the Group has joint control with other venturers. However, US GAAP requires that any entity of which the Group owns 20% to 50% of total outstanding voting stock not be consolidated nor proportionately consolidated, but rather be accounted for under the equity method. Accordingly, certain of the Group's subsidiaries, of which the Group owns between 40.72% to 50% of the outstanding voting stock, and the Group's jointly controlled entities are not consolidated nor proportionately consolidated under US GAAP and instead accounted for under the equity method. This exclusion does not affect the net income or shareholders' equity reconciliations between IFRS and US GAAP.

Presented below is summarized financial information of such subsidiaries and jointly controlled entities.

Years ended December 31,

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	2001	2002	2003
	RMB	RMB	RMB
Revenues.....	15,809	16,719	21,735
Income before income tax.....	531	666	1,329
Net income.....	329	468	1,090

	Years ended December 31,		
	2001	2002	2003
	RMB	RMB	RMB
Current assets.....	4,556	5,169	4,986
Total assets.....	15,564	17,463	27,607
Current liabilities.....	3,267	4,612	5,902
Total liabilities.....	3,823	4,992	9,238
Total equity.....	11,741	12,471	18,369

(j) Related party transactions

Under IFRS, transactions of state-controlled enterprises with other state-controlled enterprises are not required to be disclosed as related party transactions. Furthermore, government departments and agencies are deemed not to be related parties to the extent that such dealings are in the normal course of business. Therefore, related party transactions as disclosed in Note 28 only refers to transactions with enterprises over which Sinopec Group Company is able to exercise significant influence.

Under US GAAP, there are no similar exemptions. Although the majority of the Group's activities are with PRC government authorities and affiliates and other PRC state-owned enterprises, the Group believes that it has provided meaningful disclosure of related party transactions in Note 28.

(k) Recently issued accounting standards

SFAS No. 150

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No.150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It also includes required disclosures for financial instruments within its scope. For the Group, SFAS No.150 was effective for instruments entered into or modified after May 31, 2003 and otherwise will be effective at the beginning of the first financial year beginning after June 15, 2003. FASB Staff Provision No. FAS150-3 deferred certain provisions of SFAS No.150 for certain mandatorily redeemable non-controlling interests. The Group currently does not have any financial instruments that are within the scope of SFAS No.150.

FIN No.46R

In December 2003, the FASB issued Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" (FIN 46R), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, "Consolidation of Variable Interest Entities", which was issued in

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January 2003. The Group will be required to apply FIN 46R to variable interests in Variable Interest Entities ("VIEs") created after December 31, 2003. For variable interests in VIEs created before January 1, 2004, the Interpretation will be applied beginning on January 1, 2005. For any VIEs that must be consolidated under FIN 46R that were created before January 1, 2004, the assets, liabilities and non-controlling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and non-controlling interest of the VIE. The Group does not expect the application of this Interpretation will have a material impact on its consolidated financial statements.

### Reconciliation to US GAAP

The effect on net income of significant differences between IFRS and US GAAP for the years ended December 31, 2001, 2002 and 2003 is as follows:

	Reference in Note above	Years ended De	
		2001	2002
		----	----
		RMB	RMB
Net income under IFRS.....		16,246	16,315
US GAAP adjustments:			
Foreign exchange gains and losses.....	(a)	76	76
Capitalization of property, plant and equipment.....	(b)	12	12
Reversal of deficit on revaluation of property, plant and equipment.....	(c)	--	--
Depreciation on revalued property, plant and equipment.....	(c)	4,196	4,126
Disposal of property, plant and equipment.....	(c)	232	544
Exchange of assets.....	(d)	--	--
Reversal of impairment of long-lived assets, net of depreciation effect.....	(e)	59	59
Employee reduction expenses.....	(f)	(2,885)	--
Capitalized interest on investment in associates.....	(g)	70	110
Goodwill amortization for the year.....	(h)	--	6
Cumulative effect of adopting SFAS No.142.....	(h)	--	11
Deferred tax effect of US GAAP adjustments.....		(470)	(1,509)
Net income under US GAAP.....		17,536	19,750
Basic earnings per share under US GAAP.....		0.21	0.23
Basic earnings per ADS under US GAAP*.....		20.59	22.78

In accordance with SFAS No.142's disclosure requirements, a reconciliation of reported net income under US GAAP to adjusted net income under US GAAP is presented below.

Years ended De  
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	2001 ----- RMB	2002 ----- RMB
Net income under US GAAP.....	17,536	19,750
Add: Goodwill amortization.....	8	--
Less: Amortization of negative goodwill.....	(2)	--
Adjusted net income under US GAAP.....	17,542	19,750
Basic earnings per share under US GAAP.....	0.21	0.23
Basic earnings per ADS under US GAAP*.....	20.60	22.78

\* Basic net income per ADS is calculated on the basis that one ADS is equivalent to 100 shares.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(Amounts in millions of Renminbi, except per share data)

The effect on shareholders' equity of significant differences between IFRS and US GAAP as of December 31, 2002 and 2003 is as follows:

	Reference in Note above	----- 2002 ----- RMB	Dece ----- 2003 ----- RMB
Shareholders' equity under IFRS.....		163,823	163,823
US GAAP adjustments:			
Foreign exchange gains and losses.....	(a)	(428)	(428)
Capitalization of property, plant and equipment.....	(b)	(24)	(24)
Revaluation of property, plant and equipment.....	(c)	(18,327)	(18,327)
Deferred tax adjustments on revaluation.....	(c)	5,628	5,628
Exchange of assets.....	(d)	(578)	(578)
Reversal of impairment of long-lived assets.....	(e)	(608)	(608)
Capitalized interest on investment in associates.....	(g)	180	180
Goodwill.....	(h)	17	17
Deferred tax effect of US GAAP adjustments.....		484	484
Shareholders' equity under US GAAP.....		150,167	150,167

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION ON OIL AND GAS  
PRODUCING ACTIVITIES (UNAUDITED) - (Continued)  
(All currency amounts in millions of Renminbi)

In accordance with the United States Statement of Financial Accounting

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Standards No. 69, "Disclosures about Oil and Gas Producing Activities" ("SFAS No. 69"), this section provides supplemental information on oil and gas exploration and producing activities of the Group as of December 31, 2001, 2002 and 2003, and for each of the years in the three-year period ended December 31, 2003 in the following six separate tables. Tables I through III provide historical cost information under US GAAP pertaining to capitalized costs related to oil and gas producing activities; costs incurred in exploration and development; and results of operations related to oil and gas producing activities. Tables IV through VI present information on the Group's estimated net proved reserve quantities; standardized measure of discounted future net cash flows; and changes in the standardized measure of discounted future net cash flows.

Table I: Capitalized costs related to oil and gas producing activities

	Years ended Dece	
	2001	2002
	----	----
	RMB	RMB
Property cost	--	--
Wells and related equipment and facilities.....	109,977	125,790
Supporting equipment and facilities.....	11,047	10,809
Uncompleted wells, equipment and facilities.....	3,163	4,526
	-----	-----
Total capitalized costs.....	124,187	141,125
Accumulated depreciation, depletion, amortization and impairment allowances.....	(56,069)	(62,397)
	-----	-----
Net capitalized costs.....	68,118	78,728
	=====	=====

Table II: Cost incurred in exploration and development

	Years ended Dece	
	2001	2002
	----	----
	RMB	RMB
Exploration.....	5,666	5,798
Development.....	18,385	18,793
	-----	-----
Total cost incurred.....	24,051	24,591
	=====	=====

Table III: Results of operations for oil and gas producing activities

	Years ended Dece	
	2001	2002
	----	----
	RMB	RMB
Revenues		
Sales.....	8,780	8,687
Transfers.....	43,269	39,407
	-----	-----
	52,049	48,094

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Production costs excluding taxes.....	(15,084)	(15,174)
Exploration expenses.....	(3,775)	(4,363)
Depreciation, depletion, amortization and impairment provisions.....	(7,126)	(8,133)
Taxes other than income tax.....	(875)	(860)
	-----	-----
Income before income tax.....	25,189	19,564
Income tax expense.....	(8,312)	(6,456)
	-----	-----
Results of operations from producing activities.....	16,877	13,108
	=====	=====

The results of operations for producing activities for the years ended December 31, 2001, 2002 and 2003 are shown above. Revenues include sales to unaffiliated parties and transfers (essentially at third-party sales prices) to other segments of the Group. All revenues reported in this table do not include royalties to others as there were none. In accordance with SFAS No. 69, income taxes are based on statutory tax rates, reflecting allowable deductions and tax credits. General corporate overhead and interest income and expense are excluded from the results of operations.

Table IV: Reserve quantities information

The Group's estimated net proved underground oil and gas reserves and changes thereto for the years ended December 31, 2001, 2002 and 2003 are shown in the following table.

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change as additional information becomes available.

Proved reserves do not include additional quantities recoverable beyond the term of the relevant production licenses, or that may result from extensions of currently proved areas, or from application of improved recovery processes not yet tested and determined to be economical. The Group's estimated proved reserves do not include any quantities that are recoverable through application of tertiary recovery techniques.

Proved developed reserves are the quantities expected to be recovered through existing wells with existing equipment and operating methods.

"Net" reserves exclude royalties and interests owned by others and reflect contractual arrangements in effect at the time of the estimate.

	Years ended Decemb	
	2001	2002
	----	----
Proved developed and undeveloped reserves (oil) (million barrels)		
Beginning of year.....	3,168	3,215
Revisions of previous estimates.....	(23)	119



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Improved recovery.....	125	126
Extensions and discoveries.....	214	130
Production.....	(269)	(270)
	-----	-----
End of year.....	3,215	3,320
	=====	=====
Proved developed reserves		
Beginning of year.....	2,490	2,444
	=====	=====
End of year.....	2,444	2,732
	=====	=====
Proved developed and undeveloped reserves (gas) (billion cubic feet)		
Beginning of year.....	3,342	3,488
Revisions of previous estimates.....	(429)	(133)
Extensions and discoveries.....	738	153
Production.....	(163)	(179)
	-----	-----
End of year.....	3,488	3,329
	=====	=====
Proved developed reserves		
Beginning of year.....	1,164	1,183
	=====	=====
End of year.....	1,183	1,056
	=====	=====

Table V: Standardized measure of discounted future net cash flows

The standardized measure of discounted future net cash flows, related to the above proved oil and gas reserves, is calculated in accordance with the requirements of SFAS No. 69. Estimated future cash inflows from production are computed by applying year-end prices for oil and gas to year-end quantities of estimated net proved reserves. Future price changes are limited to those provided by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates to estimated future pre-tax net cash flows, less the tax basis of related assets. Discounted future net cash flows are calculated using 10% midperiod discount factors. This discounting requires a year-by-year estimate of when the future expenditure will be incurred and when the reserves will be produced.

The information provided does not represent management's estimate of the Group's expected future cash flows or value of proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation prescribed under SFAS No. 69 requires assumptions as to the timing and amount of future development and production costs. The calculations are made for the years ended December 31, 2001, 2002 and 2003 and should not be relied upon as an indication of the Group's future cash flows or value of its oil and gas reserves.

Years ended December

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	2001	2002
	-----	-----
	RMB	RMB
Future cash flows.....	534,433	760,468
Future production costs.....	(224,487)	(287,887)
Future development costs.....	(25,221)	(26,852)
Future income tax expenses.....	(74,698)	(126,440)
Undiscounted future net cash flows.....	210,027	319,289
10% annual discount for estimated timing of cash flows.....	(91,274)	(142,450)
Standardized measure of discounted future net cash flows.....	118,753	176,839

Table VI: Changes in the standardized measure of discounted future net cash flows

	Years ended December	
	2001	2002
	-----	-----
	RMB	RMB
Sales and transfers of oil and gas produced, net of production costs.	(52,294)	(26,740)
Net changes in prices and production costs.....	(162,554)	63,625
Net change due to extensions, discoveries and improved recoveries....	22,859	23,319
Revisions of previous quantity estimates.....	(3,729)	8,253
Previously estimated development costs incurred during the year.....	7,349	6,935
Accretion of discount.....	19,259	10,323
Net change in income taxes.....	56,131	(27,793)
Others.....	2,535	164
Net change for the year.....	(110,444)	58,086

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

China Petroleum & Chemical Corporation

By /s/ Chen Ge

-----  
Name: Chen Ge

Title: Secretary to the Board of Directors

Date: June 18, 2004

Exhibit 1

Articles of Association

of

China Petroleum & Chemical Corporation

Approved at the First Extraordinary General Meeting of 2003 on 22 April 2003  
Amended at the Annual General Meeting for the Year 2003 on 18 May 2004

CHAPTER 1 GENERAL PROVISIONS

- Article 1 These Articles of Association are drawn up in accordance with the "Company Law of the People's Republic of China" (the "Company Law"), "Special regulations of the State Council regarding the issue of shares overseas and the listing of shares overseas by companies limited by share" (the "Special Regulations"), "Mandatory provisions for the Articles of Association of the Company to be Listed Overseas" ("Mandatory Provisions"), "Guidelines for Articles of Association of Listed Companies", "Standards for the Governance of Listed Companies" and other relevant laws and regulations to maintain the legitimate interests of China Petroleum & Chemical Corporation (the "Company") and its shareholders and creditors, and to regulate the organization and conducts of the Company.
- Article 2 These Articles of Association of the Company are effective on the date of incorporation of the Company. Any amendment to these Articles of Association involving the Mandatory Provisions shall be effective upon being passed by the shareholders in a general meeting and examined and approved by the company authorized by the State Council.
- From the date on which the Company's Articles of Association come into effect, the Company's Articles of Association shall constitute a legally binding document regulating the Company's organization and activities, and the rights and obligations between the Company and its shareholders and among the shareholders inter se.
- Article 3 These Articles of Association are binding on the Company, its shareholders and directors, supervisors, president,

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vice-president, Chief Financial Officer and secretary of the board of directors; all of whom are entitled, according to these Articles of Association, to make claims concerning the affairs of the Company.

A shareholder may take action against the Company and the Company may take action against a shareholder or a director, a supervisor, the president, the vice-president, the Chief Financial Officer or the secretary of the board of directors pursuant to these Articles of Association. A shareholder may also take action against another shareholder or directors, supervisors, president, vice-president, Chief Financial Officer and the secretary of the board of directors of the Company pursuant to these Articles of Association.

The actions referred to in the preceding paragraph include court proceedings and arbitration proceedings.

Article 4 The Company is a joint stock limited company established in accordance with the Company Law, the Special Regulations and other relevant laws and administrative regulations of the State.

The Company was established by way of promotion with the approval of the State Economic and Trade Commission of the People's Republic of China ("PRC"), as evidenced by approval document Guo Jing Mao Qi Gai [2000] No. 154. It is registered with and has obtained a business licence from China's State Administration Bureau of Industry and Commerce on 25 February 2000.

The Company's business licence number is: 1000001003298. The promoter of the Company is: China Petrochemical Corporation.

Article 5 The registered name of the Company:  
In Chinese: [Chineses omitted]  
Abbreviation: [Chineses omitted]  
In English: China Petroleum  
& Chemical Corporation  
  
Abbreviation: SINOPEC Corp.

Article 6 The address of the Company: A6, Huixindong Street,  
Chaoyang District,  
Beijing, China.  
Zip: 100029  
Tel: (010) 64999295  
Fax: (010) 64999294  
Website: www.sinopec.com.cn

Article 7 The Company's legal representative is the Chairman of the board of directors of the Company.

Article 8 The Company is a joint stock limited company which has perpetual existence.

The capital of the Company is divided into shares of equal value. The rights and responsibilities of the Company's shareholders shall only be limited to the proportion of the shares as held by them; the Company shall be responsible for the Company's debts by all of its assets.

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The Company is an independent legal person, subject to the jurisdiction and under the protection of the laws and administrative rules of the PRC.

Article 9 The Company may set up wholly-owned or holding branch organizations such as subsidiaries, branches, representative offices and offices according to its business development needs. The wholly-owned or holding subsidiary may be named with China Petroleum & Chemical Corporation's abbreviation "SINOPEC". The branches, representative offices and offices are non-legal person branch organizations and shall be named with the full name of China Petroleum & Chemical Corporation.

The Company may set up branch organizations (whether or not wholly-owned) outside the PRC and in the Hong Kong SAR, Macau SAR and Taiwan according to its business development needs and upon the approval of the relevant government body.

Article 10 The Company may invest in other limited liability companies or joint stock limited companies. The Company's liabilities to an invested company shall be limited to the amount of its capital contribution to the invested company.

The Company shall not become the unlimited liability shareholder of other profit-making organizations.

Upon approval of the companies approving department authorized by the State Council, the Company may, according to its operating and management needs, operate as a holding company as prescribed in Article 12(2) of the Company Law.

### CHAPTER 2 THE COMPANY'S OBJECTIVES AND SCOPE OF BUSINESS

Article 11 The operation objectives of the Company are: maximization of the Company's profits, maximization of shareholders' return.

Article 12 The Company's scope of business shall be consistent with and subject to the scope of business approved by the authority responsible for the registration of the Company.

The Company's scope of business includes: the exploration, exploitation and sales of oil and natural gas; pipeline transportation of oil and natural gas; oil refining; the production, sales and storage of oil, petrochemical products, chemical fiber products and other chemical products; wholesaling, retailing and storage of oil and other oil products; operation of 24-hour stores; power generation; manufacturing and installation of machinery; purchase and sales of raw materials, charcoal, equipment and parts; supervision of manufacturing of equipment; research, development and application of technology and information; import and export; and provision of technology and labour.

### CHAPTER 3 SHARES AND REGISTERED CAPITAL

Article 13 There must, at all times, be ordinary shares in the Company, which include the "domestic-invested shares" and the "foreign-invested shares". Subject to the approval of the companies approving department authorized by the State Council, the Company may, according to its requirements, create different classes of shares.

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- Article 14 The shares issued by the Company shall each have a par value of Renminbi one yuan. "Renminbi" as mentioned above means the legal currency of the PRC.
- Article 15 Shares of the Company are in the form of share certificates. Subject to the approval of the securities authority of the State Council, the Company may issue shares to Domestic Investors and Foreign Investors. The issue of shares by the Company shall adhere to the principle of openness and fairness.
- "Foreign Investors" means those investors who subscribe for the Company's shares and who are located in foreign countries and in the regions of Hong Kong, Macau and Taiwan. "Domestic Investors" means those investors who subscribe for the Company's shares and who are located within the territory of the PRC (except the areas referred to above).
- Article 16 Shares which the Company issues to domestic investors for subscription in Renminbi are called "Domestic-Invested Shares". Domestic-invested shares listed domestically are called "Domestic-Listed Domestic-Invested shares" whilst other kinds of domestic-invested shares are called "Non-Listed Domestic-Invested Shares".
- Shares which the Company issues to foreign investors for subscription in foreign currencies are called "Foreign-Invested Shares". Foreign-invested shares which are listed overseas are called "Overseas-Listed Foreign-Invested Shares".
- "Foreign currencies" means the legal currencies of countries or districts outside the PRC which are recognized by the foreign exchange authority of the State and which can be used to pay the share price to the Company.
- The shareholders of "Domestic-Invested Shares" and the shareholders of "Overseas-Listed Foreign-Invested Shares" shall be shareholders of ordinary shares, possessing the same rights and undertaking the same obligations.
- Article 17 Foreign-Invested Shares issued by the Company and which are listed in Hong Kong shall be referred to as "H Shares". "H Shares" means the shares which have been admitted for listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the par value of which is denominated in Renminbi and which are subscribed for and traded in Hong Kong dollars.
- Article 18 The Company's domestic-invested shares are held on trust by the Shanghai branch of the China Securities Registration and Clearing Company Limited. The Company's H shares are mainly held by the Hong Kong Securities Clearing Company Limited.
- Article 19 The Company has at the time of its establishment issued to the promoter, China Petrochemical Corporation, 6,880,000 ordinary shares, representing 100% of the issued ordinary shares of the Company at that time.
- Article 20 After the establishment of the Company and upon the approval of the companies approving department authorized by the State Council, the promoter, China Petrochemical Corporation, transferred 19,379,390,000 domestic-invested shares to holders of other non-listed domestic-invested shares; the Company issued 16,780,488,000 H shares (out of these, 15,102,439,000

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shares are new issue shares of the Company and 1,678,049,000 shares are stock shares sold by the promoter, China Petrochemical Corporation). Upon completion of the H share issuance, the Company issued 2,800,000,000 domestic-listed domestic-invested shares.

The existing structure of the Company's share capital is as follows: the total number of issued ordinary shares of the Company is 86,702,439,000 shares, out of these, 47,742,561,000 shares representing 55.07% of the total number of issued ordinary shares of the Company are held by the promoter, China Petrochemical Corporation; 19,379,390,000 shares representing 22.35% are held by other non-listed domestic-invested shareholders; 2,800,000,000 shares representing 3.23% are held by domestic-listed domestic-invested shareholders; and 16,780,488,000 shares representing 19.35% are held by foreign-listed foreign-invested shareholders.

Article 21 The Company's board of directors may take all necessary action for the respective issuance of the Overseas-Listed Foreign-Invested Shares and Domestic-Invested Shares after the proposals for issuance of the same have been approved by the securities authority of the State Council.

The Company may implement its proposal to issue Overseas-Listed Foreign-Invested Shares and Domestic-Invested Shares pursuant to the preceding paragraph within fifteen (15) months from the date of approval by the securities regulatory organ of the State Council.

Article 22 Where the total number of shares stated in the proposal for the issuance of shares include Overseas-Listed Foreign-Invested Shares and Domestic-Invested Shares, such shares should be fully subscribed for at their respective offerings. If the shares cannot be fully subscribed for all at once due to special circumstances, the shares may, subject to the approval of the securities regulatory organ of the State Council, be issued on separate occasions.

Article 23 The registered capital of the Company is RMB86,702,439,000.

Article 24 The Company may, based on its operating and development needs, authorize the increase of its capital pursuant to the Company's Articles of Association.

The Company may increase its capital in the following ways:

- (1) by offering new shares for subscription by unspecified investors;
- (2) by placing new shares to its existing shareholders;
- (3) by allotting bonus shares to its existing shareholders;
- (4) to increase the share capital with common reserve fund;
- (5) by any other means which is permitted by the laws, administrative regulations and the competent department under the securities authority of the State Council.

After the Company's increase of share capital by means of the issuance of new shares has been approved in accordance with the provisions of the Company's Articles of Association, the issuance thereof should be made in accordance with the procedures set out in the relevant laws and administrative regulations of the State.

Article 25 Unless otherwise stipulated in the relevant laws or administrative regulations, shares in the Company shall be freely transferable and are not subject to any lien.

CHAPTER 4 REDUCTION OF CAPITAL AND REPURCHASE OF SHARES

Article 26 According to the provisions of the Company's Articles of Association, the Company may reduce its registered capital. In so doing, it shall act according to the Company Law, other relevant provisions and these Articles of Association.

Article 27 The Company must prepare a balance sheet and an inventory of assets when it reduces its registered capital.

The Company shall notify its creditors within ten (10) days of the date of the Company's resolution for reduction of capital and shall publish an announcement in a newspaper at least three (3) times within thirty (30) days of the date of such resolution. A creditor has the right within thirty (30) days of receipt of the notice from the Company or, in the case of a creditor who does not receive such notice, within ninety (90) days of the date of the first public announcement, to require the Company to repay its debts or to provide a corresponding guarantee for such debt.

The Company's registered capital may not, after the reduction in capital, be less than the minimum amount prescribed by law.

Article 28 The Company may, in accordance with the procedures set out in the Company's Articles of Association and with the approval of the relevant governing authority of the State, repurchase its outstanding shares under the following circumstances:

- (1) cancellation of shares for the purposes of reducing its capital;
- (2) merging with another company that holds shares in the Company;
- (3) other circumstances permitted by laws and administrative regulations.

The Company shall repurchase its outstanding shares in accordance with the stipulations of Article 29 to Article 32.

Article 29 The Company may repurchase shares in one of the following ways, with the approval of the relevant governing authority of the State:

- (1) by making an offer for the repurchase of shares to all its shareholders on a pro rata basis;



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- (2) by repurchasing shares through public dealing on a stock exchange;
- (3) by repurchasing shares outside of the stock exchange by means of an off-market agreement;
- (4) by any other means which is permitted by the laws, administrative regulations and the securities regulatory organ of the State Council.

Article 30 The Company must obtain the prior approval of the shareholders in a general meeting in the manner stipulated in the Company's Articles of Association before it can repurchase shares outside the stock exchange by means of an off-market agreement. The Company may, by obtaining the prior approval of the shareholders in a general meeting (in the same manner), rescind or vary any contract which has been so entered into or waive any right thereof.

A contract for the repurchase of shares referred to in the preceding paragraph includes (without limitation) an agreement to become liable to repurchase shares or an agreement to have the right to repurchase shares.

The Company may not assign any contract for the repurchase of its shares or any right contained in such contract.

Article 31 Shares which have been legally repurchased by the Company shall be cancelled within 10 days of completion of the repurchase (or such other shorter period as required by law or administrative regulations), and the Company shall apply to the original companies registration authority for registration of the change in its registered capital.

The aggregate par value of the cancelled shares shall be deducted from the Company's registered share capital.

Article 32 Unless the Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its outstanding shares:

- (1) where the Company repurchases shares at par value, payment shall be made out of book surplus distributable profits of the Company or out of proceeds of a new issue of shares made for that purpose;
- (2) where the Company repurchases shares of the Company at a premium to its par value, payment up to the par value may be made out of the book surplus of distributable profits of the Company or out of the proceeds of a new issue of shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows:
  1. if the shares being repurchased were issued at par value, payment shall be made out of the book surplus of distributable profits of the Company;
  2. if the shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus of distributable profits

of the Company or out of the proceeds of a new issue of shares made for that purpose, provided that the amount paid out of the proceeds of the new issue shall not exceed the aggregate amount of premiums received by the Company on the issue of the shares repurchased nor shall it exceed the book value of the Company's capital common reserve fund account (including the premiums on the new issue) at the time of the repurchase;

- (3) the Company shall make the following payments out of the Company's distributable profits:
  1. payment for the acquisition of the right to repurchase its own shares;
  2. payment for variation of any contract for the repurchase of its shares;
  3. payment for the release of its obligation(s) under any contract for the repurchase of shares;
- (4) after the Company's registered capital has been reduced by the aggregate par value of the cancelled shares in accordance with the relevant provisions, the amount deducted from the distributable profits of the Company for payment of the par value of shares which have been repurchased shall be transferred to the Company's capital common reserve fund account.

CHAPTER 5 FINANCIAL ASSISTANCE FOR ACQUISITION OF SHARES

Article 33 The Company and its subsidiaries shall not, at any time, provide any form of financial assistance to a person who is acquiring or is proposing to acquire shares in the Company. This includes any person who directly or indirectly incurs any obligations as a result of the acquisition of shares in the Company.

The Company and its subsidiaries shall not, at any time, provide any form of financial assistance to the Obligor for the purposes of reducing or discharging the obligations assumed by such person.

This Article shall not apply to the circumstances specified in Article 35 of this Chapter.

Article 34 For the purposes of this Chapter, "financial assistance" includes (without limitation) the following:

- (1) gift;
- (2) guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the Obligor), compensation (other than compensation in respect of the Company's own default) or release or waiver of any rights;
- (3) provision of loan or the making of any other agreement under which the obligations of the Company are to be fulfilled before the obligations of another party, or

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the change in parties to, or the assignment of rights under, such loan or contract;

- (4) any other form of financial assistance given by the Company when the Company is insolvent or has no net assets or when its net assets would thereby be reduced to a material extent.

For the purposes of this Chapter, "assumption of obligations" includes the assumption of obligations by way of contract or by way of arrangement (irrespective of whether such contract or arrangement is enforceable or not and irrespective of whether such obligation is to be borne solely by the Obligor or jointly with other persons) or by any other means which results in a change in his financial position.

Article 35 The following acts shall not be deemed to be acts prohibited by Article 33 of this Chapter:

- (1) the provision of financial assistance by the Company where the financial assistance is given in good faith in the interests of the Company, and the principal purpose of which is not for the acquisition of shares in the Company, or the giving of the financial assistance is an incidental part of a master plan of the Company;
- (2) the lawful distribution of the Company's assets as dividend;
- (3) the distribution of dividends in the form of shares;
- (4) a reduction of registered capital, a repurchase of shares of the Company or a reorganization of the share holding structure of the Company effected in accordance with the Company's Articles of Association;
- (5) the provision of loans by the Company within its scope of business and in the ordinary course of its business, where the provision of loans falls within part of the scope of business of the Company (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits);
- (6) contributions made by the Company to the employee share ownership schemes (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits).

### CHAPTER 6 SHARE CERTIFICATES AND REGISTER OF SHAREHOLDERS

Article 36 Share certificates of the Company shall be in registered form.

The shares of the Company shall bear the following main items:

- (1) Name of the Company;
- (2) Date of registration and establishment of the Company;

- (3) Type of shares, par value and the number of shares it represents;
- (4) Code of share certificates;
- (5) Other matters as required by the Company Law, Special Regulations and the stock exchange on which the shares of the Company are listed.

Article 37 The shares of the Company may be transferred, donated, inherited and pledged in accordance with the relevant laws, administrative rules, regulations of the competent department(s) as well as these Articles of Association.

The transfer of shares shall be registered with the share registration organisation appointed by the Company.

Article 38 The Company does not accept the pledging of its shares.

Article 39 The directors, supervisors, president, vice-president, Chief Financial Officer and secretary of the board of directors of the Company shall, during their term of office, declare to the Company regularly the Company's shares held by them. During their term of office and within 6 months of their leaving, they may not transfer the Company's shares held by them.

Article 40 If a shareholder who holds 5% or above of voting shares sells his shares in the Company within 6 months of his purchase or purchases again within 6 months of the sale, the profits thus made shall belong to the Company.

The preceding provision shall apply to senior officers prescribed in the articles of association of a legal person shareholder holding 5% or above of the voting shares in the Company, including but without limitation to its directors, supervisors and the president.

Article 41 Share certificates of H-shares of the Company shall be signed by the Chairman of the Company's board of directors. Where the stock exchange(s) on which the Company's shares are listed require other directors and/or supervisors, president, vice-president, Chief Financial Officer and the secretary of the board of directors of the Company to sign on the share certificates, the share certificates shall also be signed by such officer(s). The share certificates shall take effect after being sealed or imprinted with the seal of the Company (or the Company chop for securities). The share certificate shall only be sealed with the Company's seal or securities chop under the authorization of the board of directors. The signatures of the Chairman of the board of directors or other officer(s) of the Company may be printed in printed form.

Article 42 The Company shall keep a register of shareholders which shall contain the following particulars:

- (1) the name (title) and address (residence), the occupation or nature of each shareholder;
- (2) the class and quantity of shares held by each shareholder;

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- (3) the amount paid-up on or agreed to be paid-up on the shares held by each shareholder;
- (4) the share certificate number(s) of the shares held by each shareholder;
- (5) the date on which each person was registered as a shareholder;
- (6) the date on which any shareholder ceased to be a shareholder.

Unless there is evidence to the contrary, the register of shareholders shall be sufficient evidence of the shareholders' shareholdings in the Company.

Article 43 The Company may, in accordance with the mutual understanding and agreements made between the securities regulatory organ of the State Council and overseas securities regulatory organizations, maintain the register of shareholders of Overseas-Listed Foreign-Invested Shares overseas and appoint overseas agent(s) to manage such register of shareholders. The original register of shareholders for holders of H Shares shall be maintained in Hong Kong.

A duplicate register of shareholders for the holders of Overseas-Listed Foreign-Invested Shares shall be maintained at the Company's residence. The appointed overseas agent(s) shall ensure consistency between the original and the duplicate register of shareholders at all times.

If there is any inconsistency between the original and the duplicate register of shareholders for the holders of Overseas-Listed Foreign-Invested Shares, the original register of shareholders shall prevail.

Article 44 The Company shall have a complete register of shareholders which shall comprise the following parts:

- (1) the register of shareholders which is maintained at the Company's residence (other than those share registers which are described in sub-paragraphs (2) and (3) of this Article);
- (2) the register of shareholders in respect of the holders of Overseas-Listed Foreign-Invested Shares of the Company which is maintained in the same place as the overseas stock exchange on which the shares are listed; and
- (3) the register of shareholders which is maintained in such other place as the board of directors may consider necessary for the purposes of the listing of the Company's shares.

Article 45 Different parts of the register of shareholders shall not overlap. No transfer of any shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register.

All Overseas-Listed Foreign-Invested Shares listed in Hong Kong which have been fully paid-up may be freely transferred in

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accordance with the Company's Articles of Association. However, unless such transfer complies with the following requirements, the board of directors may refuse to recognize any instrument of transfer and would not need to provide any reason therefor:

- (1) a fee of HK\$2.50 per instrument of transfer or such higher amount agreed by the Stock Exchange has been paid to the Company for registration of the instrument of transfer and other documents relating to or which will affect the right of ownership of the shares;
- (2) the instrument of transfer only relates to Overseas-Listed Foreign-Invested Shares listed in Hong Kong;
- (3) the stamp duty which is chargeable on the instrument of transfer has already been paid;
- (4) the relevant share certificate(s) and any other evidence which the board of directors may reasonably require to show that the transferor has the right to transfer the shares have been provided;
- (5) if it is intended that the shares be transferred to joint owners, the maximum number of joint owners shall not be more than four (4); and
- (6) the Company does not have any lien on the relevant shares.

All Overseas-Listed Foreign-Invested Shares listed in Hong Kong shall be transferred by an instrument in writing in any usual or common form or any other form which the directors may approve. The instrument of transfer of any share may only be executed by hand without seal, or if the assignor or the assignee is the recognized clearing house or its nominee, the share transfer form may be executed by hand or in mechanically-printed form. All instruments of transfer must be placed at the legal address of the Company or in other places as the Board of Directors may be specified at any time.

Amendments or rectification of the register of shareholders shall be made in accordance with the laws of the place where the register of shareholders is maintained.

Article 46 No change may be made in the register of shareholders as a result of a transfer of shares within thirty (30) days prior to the date of a shareholders' general meeting or within five (5) days before the determination date for the Company's distribution of dividends.

Article 47 When the Company needs to convene a shareholders' meeting for the purposes of determination, dividend distribution, for liquidation or for any other purpose which need to determine shareholdings, the board of directors shall determine a record date for the determination of shareholdings. The shareholders of the Company shall be such persons who appear in the register of shareholders at the close of such record date.

Article 48 Any person who disputes the register of shareholders and asks for inclusion of his name in or removal of his name from the register of shareholders may apply to a court of competent

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jurisdiction for rectification of the register.

Article 49

For any person who is a registered shareholder or who claims to be entitled to have his name (title) entered in the register of shareholders in respect of shares in the Company may, if his share certificate (the "original certificate") relating to the shares is lost, he may apply to the Company for a replacement share certificate in respect of such shares (the "Relevant Shares").

Application by a holder of Domestic-Invested Shares, who has lost his share certificate, for a replacement share certificate shall be dealt with in accordance with Article 150 of the Company Law.

Application by a holder of Overseas-Listed Foreign-Invested Shares, who has lost his share certificate, for a replacement share certificate may be dealt with in accordance with the law of the place where the original register of shareholders of holders of Overseas-Listed Foreign-Invested Shares is maintained, the rules of the stock exchange or other relevant regulations.

The issue of a replacement share certificate to a holder of H Shares, who has lost his share certificate, shall comply with the following requirements:

- (1) The applicant shall submit an application to the Company in a prescribed form accompanied by a notarial certificate or a statutory declaration, of which the contents shall include the grounds upon which the application is made and the circumstances and evidence of the loss, and the declaration showing that no other person is entitled to have his name entered in the register of shareholders in respect of the Relevant Shares.
- (2) The Company has not received any declaration made by any person other than the applicant declaring that his name shall be entered in the register of shareholders in respect of such shares before it decides to issue a replacement share certificate to the applicant.
- (3) The Company shall, if it intends to issue a replacement share certificate, publish a notice of its intention to do so at least once every thirty (30) days within a period of ninety (90) consecutive days in such newspapers as may be prescribed by the board of directors.
- (4) The Company shall, prior to publication of its intention to issue a replacement share certificate, deliver to the stock exchange on which its shares are listed, a copy of the notice to be published and may publish the notice upon receipt of confirmation from such stock exchange that the notice has been exhibited in the premises of the stock exchange. Such notice shall be exhibited in the premises of the stock exchange for a period of ninety (90) days. In the case of an application which is made without the consent of the registered holder of the Relevant Shares, the Company shall deliver by mail to such registered

shareholder a copy of the notice to be published.

- (5) If, by the expiration of the 90-day period referred to in paragraphs (3) and (4) of this Article, the Company has not received any objection from any person in respect of the issuance of the replacement share certificate, it may issue a replacement share certificate to the applicant pursuant to his application.
- (6) Where the Company issues a replacement share certificate pursuant to this Article, it shall forthwith cancel the original share certificate and document the cancellation of the original share certificate and issuance of a replacement share certificate in the register of shareholders accordingly.
- (7) All expenses relating to the cancellation of an original share certificate and the issuance of a replacement share certificate shall be borne by the applicant and the Company is entitled to refuse to take any action until reasonable guarantee is provided by the applicant therefor.

Article 50 Where the Company issues a replacement share certificate pursuant to the Company's Articles of Association, as for a bona fide purchaser obtaining new share certificates referred to above or a shareholder registered as a owner of the shares (in case of a bona fide purchaser), his name (title) shall not be removed from the register of shareholders.

Article 51 The Company shall not be liable for any damages sustained by any person by reason of the cancellation of the original share certificate or the issuance of the replacement share certificate unless the claimant is able to prove that the Company has acted in a deceitful manner.

#### CHAPTER 7 SHAREHOLDERS' RIGHTS AND OBLIGATIONS

Article 52 A shareholder of the Company is a person who lawfully holds shares in the Company and whose name (title) is entered in the register of shareholders.

A shareholder shall enjoy rights and assume obligations according to the class and amount of shares held by him; shareholders who hold shares of the same class shall enjoy the same rights and assume the same obligations.

For the joint shareholders, if one of the joint shareholders has passed away, the surviving shareholder shall be deemed by the Company to have the ownership of the related shares, but the Board of Directors is entitled to ask for the provision of the suitable death certificate for the purpose of revision of the shareholders' register. For the joint shareholders, only the first named shareholder in the shareholders' register has the right to receive the share certificates of the related shares, receive the notice of the Company, attend the shareholders' general meeting and exercise his voting right; while, any notice delivered to the said shareholder shall be deemed as if the notice has been delivered to all of the joint shareholder of the related shares.



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- Article 53      The shareholders of ordinary shares of the Company shall enjoy the following rights:
- (1)      the right to receive dividends and other distributions in proportion to their shareholdings;
  - (2)      the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat according to their shareholdings;
  - (3)      the right to supervise the Company's business operations, the right to present proposals or to raise queries;
  - (4)      the right to transfer, donate and pledge shares in accordance with laws, administrative regulations and provisions of the Company's Articles of Association;
  - (5)      subject to production of the relevant proofs of the type and quantity of shares that they are holding to the Company and verification of their identities of shareholders by the Company, the right to obtain relevant information in accordance with laws, administrative regulations and provisions of these Articles of Association, which information includes:
    - i.      the right to obtain a copy of the Company's Articles of Association, subject to payment of costs;
    - ii.     the right to inspect and copy, subject to payment of a reasonable fee:
      - (i)     all parts of the register of shareholders;
      - (ii)    personal particulars of each of the Company's directors, supervisors, president, vice-president, Chief Financial Officer and secretary of the board of directors, including:
        - (a)     present and former name and alias;
        - (b)     principal address (place of residence);
        - (c)     nationality;
        - (d)     primary and all other part-time occupations and duties;
        - (e)     identification documents and the numbers thereof;
      - (iii)   report on the state of the Company's share capital;
      - (iv)    reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of shares

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repurchased by the Company since the last accounting year and the aggregate amount paid by the Company for this purpose;

(v) minutes of shareholders' general meetings;

(vi) regular reports and interim reports of the Company.

(6) in the event of the termination or liquidation of the Company, the right to participate in the distribution of remaining assets of the Company in accordance with the number of shares held;

(7) in the event that the resolution of a shareholders' general meeting or board meeting is against the law or administrative rules and has infringed the legitimate interest of a shareholder, the shareholder shall have the right to commence legal proceedings to stop the illegal or infringing act and to ask the Company to bring a claim for compensation;

(8) other rights conferred by laws, administrative regulations and these Articles of Association.

Article 54 The shareholders of ordinary shares of the Company shall assume the following obligations:

(1) to comply with these Articles of Association;

(2) to pay subscription money according to the number of shares subscribed and the method of subscription;

(3) not to retire from being a shareholder unless required by law or administrative regulations;

(4) other obligations imposed by laws, administrative regulations and these Articles of Association.

Shareholders are not liable to make any further contribution to the share capital other than according to the terms which were agreed by the subscriber of the relevant shares at the time of subscription.

Article 55 In addition to the obligations imposed by laws and administrative regulations or required by the listing rules of the stock exchange on which the Company's shares are listed, a controlling shareholder shall not exercise his voting rights in respect of the following matters in a manner prejudicial to the interests of all or part of the shareholders of the Company:

(1) act honestly in the best interests of the Company in removing a director or supervisor;

(2) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person) of the Company's assets in any way, including (without limitation to) opportunities which are beneficial to the Company;

(3) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of

another person) of the individual interest of other shareholders, including (but without limitation to) rights to distributions and voting rights (excluding a restructuring which has been submitted for approval by the shareholders in a general meeting in accordance with the Company's Articles of Association).

Article 56 For the purpose of the foregoing Article, a "controlling shareholder" means a person who satisfies any one of the following conditions:

- (1) a person who, acting alone or in concert with others, has the power to elect more than half of the board of directors;
- (2) a person who, acting alone or in concert with others, has the power to exercise 30% or more or has power to control the exercise of 30% or more of the voting rights in the Company;
- (3) a person who, acting alone or in concert with others, holds 30% or more of the issued and outstanding shares of the Company;
- (4) a person who, acting alone or in concert with others, has de facto control of the Company in any other way.

"Acting in concert" referred to above means the acting of two or more persons by agreement (whether verbal or in writing) so as to gain or strengthen the control of the Company through the acquisition of voting rights in the Company by either of them.

#### CHAPTER 8 SHAREHOLDERS' GENERAL MEETINGS

Article 57 The shareholders' general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with law.

The Company shall draw up "Rules and Procedures for the Shareholders' General Meetings" for implementation after being approved by the shareholders in a general meeting. The Rules and Procedures for the Shareholders' General Meetings shall include the followings:

- (1) functions and powers of the shareholders general meetings;
- (2) authorities given by the shareholders' general meetings to the board of directors;
- (3) procedures for the convening of a shareholders' general meeting, which include the putting forward, collection and approval of motions and notices of meetings and any change thereto, registration of the meeting, convening of, voting and resolutions made in the meeting, adjournments, past-session matters and announcements, etc.;
- (4) other matters deemed necessary by the shareholders' general meeting.

The Rules and Procedures for the Shareholders' General Meetings

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is an integral part of and has the same legal effect as these Articles of Association.

### Article 58

The shareholders' general meeting shall have the following functions and powers:

- (1) to decide on the Company's operational policies and investment plans;
- (2) to elect and replace directors and to decide on matters relating to the remuneration and liability insurance of directors;
- (3) to elect and replace supervisors who are shareholder representatives and to decide on matters relating to the remuneration and liability insurance of supervisors;
- (4) to examine and approve the board of directors' reports;
- (5) to examine and approve the supervisory committee's reports;
- (6) to examine and approve the Company's profit distribution plans and loss recovery plans;
- (7) to examine and approve the Company's proposed annual preliminary and final financial budgets;
- (8) to pass resolutions on the increase or reduction of the Company's registered capital;
- (9) to pass resolutions on matters such as merger, division, dissolution and liquidation of the Company;
- (10) to pass resolutions on the issue of debentures by the Company;
- (11) to pass resolutions on the appointment, dismissal and non-reappointment of the accountants of the Company;
- (12) to amend the Company's Articles of Association and its appendices (including the Rules and Procedures for the Shareholders' General Meetings, Rules and Procedures for the Board of Directors' Meetings and Rules and Procedures for the Supervisors' Meetings);
- (13) to consider motions raised by the supervisory committee or shareholders who represent 5% or more of the total number of voting shares of the Company at annual general meetings;
- (14) to decide on other matters which, according to laws, administrative regulations, regulations of the competent department(s) or these Articles of Association, need to be approved by shareholders in general meetings;

### Article 59

Matters which shall be determined by the shareholders in a general meeting according to the laws, administrative regulations, regulations of the competent departments or these

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Articles of Association must be discussed by the shareholders in a general meeting in order to protect the shareholders' right of decision on those matters. Where necessary and reasonable, the board of directors or its secretary may be appointed in a shareholders' general meeting to determine (if so authorized in the general meeting) specific matters which are related to the matters to be resolved and are not possible or not necessary to be determined in that general meeting. Please see the Rules and Procedures for the Shareholders' General Meetings for the form of authorization by shareholders to the board of directors in a shareholders' general meeting to determine major matters of the Company.

If the shareholders authorize the board of directors or its secretary in a general meeting to determine matters which shall be determined by ordinary resolutions, the matter should be resolved by more than one-half of the attending shareholders (including their proxy) who have voting rights; if the authorization relates to matters which shall be determined by special resolutions, the matter should be resolved by more than two-thirds of the attending shareholders (including their proxy) who have voting rights. The authorization should be clear and specific.

Article 60 Unless prior approval of shareholders in the form of a special resolution is obtained in a general meeting, the Company shall not enter into any contract with any person other than the directors, supervisors, president, vice-president, Chief Financial Officer and secretary of the board of directors of the Company pursuant to which such person shall be responsible for the management and administration of the whole or any substantial part of the Company's business.

Article 61 Shareholders' general meetings are divided into annual general meetings ("AGM") and extraordinary general meetings ("EGM"). Unless otherwise provided in these Articles of Association and the Rules and Procedures for the Shareholders' General Meetings, shareholders' general meetings shall be convened by the board of directors.

Article 62 AGMs are held once every year and within six (6) months from the end of the preceding accounting year. At least the following matters should be resolved in an AGM:

- (1) examination of the board of directors' annual report;
- (2) examination of the supervisory committee's annual report;
- (3) examination of the Company's profit distribution proposal;
- (4) examination of the Company's audited final budgets for the preceding year;
- (5) engagement, removal or non-renewal of the appointment of the accounting firm by the Company and determination of the remuneration of the accounting firm so engaged.

Matters to be considered in an AGM including but without limitation to the above matters, and any matter that could be

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considered in a general meeting may be considered in an AGM.

In an AGM, the supervisory committee and shareholders who individually or jointly hold 5% or more of the Company's voting shares shall have the right to put forward provisional motions.

Article 63 The board of directors shall convene an EGM within two (2) months after the occurrence of any one of the following events:

- (1) where the number of directors is less than the number stipulated in the Company Law or two-thirds of the number specified in the Company's Articles of Association;
- (2) where the unrecovered losses of the Company amount to one-third of the total amount of its share capital;
- (3) where shareholder(s) who individually or jointly hold 10% or more of the Company's issued and outstanding voting shares (not including voting by proxy) request(s) in writing for the convening of an EGM;
- (4) whenever the board of directors deems necessary or the supervisory committee so requests;
- (5) other circumstances provided by these Articles of Association. The shareholdings referred to in item (3) above shall be calculated as at the date of written request of the shareholders.

Article 64 Any request for the board of directors to hold an AGM or class meeting made by the supervisory committee or shareholders who individually or jointly hold 10% of the Company's voting shares entitling them to vote in that proposed meeting shall be dealt with according to the provisions of the Rules and Procedures for the Shareholders' General Meetings.

If a meeting is convened by the shareholders themselves where the board of directors has not given the required consent under the Rules and Procedures for the Shareholders' General Meetings to the same, the reasonable expenses thus incurred shall be borne by the Company and paid out of the money payable by the Company to the negligent director(s).

Article 65 If the number of members of the board of directors falls short of the number prescribed by the Company Law or is less than two-thirds of the number prescribed in these Articles of Association, or if the Company's non-recovered loss has amounted to one third of the share capital and the board of directors has failed to call for an EGM in the prescribed time, shareholders may call for an EGM on their own according to the prescribed procedures of the Rules and Procedures for the Shareholders' General Meetings.

Article 66 Any shareholders who individually or jointly hold 10% or more of the voting shares entitling them to vote in the proposed meeting have any dispute as to the board of directors' non-inclusion of their motion into the agenda may, according to the prescribed procedures of the Rules and Procedures for the Shareholders' General Meetings, ask for the convening of an EGM.

Article 67 A motion of a shareholders' general meeting is a discussion

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paper of a matter which should be discussed in a general meeting and shareholders should resolve on the specific motion in a general meeting. The contents, form and issuing procedures of a motion shall comply with the requirements of the Rules and Procedures for the Shareholders' General Meetings.

Article 68 When the Company convenes a shareholders' general meeting, written notice of the meeting shall be given forty-five (45) days (including the date of the meeting) before the date of the meeting to notify all of the shareholders whose names appear in the share register of the matters to be considered and the date and place of the meeting. The contents, form and issuing procedures of the notice shall comply with the requirements of the Rules and Procedures for the Shareholders' General Meetings.

Article 69 Any shareholder who is entitled to attend and vote at a general meeting of the Company shall be entitled to appoint one (1) or more persons (whether such person is a shareholder or not) as his proxy or proxies to attend and vote on his behalf, and a proxy so appointed shall be entitled to exercise the following rights pursuant to the authorization from that shareholder:

- (1) the shareholders' right to speak at the meeting;
- (2) the right to demand or join in demanding a poll;
- (3) the right to vote by hand or on a poll, but a proxy of a shareholder who has appointed more than one (1) proxy may only vote on a poll.

If the said shareholder is a recognized clearing house as defined by Securities and Futures (Clearing House) Ordinance (Chapter 420 of Hong Kong Law) or the Securities and Futures Ordinance, the shareholder may authorize one or more suitable person to act as its representative at any shareholders' general meeting or any kinds of shareholders' general meeting; however, if more than one person are authorized, the power of attorney shall clearly indicate the number and types of the stocks involved by way of the said authorization. The persons after such authorization may represent the recognized clearing house (or its "proxy") to exercise the rights, as if they were the individual shareholders of the Company.

Article 70 The instrument appointing a proxy to attend the general meeting shall be in writing clearly indicating the number of shares of the appointor represented by the proxy and shall be under the hand of the appointor or his attorney duly authorized in writing, or if the appointor is a legal person, either under seal or under the hand of a director or a duly authorized attorney. If several proxies are appointed, such written instrument shall clearly indicate the number of shares of the appointor represented by each proxy. The remaining contents and form of the instrument shall comply with the requirements of the Rules and Procedures for the Shareholders' General Meetings.

Article 71 Any form given to a shareholder by the directors for use by such shareholder for the appointment of a proxy to attend and vote at meetings of the Company shall be such as to enable the shareholder to freely instruct the proxy to vote in favour of or against the motions, such instructions being given in respect of

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each individual matter to be voted on at the meeting. Such a form shall contain a statement that, in the absence of specific instructions from the shareholder, the proxy may vote as he thinks fit.

- Article 72 A vote made in accordance with the terms of a proxy shall be valid notwithstanding the death or loss of capacity of the appointor or revocation of the proxy or the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that the Company did not receive any written notice in respect of such matters before the commencement of the relevant meeting.
- Article 73 Apart from the independent directors, the Company's board of directors and shareholders who meet the relevant requirements may also collect from other shareholders of the Company the rights to vote in a shareholders' general meeting. The collection of voting rights shall be without consideration with sufficient disclosure of information to the shareholders from whom voting rights are being collected.
- Article 74 When a connected transaction is discussed in a shareholders' general meeting, the connected shareholders shall not take part in the voting and the number of voting shares represented by him will not be counted in. Announcements of resolutions made in the shareholders in a general meeting shall make full disclosure of the votes cast by non-connected shareholders.
- If any shareholder are required to abstain from voting or may only vote for or against a matter according to the Rules Governing the Listing of Securities of the Hong Kong Stock Exchange Limited, any vote by such shareholder or his proxy in violation of the relevant rules or restrictions referred to above shall not be counted in the voting results.
- Article 75 A shareholder (including a proxy), when voting at a shareholders' general meeting, may exercise such voting rights as are attached to the number of voting shares which he represents except when the accumulated voting system under Article 103 hereof regarding election of directors is adopted in which case one (1) vote is attached to each share. Please refer to the Rules and Procedures for the Shareholders' General Meetings for the implementation of the accumulated voting system.
- Article 76 At any shareholders' general meeting, a resolution shall be decided on a show of hands unless a poll is demanded or otherwise required by the listing rules of the stock exchanges on which the Company's shares are listed:
- (1) by the chairman of the meeting;
  - (2) by at least two (2) shareholders present in person or by proxy entitled to vote thereat;
  - (3) by one (1) or more shareholders present in person or by proxy and representing 10 % or more of all shares carrying the right to vote at the meeting singly or in aggregate, before or after a vote is carried out by a show of hands.

Unless a poll is demanded, a declaration by the chairman that a



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resolution has been passed on a show of hands and the record of such in the minutes of the meeting shall be conclusive evidence of the fact that such resolution has been passed. There is no need to provide evidence of the number or proportion of votes in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who demands the same.

Article 77 A poll demanded on the election of the chairman of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

Article 78 On a poll taken at a meeting, a shareholder (including a proxy) entitled to two (2) or more votes need not cast all his votes in the same way.

Article 79 In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall have a casting vote.

Article 80 Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

An ordinary resolution must be passed by votes representing more than one-half of the voting rights represented by the shareholders (including their proxy) present at the meeting.

A special resolution must be passed by votes representing more than two-thirds of the voting rights represented by the shareholders (including their proxy) present at the meeting. The shareholders (including their proxy) attending the meeting shall clearly show approval or objection to every matter to be voted on. As for the unpolled vote or abstention, the Company will not treat it as the vote with voting right when calculating the voting result of this matter.

Article 81 The following matters shall be resolved by an ordinary resolution at a shareholders' general meeting:

- (1) work reports of the board of directors and the supervisory committee;
- (2) profit distribution plans and loss recovery plans formulated by the board of directors;
- (3) removal of members of the board of directors and members of the supervisory committee who are shareholders' representatives, their remuneration and manner of payment and their liability insurance;
- (4) annual preliminary and final budgets, balance sheets and profit and loss accounts and other financial statements of the Company;
- (5) matters other than those which are required by the

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laws and administrative regulations or by the Company's Articles of Association to be adopted by special resolution.

- Article 82 The following matters shall be resolved by a special resolution at a shareholders' general meeting:
- (1) the increase or reduction in share capital and the issue of shares of any class, warrants and other similar securities;
  - (2) the issue of debentures of the Company;
  - (3) the division, merger, dissolution and liquidation of the Company;
  - (4) amendment of the Company's Articles of Association;
  - (5) repurchase of the Company's shares;
  - (6) any other matters considered by the shareholders in general meeting, and resolved by way of an ordinary resolution, to be of a nature which may have a material impact on the Company and should be adopted by special resolutions.
- Article 83 The chairman of the meeting shall be responsible for determining whether a resolution has been passed. His decision, which shall be final and conclusive, shall be announced at the meeting and recorded in the minutes.
- Article 84 If the chairman of the meeting has any doubt as to the result of a resolution which has been put to vote at a shareholders' meeting, he may have the votes counted. If the chairman of the meeting has not counted the votes, any shareholder who is present in person or by proxy and who objects to the result announced by the chairman of the meeting may, immediately after the declaration of the result, demand that the votes be counted and the chairman of the meeting shall have the votes counted immediately.
- Article 85 If votes are counted at a shareholders' general meeting, the result of the count shall be recorded in the minutes.
- Article 86 Records of Meetings shall be prepared for shareholders' general meetings and signed by attending directors and the recording person. If there is no director attending in the general meeting, the records of meeting shall be signed by the shareholder or proxy of shareholder chairing the meeting and the recording person. The contents and form of the records of meeting shall comply with the requirements of the Rules and Procedures for the Shareholders' General Meetings.
- The minutes of meeting shall be prepared for all resolutions adopted at shareholders' general meetings. The records and minutes of the meeting shall be made in Chinese. The minutes, together with the shareholders' attendance lists and proxy forms shall be treated as a Company file and kept by the secretary of the board of directors at the Company's place of residence.
- Article 87 Copies of the minutes of proceedings of any shareholders' meeting shall, during business hours of the Company, be open for

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inspection by any shareholder without charge. If a shareholder requests for a copy of such minutes from the Company, the Company shall send a copy of such minutes to him within seven (7) days after receipt of reasonable fees therefor.

### CHAPTER 9 SPECIAL PROCEDURES FOR VOTING BY A CLASS OF SHAREHOLDERS

- Article 88 Those shareholders who hold different classes of shares are class shareholders.
- Class shareholders shall enjoy rights and assume obligations in accordance with laws, administrative regulations and the Company's Articles of Association.
- Article 89 Rights conferred on any class of shareholders ("class rights") may not be varied or abrogated save with the approval of a special resolution of shareholders in a general meeting and by holders of shares of that class at a separate meeting conducted in accordance with Articles 91 to 95 hereof.
- Article 90 The following circumstances shall be deemed to be variation or abrogation of the rights attaching to a particular class of shares:
- (1) to increase or decrease the number of shares of that class, or to increase or decrease the number of shares of a class having voting or equity rights or privileges distribution or superior to those of shares of that class;
  - (2) to exchange all or part of the shares of that class for shares of another class or to exchange or to create a right to exchange all or part of the shares of another class for shares of that class;
  - (3) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to shares of that class;
  - (4) to reduce or remove preferential rights attached to shares of that class to receive dividends or to the distribution of assets in the event that the Company is liquidated;
  - (5) to add, remove or reduce conversion privileges, options, voting rights, transfer or pre-emptive rights, or rights to acquire securities of the Company attached to shares of that class;
  - (6) to remove or reduce rights to receive payment payable by the Company in specific currencies attached to shares of that class;
  - (7) to create a new class of shares having voting or distribution rights or privileges equal or superior to those of the shares of that class;
  - (8) to restrict the transfer or ownership of shares of that class or to increase the types of restrictions attaching thereto;
  - (9) to issue rights to subscribe for, or to convert the

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existing shares into, shares in the Company of that class or another class;

- (10) to increase the rights or privileges of shares of another class;
- (11) to restructure the Company in such a way so as to result in the disproportionate distribution of obligations between the various classes of shareholders;
- (12) to vary or abrogate the provisions of this Chapter.

Article 91 Affected class shareholders, whether or not otherwise having the right to vote at shareholders' general meetings, have the right to vote at class meetings in respect of matters concerning sub-paragraphs (2) to (8), (11) and (12) of Article 90 hereof, but interested shareholder(s) shall not be entitled to vote at such class meetings.

"(An) interested shareholder(s)", as such term is used in the preceding paragraph, means:

- (1) in the case of a repurchase of shares by way of a general offer to all shareholders of the Company or by way of public dealing on a stock exchange pursuant to Article 29 hereof, an interested shareholder is a "controlling shareholder" within the meaning of Article 56 hereof;
- (2) in the case of a repurchase of shares by an off-market agreement pursuant to Article 29 hereof, a holder of the shares to which the proposed agreement relates;
- (3) in the case of a restructuring of the Company, a shareholder who assumes a relatively lower proportion of obligation than the obligations imposed on shareholders of that class under the proposed restructuring or who has an interest in the proposed restructuring different from the general interests of the shareholders of that class.

Article 92 Resolutions of a class of shareholders shall be passed by votes representing more than two-thirds of the voting rights of shareholders of that class represented at the relevant meeting who, according to Article 91, are entitled to vote thereat.

Article 93 A written notice of a class meeting shall be given to all shareholders who are registered as holders of that class in the register of shareholders forty-five (45) days before the date of the class meeting (not including the date of meeting). Such notice shall give such shareholders notice of the matters to be considered at such meeting, the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply in respect thereof to the Company twenty (20) days before the date of the class meeting.

If the shareholders who intend to attend such class meeting represent more than half of the total number of shares of that class which have the right to vote at such meeting, the Company may hold the class meeting; if not, the Company shall within five (5) days give the shareholders further notice of the

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matters to be considered, the date and the place of the class meeting by way of public announcement. The Company may then hold the class meeting after such public announcement has been made.

Article 94 Notice of class meetings need only be served on shareholders entitled to vote thereat.

Class meetings shall be conducted in a manner which is as similar as possible to that of shareholders' general meetings. The provisions of the Company's Articles of Association relating to the manner for the conduct of shareholders' general meetings are also applicable to class meetings.

Article 95 Apart from the holders of other classes of shares, the holders of the Domestic-Invested Shares and holders of Overseas-Listed Foreign-Invested Shares shall be deemed to be holders of different classes of shares. The special procedures for approval by a class of shareholders shall not apply in the following circumstances:

- (1) where the Company issues, upon the approval by special resolution of its shareholders in a general meeting, either separately or concurrently once every twelve (12) months, not more than 20% of each of its existing issued Domestic-Invested Shares and Overseas-Listed Foreign-Invested Shares; or
- (2) where the Company's plan to issue Domestic-Invested Shares and Overseas-Listed Foreign-Invested Shares at the time of its establishment is carried out within fifteen (15) months from the date of approval of the securities regulatory organ of the State Council.

### CHAPTER 10 BOARD OF DIRECTORS

Article 96 The Company shall have a board of directors which is accountable to shareholders.

The Company shall draw up Rules and Procedures for the Board of Directors' Meetings for implementation after being approved by the shareholders in a general meeting. The Rules and Procedures for the Board of Directors' Meetings shall include the following items:

- (1) functions and powers and authorizations of the board of directors;
- (2) establishment of the board of directors and its subordinated offices;
- (3) secretary of the board of directors;
- (4) discussion system of a board meeting;
- (5) discussion procedures of a board meeting;
- (6) disclosure of information of a board meeting;
- (7) implementation and feedback of resolutions of a board meeting;
- (8) other matters deemed necessary by the shareholders'

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general meeting.

The Rules and Procedures for the Board of Directors' Meetings is an integral part of and shall have the same legal effect as these Articles of Association.

Article 97 The board of directors shall consist of thirteen (13) directors and there shall be one (1) Chairman and one (1) Vice-chairman.

Article 98 Directors of the Company shall be natural persons and they are not required to hold any shares in the Company.

Directors shall be elected at the shareholders' general meeting each for a term of three (3) years. The term of office of a director shall be calculated from the date of the passing of the resolution approving the appointment of such director at the shareholders' general meeting until the expiry of the term of the present session of the board of directors. At the expiry of the term of office of a director, the term is renewable upon re-election. A director may not be removed by the shareholders in a general meeting without any reason before his term of office expires. The term of office of any independent director may not be renewed for more than 6 years.

Article 99 The list of candidates for directors shall be submitted to the shareholders' general meeting in the form of motion for approval.

Candidates other than those for independent directors shall be nominated by the board of directors, the supervisory committee or shareholders who individually or jointly hold 5% or more of the Company's voting shares and be elected by the shareholders in a general meeting.

Candidates for independent directors of the Company shall be nominated by the Company's board of directors, the supervisory committee or shareholders who individually or jointly hold 1% or more of the Company's voting shares and be elected by the shareholders in a general meeting.

Article 100 Independent directors shall be elected in the following manner:

- (1) the nominator of a candidate for independent director shall seek the consent of the nominee, find out the occupation, academic qualification, rank and detailed working experience including all part-time jobs of the nominee and provide written proofs of the same to the Company before making the nomination. The candidate shall give a written undertaking to the Company agreeing to be nominated, undertaking the truthfulness and completeness of his particulars disclosed and guaranteeing the performance of a director's duties after being elected.
- (2) the nominator of an independent director shall give opinion on the qualification and independence of the nominee to act as an independent director. The nominee shall make an open announcement as to the absence of any relation between the Company and him which would affect his independent and objective judgment.
- (3) if the nomination of candidates for independent

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directors is made before the Company's convening of a board meeting, the written proofs of the nominee referred to in sub-paragraphs (1) and (2) above shall be disclosed together with the board resolution.

- (4) if the shareholders who individually or jointly hold 5% or more of the Company's voting shares or the supervisory committee puts forward a provisional motion in a general meeting of the Company according to law for election of independent directors, a written notice stating their intention to nominate a candidate for directors and the nominee's consent to be nominated together with the written proofs and undertaking of the nominee referred to in sub-paragraphs (1) and (2) above shall be delivered to the Company not less than seven (7) days before the general meeting, and the period granted by the Company for lodging the above notice and documents by the relevant nominator (such period shall commence from the date after the issue of the notice of the general meeting) shall not be less than seven (7) days
- (5) before the shareholders' general meeting for election of independent directors is convened, the Company shall submit the relevant information of all nominees to the securities regulatory authority of the State Council, the organ appointed by the securities regulatory authority of the State Council in the place of residence of the Company and the stock exchange on which the Company's shares are listed. The written opinions of the board of directors shall also be submitted in case the Company's board has any dispute as to the particulars of the nominee. If the securities regulatory authority of the State Council opposes to the nomination of any nominee, this nominee may not be included as a candidate for independent directors. In convening a general meeting to elect independent directors, the Company's board shall specify if the securities regulatory authority of the State Council has any dispute as to the candidates for independent directors.

Article 101 Non-independent directors shall be elected in the following manner:

- (1) the nominator of a candidate for non-independent director shall seek the consent of the nominee, find out the occupation, academic qualification, rank and detailed working experience including all part-time jobs of the nominee and provide written proofs of the same to the Company before making the nomination. The candidate shall give a written undertaking to the Company agreeing to be nominated, undertaking the truthfulness and completeness of his particulars disclosed and guaranteeing the performance of a director's duties after being elected.
- (2) if the nomination of candidates for non-independent directors is made before the Company's convening of a board meeting, the written proofs of the nominee referred to in sub-paragraph (1) above shall be disclosed together with the board resolution.

- (3) if the shareholders who individually or jointly hold 5% or more of the Company's voting shares or the supervisory committee puts forward a provisional motion in a general meeting of the Company according to law for election of non-independent directors, a written notice stating their intention to nominate a candidate for directors and the nominee's consent to be nominated together with the written proofs and undertaking of the nominee referred to in sub-paragraph (1) above shall be delivered to the Company not less than seven (7) days before the general meeting, and the period granted by the Company for lodging the above notice and documents by the relevant nominator (such period shall commence from the date after the issue of the notice of the general meeting) shall not be less than seven (7) days".

Article 102 The following basic requirements shall be met in order to be an independent director:

- (1) qualified to be a director of a listed company under the laws, administrative regulations and other relevant provisions;
- (2) has the independence required by these Articles of Association;
- (3) has basic knowledge of the operation of a listed company, familiar with the relevant laws, administrative rules, regulations and rules;
- (4) has 5 years or more of legal or financial experience or other experience in performing the duties of an independent director;
- (5) other requirements stipulated in these Articles of Association.

Article 103 If the controlling shareholders of the Company control 30% or more of the Company's shares, the accumulative voting system shall be adopted when voting on the election of directors in a shareholders' general meeting, that is, in electing two or more directors in a shareholders' general meeting, the number of votes attached to each share held by a participating shareholder shall be equal to the number of candidates, in which case the shareholder may cast his votes for one candidate or for several candidates. Please refer to the Rules and Procedures for the Shareholders' General Meetings for details of implementation of the accumulative voting system.

Article 104 Provided that the relevant laws and administrative rules are observed, a director whose term of office has not yet been expired may be removed in a general meeting by way of ordinary resolution (but the right to lodge a claim under a contract is not affected).

If a director has failed to attend a board meeting personally nor appoint a proxy to attend on his behalf on two consecutive occasions, it shall be treated as a failure to discharge his duties. The board of directors shall propose in a shareholders' general meeting to remove and replace this director.



If an independent director has failed to attend a board meeting personally on three consecutive occasions, the board of directors shall propose in a shareholders' general meeting to remove and replace this director. Unless in the above circumstances and in circumstances as provided in the Company Law where a person is prohibited from acting as a director, no independent director may be removed before his term of office expires. In case of early removal, the Company shall disclose it by way of special disclosure. If the removed independent director considers that he is removed by the Company improperly, he may make an open declaration.

Article 105 A director may resign before his term of office expires. In resigning his duties, a director shall tender a resignation to the board in writing and in the case of an independent director, he shall also specify any matter which is related to his resignation or which he considers necessary to bring to the attention of the Company's shareholders and creditors.

Article 106 If the resignation of a director causes the board members of the Company to fall below the minimum number of members to form a quorum, the resignation of this director shall be effective only after the succeeding director has filled his vacancy. The board shall call an EGM as soon as possible to elect a director to fill the vacancy caused by his resignation. Before a resolution is made in a shareholders' general meeting in relation to the election of directors, the functions and powers of this resigning director and other remaining directors shall be subject to reasonable restrictions.

If the resignation of an independent director causes the proportion of independent directors in the board of the Company to fall below the minimum requirements of the relevant regulatory authorities, the resignation of this independent director shall be effective only after the succeeding independent director has filled his vacancy.

Article 107 The board of directors shall exercise the following functions and powers:

- (1) to be responsible for the convening of the shareholders' general meeting and to report on its work to the shareholders in general meetings;
- (2) to implement the resolutions passed by the shareholders in general meetings;
- (3) to determine the Company's business plans and investment proposals;
- (4) to formulate the Company's annual preliminary and final financial budgets;
- (5) to formulate the Company's profit distribution proposal and loss recovery proposal;
- (6) to formulate proposals for the credit and financial policies of the Company, the increase or reduction of the Company's registered capital and for the issue of any kind of securities of the Company's (including but without limitation to the Company's debentures) and

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- proposals for listing and repurchase of the Company's shares;
- (7) to draw up plans for significant acquisition or disposal proposals, the merger, division or dissolution of the Company;
  - (8) to determine the risks investments of the Company according to the authority given in the shareholders' general meeting;
  - (9) to determine external guarantees (including pledging of assets) of the Company according to the authority given in the shareholder's general meeting
  - (10) to decide on the Company's internal management structure;
  - (11) to appoint or remove the Company's president and to appoint or remove the vice-president and Chief Financial Officer of the Company according to the recommendations of the president; to appoint or remove the secretary of the board of directors and to decide on their remuneration;
  - (12) to appoint or replace the members of the board of directors and the supervisory committee of its wholly-owned subsidiary, appoint, replace or recommend the shareholders' proxies, directors (candidates) and supervisors (candidates) of its subsidiary(ies) which are controlled or invested by the Company.
  - (13) to determine the establishment of Company's branch offices;
  - (14) to formulate proposals for any amendment of the Company's Articles of Association and its appendices;
  - (15) to formulate the Company's basic management system;
  - (16) to manage the disclosure of information of the Company;
  - (17) to propose in a shareholders' general meeting to engage or replace the accounting firm which undertakes auditing work of the Company;
  - (18) to listen to the president's work report and check the president's work;
  - (19) to determine important matters and administrative matters of the Company other than those which should be determined by resolution of a shareholders' general meeting of the Company except for the matters as specified by law, administrative rules, regulations of the competent department(s) and these Articles of Association, and to sign other important agreements;
  - (20) to exercise any other powers stipulated by laws, administrative rules, regulations of the competent department(s) or these Articles of Association and conferred by the shareholders in a general meeting.

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Other than the board of directors' resolutions in respect of the matters specified in sub-paragraphs (6), (7), (9) and (14) of this Article which shall be passed by the affirmative vote of more than two-thirds of all the directors, the board of directors' resolutions in respect of all other matters may be passed by the affirmative vote of a simple majority of the directors.

Article 108 The above functions and powers of board meetings may be authorized to one or more directors upon the agreement of all directors, but matters concerning material interests of the Company shall be determined by the board collectively. The authorization of the board shall be clear and specific.

Article 109 An independent director shall have the following special functions and powers in addition to those conferred by the Company Law, other relevant laws, administrative rules and these Articles of Association:

- (1) material connected transactions (determined according to the standards issued from time to time by the relevant regulatory authorities in the place where the Company's shares are listed) which should be approved by the board of directors or the shareholders' general meeting according to law shall, upon the recognition of independent directors, be submitted to the board of directors for discussion. Any resolution made by the board of directors regarding the Company's connected transactions must only be effective after it has been signed by the independent directors. The independent directors may, before making a judgment, engage an intermediary to issue an independent financial report for them to rely upon in making the judgment;
- (2) to propose to the board of directors to engage or remove an accounting firm;
- (3) two or more than one-half of the independent directors may propose to the board of directors to convene an EGM;
- (4) to propose the calling of a board meeting;
- (5) to engage an external auditing or advisory organ independently;
- (6) to collect voting rights from shareholders prior to the convening of a shareholders' general meeting;
- (7) to report directly to the shareholders' general meetings, securities regulatory organ under the State Council and other relevant departments.

The independent directors shall seek the consent of more than half of the independent directors in exercising their functions and powers other than sub-paragraphs (1) and (3) above.

If the above proposal is not accepted or the above functions and powers are not exercised properly, the Company shall disclose the same.

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Article 110 When the board of directors make the decisions in respect of market development, mergers and acquisitions and the investment in new areas etc., in case the investment amount or the asset value thus merged and acquired exceeds more than 10 (ten) percent of total assets of the Company, the board of directors shall invite the consulting organizations for their professional opinions, these opinions shall serve as the important basis for decision-making by the board of directors.

The board of directors shall lay down strict procedures to inspect and decide on risks investments. For major investment projects in excess of the approval limit of the board of directors, the board of directors shall organize the relevant experts and professional officers to conduct assessment for approval of the shareholders in a general meeting. Matters regarding risks investments have been provided explicitly in the Rules and Procedures for the Board of Directors' Meetings.

Article 111 The Chairman and the Vice-Chairman shall be directors of the Company and be appointed and removed by affirmative vote of a simple majority of all directors. The term of office of the Chairman or the Vice-Chairman shall be three (3) years which term is renewable upon re-election.

Article 112 The Chairman of the board of directors shall exercise the following functions and powers:

- (1) to preside over shareholders' general meetings and to convene and preside over meetings of the board of directors;
- (2) to co-ordinate and perform the responsibilities of the board of directors and review on the implementation of resolutions passed by the board of directors at directors' meetings;
- (3) to sign the certificates of shares, debentures and other valuable securities issued by the Company;
- (4) to sign important documents of the board and other documents which should be signed by the Company's legal representative;
- (5) to exercise the functions and powers of a legal representative;
- (6) where it is lawful and in the interest of the Company, to exercise the special right to deal with the Company's affairs during emergency such as the occurrence of natural disasters, and to report to the Company's board of directors and general meetings thereafter;
- (7) to exercise other powers conferred by the board of directors.

Whenever the Chairman is unable to exercise his powers, such powers shall be exercised by the Vice-Chairman or other directors who have been designated by the Chairman to exercise such powers on his behalf.

Article 113 Board meetings shall be convened regularly at least four times

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a year. An EGM shall be called for on occurrence of any of the events set out in the Rules and Procedures for the Board of Directors' Meetings.

In convening a regular board meeting or an EGM, a notice shall be given to all directors 10 days before the meeting. The calling for a board meeting, and the contents and form of a notice of meeting shall comply with the requirements of the Rules and Procedures for the Board of Directors' Meetings.

Article 114 Meetings of the board of directors shall be held only if more than half of the directors (including any alternate director appointed) are present. Each director shall have one (1) vote. Where there is an equality of votes cast both for and against a resolution, the Chairman of the board of directors shall have an additional vote.

Article 115 Directors shall attend the meetings of the board of directors in person. Where a director is unable to attend a meeting for any reason, he may by a written power of attorney appoint another director to attend the meeting on his behalf. The power of attorney shall set out the scope of authorization.

A director appointed as a representative of another director to attend the meeting shall exercise the rights of a director within the scope of authority conferred by the appointing director. Where a director is unable to attend a meeting of the board of directors and has not appointed a representative to attend the meeting on his behalf, he shall be deemed to have waived his right to vote at the meeting.

All expenses incurred by the directors for attending the board meeting shall be borne by the Company, including the traffic expense from the place where the director is located to the place where the meeting is convened, as well as the board and lodging expenses during the term of meeting. The miscellaneous expenses such as the rental of meeting room and the local traffic expenses etc. shall also be borne by the Company.

Article 116 The board of directors may accept the preparation of a written resolution instead of convening a board meeting provided that the contents and form of the written resolution are in compliance with the Rules and Procedures for the Board of Directors' Meetings.

Article 117 Matters determined in a board meeting shall be recorded in Chinese in the form of Records of Meeting. The contents and form of Records of Board Meetings shall comply with the Rules and Procedures for the Board of Directors' Meetings.

Article 118 If a written motion of a board meeting is not prepared in accordance with the stipulated procedures, it will not have the effect of a board resolution even if each director has expressed his view thereto. Directors shall be liable for board resolutions. If a board resolution is against the law, administrative rules or these Articles of Association and thus causes the Company to suffer any loss, the directors who cast an affirmative vote for the motion shall assume direct liability (including the liability to compensate); directors who are proved to have cast a dissenting vote against the motion during the voting as recorded in the records of meeting shall be exempted from liability; directors who abstained from

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voting or failed to attend nor appoint a proxy to attend the board meeting shall not be exempted from liability; and directors who opposed to the motion but did not cast a dissenting vote against it in the voting shall not be exempted from liability either.

### CHAPTER 11 SECRETARY OF THE BOARD OF DIRECTORS

Article 119 The Company shall have one (1) secretary of the board of directors. The secretary shall be a senior officer of the Company accountable to the Company. The Company shall formulate regulations in relation to the work of the Secretary of the Board to promote the management of the Company and make provisions for disclosure of information and investor relations.

The board of directors may establish its secretarial department when necessary.

Article 120 A director or the president, vice-president, Chief Financial Officer of the Company may concurrently act as the secretary of the Company's board of directors. No accountant of the accounting firm or solicitor of the solicitors' firm engaged by the Company may concurrently act as the secretary of the Company's board of directors.

The secretary of the Company's board of directors shall be a natural person who has the requisite professional knowledge and experience, and shall be nominated by the Chairman of the Board and appointed or removed by the board of directors. In the case of a director acting concurrently as the secretary of the board, if an act has to be performed by a director and the secretary of the board respectively, this director acting concurrently as the secretary of the board may not act in both identities.

Article 121 The main duties of the secretary of the board of directors include:

- (1) to assist directors to deal with the daily matters of the board of directors, continuously provide, remind and ensure directors and the president, etc. to be well informed of the laws, regulations, policies and requirements of both domestic and overseas regulatory organizations concerning the operation of the Company, and assist directors and managers to practically implement the domestic and foreign laws, regulations, Company's Articles of Association and other regulations when performing their duties and powers;
- (2) to be responsible for the organization and preparation of the documents of the board of directors and shareholders' general meeting, well prepare the meeting record work, ensure the meeting policies in conformity with the legal procedures, and to keep abreast of the execution of the resolutions of the board of directors;
- (3) to be responsible for the organization and coordination of information disclosure, to ensure of a timely, accurate, lawful, true and complete disclosure of information, coordination of the relationship with

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the investors, and enhancement of the transparency of the Company;

- (4) to participate in and organize the financing in capital market;
- (5) to deal with the relationships with the intermediary organs, regulatory authorities and the media, and maintain a good public relationship.

Article 122 The secretary of the board of directors shall discharge his duties diligently according to these Articles of Association.

The secretary of the board of directors shall assist the Company to comply with the relevant PRC law and regulations of the securities regulatory organ of the place where the Company's shares are listed.

### CHAPTER 12 PRESIDENT

Article 123 The Company shall have a president who is accountable to the board of directors. The president shall be nominated by the Chairman of the board of directors and appointed or removed by the board of directors.

The Company shall have several vice-presidents, and one Chief Financial Officer who shall assist the president in work. The vice-presidents and the Chief Financial Officer shall be nominated by the president and appointed or removed by the board of directors.

A director may also be engaged to act concurrently as the president, vice-president, Chief Financial Officer or secretary of the board of directors, but the number of directors acting concurrently as the president, vice-president, Chief Financial Officer or secretary of the board of directors may not exceed one-half of the total number of directors of the Company.

Article 124 The president shall exercise the following duties and powers:

- (1) to be in charge of the Company's production, operation and management, to co-ordinate the implementation of the resolutions of the board of directors and to report his work to the board of directors;
- (2) to organize the implementation of the Company's annual business plan and investment proposal;
- (3) to draft plans for the establishment of the Company's internal management structure;
- (4) to draft plans for the establishment of the branch company of the Company;
- (5) to draft the Company's basic management system;
- (6) to formulate specific rules and regulations for the Company;
- (7) to propose the appointment or dismissal of the Company's vice-president(s) and Chief Financial Officer;

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- (8) to appoint or dismiss management personnel other than those required to be appointed or dismissed by the board of directors;
- (9) to determine the wages, fringe benefits, rewards and punishments of the Company's staff, to determine the appointment and dismissal of the Company's staff;
- (10) to propose the convening of extraordinary meetings of directors;
- (11) other powers conferred by the Company's Articles of Association and the board of directors.

Article 125 The president or vice-president who is not a director shall have the right to attend board meetings and to receive notices of meetings and other relevant documents but does not have any voting rights at board meetings.

Article 126 The president shall at the request of the board of directors or the supervisory committee make report of the signing and performance of major contracts, use of funds and profit and loss of the Company. The president must ensure the truthfulness of the report.

Article 127 The president shall seek the opinions of the staff members in determining matters which are closely related to staff members such as the wages, fringe benefits, safe production and work, labour insurance, dismissal (or discharge) of staff members of the Company.

Article 128 The president shall draw up "Work Regulations for the President" for implementation upon the approval of the board of directors.

The Work Regulations for the President shall include:

- (1) requirements and procedures for the convening of a presidents' meeting and the officers attending;
- (2) the president, vice-presidents and Chief Financial Officer shall divide their duties among themselves and perform their own duties;
- (3) use of the Company's funds and assets, authority to sign major contracts and the system to report to the board of directors and to the supervisory committee at the request of the supervisory committee;
- (4) other matters as the board of directors may consider necessary.

Article 129 In performing their functions and powers, the president, vice-presidents and the Chief Financial Officer shall act honestly and diligently and in accordance with laws, administrative regulations and these Articles of Association. They may not alter the resolutions of a shareholders' general meeting or of a board meeting nor act ultra vires.

Article 130 In retiring from their office, the president, vice-president or Chief Financial Officer shall, as required by the relevant



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labour contract between the above personnel and the Company, give prior notice to the Company and shall adhere to the relevant procedures and methods of resignation provided in the labour contract.

### CHAPTER 13 SUPERVISORY COMMITTEE

Article 131 The Company shall have a supervisory committee which is accountable to the shareholders' general meetings.

The Company shall draw up "Rules and Procedures for the Supervisors' Meetings" for implementation upon being approved by the shareholders in a general meeting. The Rules and Procedures for the Supervisors' Meetings shall include the followings:

- (1) the formation and business system of the supervisory committee;
- (2) the functions and powers of the supervisory committee;
- (3) the system of discussion of the supervisors' meetings;
- (4) the procedures of discussion of the supervisory committee;
- (5) the disclosure of information of the supervisors' meetings;
- (6) implementation and feedback of resolutions of the supervisory committee;
- (7) other matters as the shareholders' general meetings may consider necessary.

The Rules and Procedures for the Supervisors' Meetings shall be an integral part of and have the same legal effect as these Articles of Association.

Article 132 The supervisory committee shall compose of twelve (12) supervisors. Of which, eight (8) of them shall be shareholder representatives (including those who are eligible to be external supervisors); four (4) of them shall be representatives of workers and staff of the Company.

Each supervisor shall serve for a term of three (3) years, which term is renewable upon re-election and re-appointment.

The supervisory committee shall have one (1) Chairman who shall be a supervisor. The election or removal of the Chairman of the supervisory committee shall be determined by two-thirds or more of the members of the supervisory committee.

The Chairman of the supervisory committee shall co-ordinate and exercise the duties and powers of the supervisory committee.

Article 133 If necessary, the supervisory committee may establish its offices responsible for daily affairs of the supervisory committee.

Article 134 A director, president, vice-president or Chief Financial Officer may not act concurrently as a supervisor.

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Article 135 The list of candidates for the supervisors who are shareholder representatives shall be submitted to the shareholders' general meeting in the form of motion for approval.

Amongst the candidates for supervisors who are shareholder representatives, candidates other than those for independent supervisors shall be nominated by the Company's board of directors, the supervisory committee or shareholders who individually or jointly hold 5% or more of the Company's voting shares and be elected by the shareholders in a general meeting.

Amongst the candidates for supervisors who are shareholder representative, candidates for independent supervisors shall be nominated by the Company's board of directors, the supervisory committee or shareholders who individually or jointly hold 1% or more of the Company's voting shares and be elected by the shareholders in a general meeting.

Article 136 Independent directors shall be elected in the following manner:

- (1) the nominator of a candidate for supervisor who is a shareholder representative shall seek the consent of the nominee, find out the occupation, academic qualification, rank and detailed working experience including all part-time jobs of the nominee and provide written proofs of the same to the Company before making the nomination. The candidate shall give a written undertaking to the Company agreeing to be nominated, undertaking the truthfulness and completeness of his particulars disclosed and guaranteeing the performance of a director's duties after being elected.
- (2) If the nomination of a candidate for supervisor who is a shareholder representative is made before the Company's convening of a board meeting, the written proofs of the nominee referred to in sub-paragraphs (1) above shall be disclosed together with the board resolution.
- (3) If the shareholders who individually or jointly hold 5% or more of the Company's voting shares or the supervisory committee puts forward a provisional motion in an AGM of the Company for election of a supervisor who is a shareholder representative, a written notice stating their intention to nominate a candidate for a supervisor and the nominee's consent to be nominated together with the written proofs and undertaking of the nominee referred to in sub-paragraph (1) above shall be delivered to the Company seven (7) days before the AGM.

Article 137 Any supervisor who fails to attend a supervisors' meeting personally on two consecutive occasions shall be treated as a failure to discharge his duties. In that case he shall be removed and replaced in a shareholders' general meeting or staff representatives' meeting.

A supervisor may resign before his term expires and Chapter 10 hereof regarding resignation of directors shall also be applicable to supervisors.

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Article 138 Supervisors' meetings shall be convened regularly at least four times a year. An extraordinary supervisors' meeting shall be convened on occurrence of any of the events specified in the Rules and Procedures for the Supervisors' Meetings.

A 10 days' prior notice shall be given to all supervisors for the convening of a regular or extraordinary supervisors' meeting. The convening of a supervisors' meeting and the contents and form of the notice of meeting shall comply with the Rules and Procedures for the Supervisors' Meetings.

Article 139 The supervisory committee shall exercise the following functions and powers in accordance with law:

- (1) to review the Company's financial position; to appoint another accounting firm in the name of the Company to review the Company's financial condition independently;
- (2) to supervise the directors, president, vice-presidents, Chief Financial Officer and secretary of the board to ensure that they do not act in contravention of any law, regulation or these Articles of Association;
- (3) to demand the directors, president, vice-presidents, Chief Financial Officer or secretary of the board to rectify their error or even to report it in a shareholders' general meeting or to the competent State organ if they have acted in a harmful manner to the Company's interest;
- (4) to check and inspect the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the board of directors to the shareholders' general meetings and to authorize, in the Company's name, publicly certified and practicing accountants to assist in the review on such information should any doubt arise in respect thereof;
- (5) to make recommendations of accounting firms for engagement by the Company;
- (6) to make provisional motions in an AGM;
- (7) to propose to convene an EGM;
- (8) to propose to convene an extraordinary board meeting;
- (9) to represent the Company in negotiations with or in bringing actions against a director;
- (10) other duties and powers as may be specified by law, administrative rules, regulations of the competent department and these Articles of Association and conferred by the general meeting.

Supervisors shall attend meetings of the board of directors.

Article 140 The supervisory committee may require the directors, president,

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vice-president, Chief Financial Officer, secretary of the board of directors of the Company, internal and external auditors to attend supervisors' meetings and answer any question that the supervisory committee may have regarding matter it cares about.

Article 141 Resolutions of the supervisory committee shall be passed by the affirmative vote of more than two-thirds of all of its members.

Article 142 Records shall be made for all supervisors' meetings and be signed by all attending supervisors and the recording person. Supervisors shall have the right to ask for the making of a descriptive record of what he speaks in the meeting. Records of supervisors' meetings shall be treated as the Company's files and kept permanently in the business system of the supervisory committee.

Article 143 All reasonable fees incurred in respect of the employment of professionals (such as, lawyers, certified public accountants or practicing auditors) which are required by the supervisory committee in the exercise of its functions and powers shall be borne by the Company.

Article 144 A supervisor shall carry out his duties faithfully and bona fide in accordance with laws, administrative regulations and the Company's Articles of Association.

CHAPTER 14 QUALIFICATIONS AND OBLIGATIONS OF THE DIRECTORS, SUPERVISORS, PRESIDENT, VICE-PRESIDENT, CHIEF FINANCIAL OFFICER AND SECRETARY OF THE BOARD OF DIRECTORS OF THE COMPANY

Article 145 A person may not serve as a director, supervisor, president, vice-president, Chief Financial Officer and secretary of the board of directors of the Company if any of the following circumstances apply:

- (1) a person who does not have or who has limited capacity for civil conduct;
- (2) a person who has been found guilty of for corruption, bribery, infringement of property or misappropriation of property or other crimes which destroy the social economic order, and the sentence is enforced for less than five (5) years or a person who has been deprived of his political rights and not more than five (5) years have lapsed since the sentence was served;
- (3) a person who is a former director, factory manager or president of a company or enterprise which has been dissolved or put into liquidation as a result of mismanagement and who was personally liable for the winding up of such company or enterprise, where less than three (3) years have elapsed since the date of completion of the insolvent liquidation of the company or enterprise;
- (4) a person who is a former legal representative of a company or enterprise the business licence of which was revoked due to violation of law and who are personally liable therefor, where less than three (3) years have elapsed since the date of the cancellation of the business licence;

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- (5) a person who has a relatively large amount of debts which have become due and outstanding;
- (6) a government servant of the country;
- (7) a person who is currently under investigation by the judicial authorities for violation of criminal law;
- (8) a person who, according to laws and administrative regulations, cannot act as a leader of an enterprise;
- (9) a person other than a natural person;
- (10) a person who has been adjudged by the competent authority for violation of relevant securities regulations and such conviction involves a finding that such person has acted fraudulently or dishonestly, where not more than five (5) years have lapsed from the date of such conviction;
- (11) a person who has been prohibited by the securities regulatory authority of the State Council to participate in market activities and the prohibition has still not been uplifted.

Article 146 The chairman, vice-chairman and directors of the Company's controlling shareholder acting concurrently as the chairman, vice-chairman or director of the Company may not exceed two in number. Managers of the Company's controlling shareholder may not act concurrently as the Company's president, vice-president, Chief Financial Officer, sales supervisor or secretary of the board.

Article 147 The following people may not act as an independent director of the Company:

- (1) persons employed by the Company or its subsidiaries and their immediate family members and major social connections (immediate family members shall mean spouse, parents and issues, etc. and major social connections shall mean siblings, parents-in-law, sons/daughters-in-law, spouse of siblings, siblings of spouse, etc.);
- (2) natural person shareholders who directly or indirectly hold 1% or more of the Company's issued shares or who are top ten shareholders and their immediate family members;
- (3) persons employed by the shareholder company which directly or indirectly holds 1% or more of the Company's issued shares or by the top five shareholder companies of the Company and their immediate family members;
- (4) persons who once belonged to categories (1) to (3) above in the past 3 years;
- (5) persons who provide financial or legal advice to the Company or its subsidiaries;

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- (6) any independent director who is already the director of five listed companies;
- (7) other persons determined by the securities regulatory authority of the State Counsel.

Article 148 The validity of an act carried out by a director, a supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors of the Company on its behalf shall, as against a bona fide third party, not be affected by any irregularity in his office, election or any defect in his qualification.

Article 149 Without the lawful authorization of these Articles of Association or the board of directors, a director of the Company may not act personally on behalf of the Company or the board of directors. If he acts personally, he shall declare his own position and identity in advance where the acting would cause a third party to believe reasonably that he is acting on behalf of the Company or the board of directors.

Article 150 In addition to the obligations imposed by laws, administrative regulations or the listing rules of the stock exchange on which shares of the Company are listed, each of the Company's directors, supervisors, president, vice-president, Chief Financial Officer and secretary of the board of directors owes a duty to each shareholder, in the exercise of the duties and powers of the Company entrusted to him:

- (1) not to procure the Company to do anything ultra vires to the scope of business as stipulated in its business licence;
- (2) to act honestly and in the best interests of the Company;
- (3) not to expropriate the Company's property in any way, including (without limitation to) usurpation of opportunities which may benefit the Company;
- (4) not to deprive of the individual interest of shareholders, including (without limitation to) rights to distribution and voting rights, save and except pursuant to a restructuring of the Company which has been submitted to the shareholders in general meeting for approval in accordance with the Company's Articles of Association.

Article 151 Each of the Company's directors, supervisors, president, vice-president, Chief Financial Officer and secretary of the board of directors owes a duty, in the exercise of his powers and in the discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Article 152 Each of the Company's directors, supervisors, president, vice-president, Chief Financial Officer and secretary of the board of directors shall exercise his powers or perform his duties in accordance with the fiduciary principle, and shall not put himself in a position where his duty and his interest may conflict. This principle includes (without limitation to) discharging of the following obligations:

- (1) to act bona fide in the best interests of the Company;
- (2) to act within the scope of his powers and not to exceed such powers;
- (3) to exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders given in a general meeting, not to transfer the exercise of his discretion;
- (4) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (5) unless otherwise provided for in the Company's Articles of Association or except with the informed consent of the shareholders given in a general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (6) not to use the Company's property for his own benefit, without the informed consent of the shareholders given in a general meeting;
- (7) not to abuse his position to accept bribes or other illegal income or expropriate the Company's property in any way, including (without limitation to) opportunities which benefit the Company;
- (8) not to accept commissions in connection with the Company's transactions, without the informed consent of the shareholders given in a general meeting;
- (9) to comply with the Company's Articles of Association, to perform his official duties faithfully, to protect the Company's interests and not to exploit his position and power in the Company to advance his own interests;
- (10) not to compete with the Company in any way, save with the informed consent of the shareholders given in a general meeting;
- (11) not to misappropriate the Company's funds or to lend such funds to any other person, not to use the Company's assets to set up deposit accounts in his own name or in the any other name or to use such assets to guarantee the debts of a shareholder of the Company or any other personal liabilities;
- (12) not to divulge any confidential information which he has obtained during his term of office, without the informed consent of the shareholders in a general meeting; nor shall he use such information otherwise than for the Company's benefit, unless disclosure of such information to the court or other governmental authorities is made in the following circumstances:
  1. disclosure is required by law;

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2. public interests so warrants;
3. the interests of the relevant director, supervisor, president, vice-president, Chief Financial Officer and secretary of the board of directors so requires.

Article 153 Each director, supervisor, president, vice-president, Chief Financial Officer and secretary of the board of directors of the Company shall not direct the following persons or institutions ("associates") to act in a manner which he is prohibited from so acting:

- (1) the spouse or minor children of the director, supervisor, president, vice-president, Chief Financial Officer or secretary of the board of directors;
- (2) the trustee of the director, supervisor, president, vice-president, Chief Financial Officer or secretary of the board of directors or of any person described in sub-paragraph (1) above;
- (3) partners of directors, supervisors, president, vice-president, Chief Financial Officer or secretary of the board of directors of the Company or any person referred to in sub-paragraphs (1) and (2) of this Article;
- (4) a company in which a director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors, whether alone or jointly with one (1) or more of the persons referred to in sub-paragraphs (1), (2) and (3) of this Article and other directors, supervisors, president, vice-president, Chief Financial Officer and secretary of the board of directors, has de facto controlling interest;
- (5) the senior officers of a company which is being controlled in the manner set out in sub-paragraph (4) above, including but without limitation to directors, supervisors and president.

Article 154 On submission of a resignation or termination of the tenure of a director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors of the Company, the fiduciary duties owed by this senior officer to the Company and its shareholders do not necessarily cease when his resignation has not yet been effective or within a reasonable period of the resignation and within a reasonable period of the termination of tenure. His duty of confidentiality in respect of trade secrets of the Company survives the termination of his tenure until the same has become open information. Other duties may continue for such period as the principle of fairness may require depending on the length of time which has lapsed between the termination and the act concerned and on the circumstances and the terms under which the relationship between the relevant director, supervisor, manager and the senior officer on the one hand and the Company on the other hand was terminated.

Article 155 Any serving director, supervisor, the president,



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vice-president, Chief Financial Officer or secretary of the board of directors of the Company who leaves his post without permission thereby causing loss to the Company shall be liable for compensation.

Article 156 A director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors of the Company may be relieved of liability for specific breaches of his duty with the informed consent of the shareholders given at a general meeting, save under the circumstances of Article 55 hereof.

Article 157 Where a director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company, (other than his contract of service with the Company), he shall declare the nature and extent of his interests to the board of directors at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal therefor is otherwise subject to the approval of the board of directors.

If a director or his associate (as defined in the Rules Governing the Listing of Securities of the Hong Kong Stock Exchange Limited) have a material interest in any contract, transaction, arrangement or other matters that requires the approval of the board of directors, the relevant director shall not vote for the relevant matter at the meeting of the board of directors, and shall not be listed in the quorum of the meeting.

Unless the interested director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors discloses his interests in accordance with the preceding sub-paragraph of this Article and the contract, transaction or arrangement is approved by the board of directors at a meeting in which the director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors is not counted as part of the quorum and refrains from voting, or from entering into a contract, transaction or arrangement in which that senior officer is materially interested is voidable at the instance of the Company except as against a bona fide party thereto who does not have notice of the breach of duty by the interested senior officer.

For the purposes of this Article, a director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors of the Company is deemed to be interested in a contract, transaction or arrangement in which his associate is interested.

Article 158 Where a director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors of the Company gives to the board of directors a notice in writing stating that, by reason of the facts specified in the notice, he is interested in contracts, transactions or arrangements which may subsequently be made by the Company, that notice shall be deemed for the purposes of the preceding Article to be a sufficient disclosure of his interests, so far as the content stated in such notice is concerned, provided

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that such notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by the Company.

Article 159 The Company shall not pay taxes for or on behalf of a director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors in any manner.

Article 160 The Company shall not directly or indirectly make a loan to or provide any guarantee in connection with the making of a loan to a director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors of the Company or a senior officer (including but without limitation to a director, supervisor and the president) of the holding company of the Company or any of their respective associates.

The foregoing prohibition shall not apply to the following circumstances:

- (1) provision of a loan or guarantee for a loan by the Company to its subsidiary;
- (2) the provision by the Company of a loan or a guarantee in connection with the making of a loan or any other funds available to its directors, supervisors, president, vice-president, Chief Financial Officer or the secretary of the board of directors to meet expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in a general meeting;
- (3) if the ordinary course of business of the Company includes the lending of money or the giving of guarantees, the Company may make a loan to or provide a guarantee in connection with the making of a loan to a director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors or his associates in the ordinary course of its business on normal commercial terms.

Article 161 Any person who receives funds from a loan which has been made by the Company acting in breach of the preceding Article shall, irrespective of the terms of the loan, forthwith repay such funds.

Article 162 A guarantee for the repayment of a loan which has been provided by the Company acting in breach of Article 158(1) shall not be enforceable against the Company, save in respect of the following circumstances:

- (1) the guarantee was provided in connection with a loan which was made to an associate of a director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors of the Company or a senior officer (including but without limitation to a director, supervisor and the president) of the Company's holding company and the lender of such funds did not know of the relevant circumstances at the time of the making

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of the loan; or

- (2) the collateral which has been provided by the Company has already been lawfully disposed of by the lender to a bona fide purchaser.

Article 163 For the purposes of the foregoing provisions of this Chapter, a "guarantee" includes an undertaking or property provided to secure the obligor's performance of his obligations.

Article 164 In addition to any rights and remedies provided by the laws and administrative regulations, where a director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors of the Company breaches the duties which he owes to the Company, the Company has a right:

- (1) to demand such a director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors to compensate it for losses sustained by the Company as a result of such breach;
- (2) to rescind any contract or transaction which has been entered into between the Company and such a director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors or between the Company and a third party (where such third party knows or should have known that such a director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors representing the Company has breached his duties owed to the Company);
- (3) to demand such a director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors to surrender the gains made as result of the breach of his obligations;
- (4) to recover any monies which should have been received by the Company and which were received by such a director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors instead, including (without limitation to) commissions; and
- (5) to demand repayment of interest earned or which may have been earned by a director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors officer on money that should have been paid to the Company.

Article 165 If a director, supervisor, the president, vice-president, Chief Financial Officer or secretary of the board of directors has violated the law, administrative rules or these Articles of Association in discharging his duties thereby causing damage to the Company, he shall be liable for compensation. Shareholders shall have the right to ask the Company to commence legal or arbitration proceedings to claim for compensation according to law.

Article 166 The Company shall make written contract with a director or supervisor in relation to the rights and duties of the Company and the director/supervisor, emoluments and term of office of

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the director/supervisor, liability of the director/supervisor for breach of law, regulations and these Articles of Association and compensation for early termination of the contract, etc. The emoluments shall be approved in advance by the shareholders in a general meeting. The aforesaid emoluments include:

- (1) emoluments in respect of his service as director, supervisor, president, vice-president, Chief Financial Officer or secretary of the board of directors of the Company;
- (2) emoluments in respect of his acting as a senior officer (including but without limitation to a director, supervisor and the president) of any subsidiary of the Company;
- (3) emoluments in respect of the provision of other services in connection with the management of the affairs of the Company and any of its subsidiaries;
- (4) payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

No proceedings may be brought by a director or supervisor against the Company for anything due to him in respect of the matters mentioned in this Article except pursuant to the contract mentioned above.

Article 167 The contract concerning the emoluments between the Company and its directors or supervisors should provide that in the event that the Company is acquired, the Company's directors and supervisors shall, subject to the prior approval of shareholders in a general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. For the purposes of this paragraph, the acquisition of the Company includes any of the following:

- (1) an offer made by any person to the general body of shareholders;
- (2) an offer made by any person with a view to the offeror becoming a "controlling shareholder" within the meaning of Article 56 hereof.

If the relevant director or supervisor does not comply with this Article, any sum so received by him shall belong to those persons who have sold their shares as a result of such offer. The expenses incurred in distributing such sum on a pro rata basis amongst such persons shall be borne by the relevant director or supervisor and shall not be paid out of such sum.

### CHAPTER 15 FINANCIAL AND ACCOUNTING SYSTEMS, PROFIT DISTRIBUTION AND AUDITING

Article 168 The Company shall establish its financial and accounting systems in accordance with laws, administrative regulations and PRC accounting standards formulated by the finance regulatory department of the State Council.

Article 169 The accounting year of the Company shall adopt the calendar

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year, i.e. starting from the 1 January of every calendar year and to 31 December of every calendar year.

The Company shall adopt Renminbi as its denominated currency for booking and accounting purposes, the account books shall be recorded in Chinese.

At the end of each fiscal year, the Company shall prepare a financial report which shall be examined and verified in a manner prescribed by law.

Article 170 The board of directors of the Company shall place before the shareholders at every annual general meeting such financial reports which the relevant laws, administrative regulations and directives promulgated by competent regional and central governmental authorities require the Company to prepare. These reports shall be verified.

Article 171 The Company's financial reports shall be made available for shareholders' inspection at the Company twenty (20) days before the date of every shareholders' annual general meeting. Each shareholder shall be entitled to have a copy of the financial reports referred to in this Chapter.

The Company shall deliver or send to each shareholder of Overseas-Listed Foreign-Invested Shares by prepaid mail at the address registered in the register of shareholders the said reports not later than twenty-one (21) days prior to the date of every annual general meeting of the shareholders.

Article 172 The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards, or that of the place outside the PRC where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in the financial statements. In distributing its profits after tax, the lower of the two amounts shown in the financial statements shall be adopted.

Article 173 Any interim results or financial information published or disclosed by the Company must also be prepared and presented in accordance with PRC accounting standards and regulations, and also in accordance with either international accounting standards or that of the place overseas where the Company's shares are listed.

Article 174 The Company shall publish its financial reports four times in each fiscal year, that is, the report for the first quarter shall be published within thirty (30) days after the expiration of the first three (3) months of each fiscal year; the biannual financial report shall be published within sixty (60) days after the expiration of the first six (6) months of each fiscal year; the report for the third quarter shall be published within thirty (30) days after the expiration of the first nine (9) months of each fiscal year; and the annual financial report shall be published within one hundred and twenty (120) days after the expiration of each fiscal year. Annual financial reports shall be checked and verified as required by law.

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Article 175 Annual financial reports and biannual financial reports which deal with biannual profit distribution shall include the followings:

- (1) balance sheet;
- (2) statement of profit;
- (3) statement of profit distribution;
- (4) cash flow statement;
- (5) explanatory notes to accounting statements.

If the Company does not make biannual profit distribution, the biannual financial report shall include the above accounting statements and explanatory notes save sub-paragraph (3).

Article 176 The Company shall not keep accounts other than those required by law. Assets of the Company will not be deposited into any account opened in the name of an individual.

Article 177 When allocating the after-tax profits of the current year, the Company shall allocate (10) ten percent of its profit to the statutory common reserve fund, and allocate (5) five percent to (10) ten percent of its profit to the statutory public welfare fund. In the event that the accumulated statutory common reserve fund of the Company has reached more than (50) fifty percent of the registered capital of the Company, no allocation is needed.

In the event that the statutory common reserve fund of the Company is insufficient to make up the losses of the Company on the previous year, before allocating the statutory common reserve fund and the statutory public welfare fund in accordance with the stipulations of the previous paragraph, the Company shall first make up the losses by using the profits of the current year.

After allocating the statutory common reserve fund and public welfare fund from the after-tax profits of the Company, the Company can allocate the arbitrary common reserve fund according to the resolution of shareholders' general meeting.

The remaining profits after making-up the losses, allocating the common reserve funds and the statutory public welfare fund shall be distributed in accordance with the proportion of shares held by the shareholders.

Article 178 Before making-up the losses, allocating the surplus common reserve funds and the statutory public welfare fund, the Company shall not allocate the dividends or carry out other allocations by way of bonus.

Article 179 Capital common reserve fund includes the following items:

- (1) premium on shares issued at a premium price;
- (2) any other income designated for the capital common reserve fund by the regulations of the finance regulatory department of the State Council.

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- Article 180 The common reserve fund of the Company shall be applied for compensating the losses or converting the common reserve fund into the capital of the Company.
- When such conversion takes place upon the approval of shareholders in a general meeting, the Company shall distribute new shares in proportion to the existing shareholders' number of shares, provided, however, that when the statutory common reserve fund is converted to capital nature, the balance of the statutory common reserve fund may not fall below 25% of the registered capital.
- Article 181 The Company's statutory public welfare fund is used for the collective welfare of the Company's employees.
- Article 182 After the Company's shareholders have approved in a general meeting the proposal for profit distribution or for conversion of the common reserve fund into capital of the Company, the Company's board of directors shall complete the distribution or conversion of dividends (or shares) within two (2) months of the general meeting.
- Article 183 The Company may distribute dividends in the form of:
- (1) cash;
  - (2) shares.
- Article 184 The Company shall calculate, declare and pay dividends and other amounts which are payable to holders of Domestic-Invested Shares in Renminbi. The Company shall calculate and declare dividends and other payments which are payable to holders of Overseas-Listed Foreign-Invested Shares in Renminbi, and shall pay such amounts in Hong Kong Dollars. As for the foreign currency needed by the Company for payment of cash dividends and other funds which are payable to the holders of the Overseas-Listed Foreign-Invested Shares, it shall be handled in accordance with any related national regulations on foreign exchange control.
- Article 185 Unless otherwise provided by the relevant laws and administrative regulations, as regards dividends and other amounts payable in Hong Kong dollars, the applicable exchange rate shall be the average benchmark rate for the relevant foreign currency determined by the Peoples' Bank of China and announced by the State Administration of Foreign Exchange during the week prior to the announcement of payment of dividend and other amounts.
- Article 186 Unless the shareholders have approved otherwise in a general meeting, the board of directors may determine to make half-yearly dividends distribution. Unless otherwise provided by the relevant laws and administrative regulations, the amount of the half-yearly dividends distribution shall not exceed 50% of the profits shown in the biannual statement of profit of the Company.
- Article 187 In the event of allocating the dividends to shareholders of the Company, the payable taxes on the dividend incomes of the shareholders shall be withdrawn in accordance with the requirements of Taxation Law of China and in consideration of the allocated sum.

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Article 188 The Company shall appoint receiving agents for holders of the Overseas-Listed Foreign-Invested Shares. Such receiving agents shall receive dividends which have been declared by the Company and all other amounts which the Company should pay to holders of Overseas-Listed Foreign-Invested Shares on such shareholders' behalf.

The receiving agents appointed by the Company shall meet the relevant requirements of the laws of the place at which the stock exchange on which the Company's shares are listed or the relevant regulations of such stock exchange.

The receiving agents appointed for holders of Overseas-Listed Foreign-Invested Shares listed in Hong Kong shall each be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

Article 189 The Company adopts the system of internal auditing and hires professional auditors to undertake internal auditing of the Company's financial income and expenditure and economic activities.

Article 190 The Company's internal auditing system and duties of the auditors shall be implemented after they have been approved by the board of directors.

### CHAPTER 16 APPOINTMENT OF ACCOUNTING FIRMS

Article 191 The Company shall appoint an independent firm of accountants which is qualified under the relevant regulations of the State to audit the Company's annual financial report and review other financial reports, to conduct verification of net asset value and other relevant consulting service business.

Engagement of the firm of accountants shall be determined in a shareholders' general meeting.

Article 192 The auditors appointed by the Company shall hold office from the conclusion of the annual general meeting of shareholders at which they were appointed until the conclusion of the next annual general meeting of shareholders.

Article 193 The auditors appointed by the Company shall enjoy the following rights:

- (1) a right to review to the books, records and vouchers of the Company at any time, the right to require the directors, supervisors, president, vice-president, Chief Financial Officer and secretary of the board of directors of the Company to supply relevant information and explanations;
- (2) a right to require the Company to take all reasonable steps to obtain from its subsidiaries such information and explanation as are necessary for the discharge of its duties;
- (3) a right to attend shareholders' general meetings and to receive all notices of, and other communications relating to, any shareholders' general meeting which any shareholder is entitled to receive, and to speak



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at any shareholders' general meeting in relation to matters concerning its role as the Company's accounting firm.

- Article 194 If there is a vacancy in the position of the accounting firm, the board of directors may appoint an accounting firm to fill such vacancy before the convening of the shareholders' general meeting. Any other accounting firm which has been appointed by the Company may continue to act during the period during which a vacancy arises.
- Article 195 The shareholders in a general meeting may by ordinary resolution remove the accounting firm before the expiration of its term of office, irrespective of the provisions in the contract between the Company and the accounting firm. However, the right of the accounting firm in claiming for damages which arise from its removal shall not be affected thereby.
- Article 196 The remuneration of an accounting firm or the manner in which such firm is to be remunerated shall be determined by the shareholders in a general meeting. The remuneration of an accounting firm appointed by the board of directors which is to fill the vacancy shall be determined by the board of directors and approved by the shareholders' general meeting.
- Article 197 The Company's appointment, removal or non-reappointment of an accounting firm shall be resolved by the shareholders in a general meeting and disclosed in the relevant newspapers and publications stating the reasons for removal, if necessary. Such resolution shall be filed with the securities authority of the State Council and The Chinese Institute of Certified Public Accountants.

Where a resolution at a general meeting of shareholders is passed to appoint an accounting firm other than an incumbent accounting firm, to fill a casual vacancy in the office of the accounting firm, to reappoint an accounting firm who was appointed by the board of directors to fill a casual vacancy or to remove an accounting firm before expiry of its term of office, the following provisions shall apply:

- (1) A copy of the appointment or removal proposal shall be sent (before issue of the notice of meeting) to the firm proposed to be appointed or proposing to leave its post or the firm which has left its post in the relevant fiscal year. Reference as leaving herein includes leaving by removal, resignation and retirement.
- (2) If the accounting firm leaving its post makes representations in writing and requests the Company to give the shareholders notice of such representations, the Company shall (unless the representations have been received too late) take the following measures:
  - (i) in any notice of the resolution given to shareholders, state the fact of the representations having been made by the accounting firm leaving its post; and
  - (ii) attach a copy of the representations to the notice and deliver it to the shareholders in the

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manner stipulated in the Company's Articles of Association.

- (3) If the Company fails to circulate the accounting firm's representations in the manner set out in sub-paragraph (2) above, such accounting firm may (in addition to its right to be heard) require that the representations be read out at the meeting.
- (4) An auditor which is retired from its office shall be entitled to attend the following shareholders' general meetings:
  - (i) the general meeting at which its term of office would otherwise have expired;
  - (ii) the general meeting at which it is proposed to fill the vacancy caused by its removal; and
  - (iii) the general meeting which convened as a result of its voluntary resignation:

The leaving accounting firm has the right to receive all notices of, and other communications relating to, any such meeting, and to speak at any such meeting which it attends on any part of the business of the meeting which concerns it as the former accounting firm of the Company.

Article 198 Prior notice should be given to the accounting firm 30 days in advance if the Company decides to remove such accounting firm or not to renew the appointment thereof. Such accounting firm shall be entitled to make representations at the shareholders' general meeting. Where the accounting firm considers that there is no proper reason for the removal or the non-renewal of appointment, it may appeal to the securities regulatory authority of the State Council and The Chinese Institute of Certified Public Accountants. Where the accounting firm resigns from its position as the Company's auditors, it shall make clear to the shareholders in a general meeting whether there has been any impropriety on the part of the Company.

An accounting firm may resign its office by depositing at the Company's domicile a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall contain the following statements:

- (1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or
- (2) a statement of any such circumstances.

Where a notice is deposited under the preceding sub-paragraph, the Company shall within fourteen (14) days send a copy of the notice to the relevant governing authority. If the notice contains a statement under the preceding sub-paragraph (2), a copy of such statement shall be placed at the Company for shareholders' inspection. The Company should also send a copy of such statement by prepaid mail to every shareholder of

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Overseas-Listed Foreign Shares at the address registered in the register of shareholders.

Where the accounting firm's notice of resignation contains a statement in respect of the above, it may require the board of directors to convene a shareholders' extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

### CHAPTER 17 MERGER AND DIVISION OF THE COMPANY

Article 199 The Company may carry out mergers or division in accordance with law. In the event of merger or division of the Company, the following procedures shall be adopted:

- (1) a proposal for merger or division be drawn up in a board meeting;
- (2) a resolution be made in a shareholders' general meeting in accordance with these Articles of Association;
- (3) a contract for merger or division be made by the relevant parties;
- (4) the relevant procedures for approval be gone through according to law;
- (5) disposal of credit rights and liabilities in the merger or division;
- (6) registration of dissolution or modification.

In the case of merger or division of the Company, the board of directors of the Company shall take necessary measures to protect the legitimate interests of the shareholders who object to the plan of merger or division. A shareholder who objects to the plan of merger or division shall have the right to demand the Company or the shareholders who consent to the plan of merger or division to acquire such dissenting shareholders' shareholding at a fair price.

The contents of the resolution of merger or division of the Company shall constitute special documents which shall be available for inspection by the shareholders of the Company. Such special documents shall be sent by mail to holders of Overseas-Listed Foreign-Invested Shares.

Article 200 The merger of the Company may take the form of either merger by absorption or merger by the establishment of a new company.

In the event of a merger, the merging parties shall execute a merger agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten (10) days from the date of the Company's merger resolution which is passed at a shareholders' general meeting and shall publish a public notice in a newspaper at least three (3) times within thirty (30) days of the date of the Company's merger resolution.

Article 201 Where there is a division of the Company, its assets shall be divided up accordingly.

In the event of division of the Company, the parties to such division shall execute a division agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten (10) days from the date of the Company's division resolution which is passed at a shareholders' general meeting and shall publish a public notice in a newspaper at least three (3) times within thirty (30) days of the date of the Company's division resolution.

Article 202 A creditor shall have the right either within 30 days of receipt of the notice if he has received a notice or within 90 days of the first announcement if he has not received a notice to require the Company to settle indebtedness or provide the relevant security. If the Company fails to settle the indebtedness or provide the relevant security, the merger or division shall not be proceeded with.

Article 203 Disposal of the assets, credit rights and liabilities of the parties to the merger or division shall be provided explicitly in a contract.

After the merger, the rights against debtors and the indebtedness of each of the parties to the merger shall be inherited by the company which survives the merger or the newly established company.

Debts of the Company prior to division shall be assumed by the companies which exist after the division in accordance with the agreement of the parties.

Article 204 The Company shall, in accordance with law, apply for change in its registration with the companies registration authority where a change in any item in its registration arises as a result of any merger or division. Where the Company is dissolved, the Company shall apply for cancellation of its registration in accordance with law. Where a new company is established, the Company shall apply for registration thereof in accordance with law.

#### CHAPTER 18 DISSOLUTION AND LIQUIDATION

Article 205 The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

- (1) a resolution regarding the dissolution is passed by shareholders at a general meeting;
- (2) dissolution is necessary due to a merger or division of the Company;
- (3) the Company is legally declared insolvent due to its failure to repay debts as they become due; and
- (4) the Company is ordered to close down because of its violation of laws and administrative regulations.

Article 206 Where the Company is dissolved under sub-paragraph (1) of the preceding paragraph, a liquidation committee shall be set up within fifteen (15) days thereafter, and the composition of the liquidation committee of the Company shall be determined by an ordinary resolution of shareholders in a general meeting. Where

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a liquidation committee is not established according to schedule, the creditor may apply to the People's Court to organize the relevant personnel to establish a liquidation committee to proceed the liquidation.

Where the Company is dissolved under sub-paragraph (2) of the preceding Article, the liquidation shall be conducted by the parties to the merger or division in accordance with the contract or agreement made at the time of merger or division.

Where the Company is dissolved under sub-paragraph (3) of the preceding Article, the People's Court shall in accordance with the provisions of relevant laws organize the shareholders, relevant organizations and relevant professional personnel to establish a liquidation committee to proceed the liquidation.

Where the Company is dissolved under sub-paragraph (4) of the preceding Article, the relevant governing authorities shall organize the shareholders, relevant organizations and professional personnel to establish a liquidation committee to proceed with the liquidation.

Article 207 Where the board of directors proposes to liquidate the Company for any reason other than the Company's declaration of its own insolvency, the board shall include a statement in its notice convening a shareholders' general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the board of directors is of the opinion that the Company will be able to pay its debts in full within twelve (12) months from the commencement of the liquidation.

Upon the passing of the resolution by the shareholders in a general meeting in relation to the liquidation of the Company, all duties and powers of the board of directors and the president shall cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the committee's income and expenses, the business of the Company and the progress of the liquidation; and to present a final report to the shareholders' general meeting on completion of the liquidation.

Article 208 The liquidation committee shall, within ten (10) days of its establishment, send notices to creditors and shall, within sixty (60) days of its establishment, publish a public announcement at least three (3) times in a newspaper published by the securities regulatory authority of the State Council. The liquidation committee shall register the creditors' rights.

Article 209 During the liquidation period, the liquidation committee shall exercise the following functions and powers:

- (1) to categorise the Company's assets and prepare a balance sheet and an inventory of assets respectively;
- (2) to notify the creditors or to publish public announcements;
- (3) to dispose of and liquidate any unfinished businesses

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of the Company;

- (4) to pay all outstanding taxes;
- (5) to settle claims and debts;
- (6) to deal with the surplus assets remaining after repayment by the Company of its debts;
- (7) to represent the Company in any civil proceedings.

Article 210 After it has categorized the Company's assets and after it has prepared the balance sheet and an inventory of assets, the liquidation committee shall formulate a liquidation plan and present it to a shareholders' general meeting or to the relevant governing authority for confirmation.

After the initial payment of the settlement expense, the assets of the Company shall be liquidated in the following order:

- (i) salary and labor insurance expenses of the staff members of the Company;
- (ii) outstanding taxes;
- (iii) bank loans, debentures and debts to other companies.

Any surplus assets of the Company remaining after its debts have been repaid in accordance with the provisions of the preceding paragraph shall be distributed to its shareholders according to the class of shares and the proportion of shares held:

- (1) In case of the preferred shares, the allocation shall be first given to the holders of the preferred shares in accordance with the face value of the preferred shares; if it is insufficient to repay the preferred shares, the allocation shall be carried out in accordance with the proportions of the preferred shares held by them respectively;
- (2) The allocation shall be carried out in accordance with proportions of shares held by the holders of ordinary shares.

During the liquidation period, the Company shall not commence any new business activities.

Article 211 Upon completion of the categorisation of the Company's assets and preparation a balance sheet and an inventory of assets in connection with the liquidation of the Company, the liquidation committee discovers that the Company's assets are insufficient to repay the Company's debts in full, the liquidation committee shall immediately apply to the People's Court for a declaration of insolvency.

After a Company is declared insolvent by a ruling of the People's Court, the liquidation committee shall transfer all matters arising from the liquidation to the People's Court.

Article 212 Following the completion of the liquidation, the liquidation committee shall prepare a liquidation report, a statement of

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income and expenses received and made during the liquidation period and a financial report, which shall be verified by a Chinese registered accountant and submitted to the shareholders' general meeting or the relevant governing authority for confirmation.

The liquidation committee shall, within thirty (30) days after the confirmation of the liquidation report, submit the documents referred to in the preceding paragraph to the companies registration authority and apply for cancellation of registration of the Company, and publish a public announcement relating to the termination of the Company.

### CHAPTER 19 PROCEDURES FOR AMENDMENT OF THE COMPANY'S ARTICLES OF ASSOCIATION

Article 213 The Company may amend its Articles of Association in accordance with the requirements of laws, administrative regulations and the Company's Articles of Association.

Article 214 The Company shall amend these Articles of Association on the occurrence of any of the following events:

- (1) the Company Law or the relevant laws or administrative regulations are amended and these Articles of Association are in conflict with the amended laws or administrative regulations;
- (2) there is change to the Company which makes it not consistent with these Articles of Association;
- (3) it has been approved by the shareholders in a general meeting to amend these Articles of Association.

Article 215 Any amendment of these Articles of Association shall be made in the following manner:

- (1) The Board of Directors shall pass a resolution to draw up a proposal for amendment of the Company's Article of Association in accordance with these Articles of Association;
- (2) The foregoing proposal shall be furnished to the shareholders in writing and a shareholders' meeting shall be convened;
- (3) The amendments shall be approved by a special resolution in a shareholders' general meeting.

The board of directors shall amend these Articles of Association pursuant to the resolution of shareholders in a general meeting for amendment of these Articles of Association and the approval opinions of the competent authority.

Amendment of these Articles of Association involving the contents of the Mandatory Provisions shall become effective upon receipt of approvals from the companies approving department authorized by the State Council.

Article 216 If there is any change relating to the registered particulars of the Company, application shall be made for change in registration in accordance with law. If the amendment to the

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Articles of Association is a matter which is required by the relevant laws and regulations to be disclosed, an announcement shall be made in accordance with the provisions of those laws and regulations.

### CHAPTER 20 NOTICE

Article 217 Notices of the Company shall be issued in the following manner: (1) by hand; (2) by post; (3) by public announcement; (4) any other manner as provided in these Articles of Association.

If a notice of the Company is issued by public announcement, it shall be deemed received by the relevant officers once announced.

Unless otherwise provided in these Articles of Association, notices, information or written statement issued by the Company to holders of Overseas-Listed Foreign-Invested Shares shall be personally delivered to the registered address of each of such shareholders, or sent by pre-paid mail to each of such shareholders.

Article 218 If a notice of the Company is issued by hand, the date when the recipient signed or stamped to acknowledge receipt of the same shall be regarded as the date of service of the notice.

If a notice of the Company is issued by public announcement, the date of the first publication of the announcement shall be regarded as the date of service of the announcement.

All notices which are to be sent by mail shall be clearly addressed, postage pre-paid, and shall be put into envelopes before being posted by mail. Such letters of notice shall be deemed to have been received by shareholders on the third working day since it is left with the post office.

Article 219 If a notice of meeting is accidentally omitted to be sent to any person who is entitled to receive the same or that person has not received such a notice of meeting, it will not cause the meeting and any resolution made therein to be void.

### CHAPTER 21 RESOLUTION OF DISPUTES

Article 220 The Company shall abide by the following principles for dispute resolution:

- (1) Whenever any disputes or claims arise between: holders of the Overseas-Listed Foreign-Invested Shares and the Company; holders of the Overseas-Listed Foreign-Invested Shares and the Company's, directors, supervisors, president, vice-presidents, Chief Financial Officer or the secretary of the board of directors; or holders of the Overseas-Listed Foreign-Invested Shares and holders of Domestic-Invested Shares, in respect of any disputes or claims in relation to the affairs of the Company arising as a result of any rights or obligations arising from these Articles of Association, the Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred by the relevant parties to arbitration.



Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall, where such person is the Company or the Company's shareholders, directors, supervisors, president, vice-presidents, Chief Financial Officer or the secretary of the board of directors, comply with the decisions made in the arbitration. Disputes in respect of the definition of shareholders and disputes in relation to the register of shareholders need not be resolved by arbitration.

- (2) A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its Rules or the Hong Kong International Arbitration Center in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects for arbitration to be carried out at Hong Kong International Arbitration Center, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Center.

- (3) If any disputes or claims of rights are settled by way of arbitration in accordance with sub-paragraph (1) of this Article, the laws of the PRC shall apply, save as otherwise provided in the laws and administrative regulations.
- (4) The judgement of an arbitral body shall be final and conclusive and binding on all parties.

#### CHAPTER 22 SUPPLEMENTARY

- Article 221 These Articles of Association are written in Chinese and English. If there is any conflict between the two versions, the Chinese version shall prevail.
- Article 222 The expressions of "above", "within" and "below" shall include the figures mentioned whilst the expressions of "short of" and "less than" shall not include the figures mentioned.
- Article 223 The right to interpret these Articles of Association vests with the board of directors of the Company, and the right to revise these Articles of Association vests with shareholders' general meeting.
- Article 224 If these Articles of Association are in conflict with the laws, administrative regulations or provisions of other regulatory documents promulgated from time to time, the laws, administrative regulations and provisions of other regulatory documents shall prevail.

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Article 225 In these Articles of Association, references to "accounting firm" shall have the same meaning as "auditors".

In these Articles of Association, references to "president" shall have the same meaning as "manager".

### Rules and Procedures

for

The Shareholders' General Meetings

of

China Petroleum & Chemical Corporation

Approved at the First Extraordinary General Meeting of 2003 on 22 April 2003 Amended at the Annual General Meeting for the Year 2003 on 18 May 2004

### DIRECTORY

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### CHAPTER 1 GENERAL PROVISIONS

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- Article 1 In order to safeguard the legitimate interests of China Petroleum & Chemical Corporation (the "Company") and its shareholders, to specify the duties, responsibilities and authority of the shareholders' general meetings, to ensure the proper, efficient and smooth operation of the shareholders' general meeting and to ensure the shareholders' general meeting exercises its functions and powers according to law, these Rules are formulated according to the "Company Law of the People's Republic of China" (the "Company Law"), "Mandatory Provisions for the Articles of Association of Companies to be Listed Overseas", "Guidelines for the Articles of Association of Listed Companies", "Standards for the Governance of Listed Companies" and "Regulatory Opinions Regarding General Meetings of Listed Companies" and other relevant laws and regulations regulating listed companies inside and outside the PRC and the Articles of Association of China Petroleum & Chemical Corporation ("Articles of Association").
- Article 2 These Rules apply to the shareholders' general meetings of the Company and shall be binding on the Company, all shareholders, authorised proxies of the shareholders, directors, supervisors, president, vice-president, Chief Financial Officer, secretary of the board of directors and other relevant personnel present at the meeting.
- Article 3 Shareholders' general meetings are divided into annual general meetings (hereinafter referred to as "AGM"), extraordinary general meetings; or all shareholders' general meetings or class shareholders' general meetings.
- Article 4 AGMs are held once every year within six months from the end of the previous accounting year.
- Article 5 For the shareholders' general meetings convened each year, all of them are extraordinary general meetings except the AGM. The extraordinary general meetings shall be arranged in the order of the year in which they are convened.
- Article 6 Holders of different classes of shares are class shareholders. Except other class shareholders, holders of domestic shares and holders of H shares are deemed to be shareholders of different classes. If the Company intends to alter or annul the rights of class shareholders, it shall have such alteration or annulment approved by a special resolution at the shareholders' general meeting and shall convene a class shareholders' meeting in accordance with the provisions of the Articles of Association. Only class shareholders are entitled to attend class shareholders' meetings.
- Article 7 The board of directors of the Company shall strictly comply with the provisions of the Company Law and other laws and regulations regarding the convening of shareholders' general meetings, and shall properly organise the shareholders' general meeting in a conscientious manner and on schedule. All directors of the Company are under a bona fide duty to ensure that the shareholders' general meeting is convened in order, and shall not obstruct the exercise of powers by the shareholders' general meeting according to law.
- The directors present at the meeting shall perform their duties in good faith, and shall ensure that the contents of the resolutions passed at the meeting are true, accurate and

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complete and shall not use any words and expressions that may easily cause ambiguity.

Article 8 Any shareholder who holds the shares of the Company legally and validly are entitled to attend or authorise a proxy to attend the shareholders' general meeting, and shall have the right to know the Company's affairs, the right to speak, the right to raise questions and the right to vote pursuant to law and these Rules.

Shareholders and their proxies attending the shareholders' general meeting shall comply with the provisions of the relevant laws and regulations, Articles of Association and these Rules, and shall take the initiative to maintain the order of the meeting and shall not infringe the legitimate rights and interests of other shareholders.

Article 9 The Secretary to the board of directors of the Company shall be responsible for implementing the preparatory and organisation work for convening a shareholders' general meeting.

Article 10 In convening a shareholders' general meeting, the principle of cost-saving and simplicity shall be adhered to. No extra benefits shall be given to the shareholders (or their proxies) present at the meeting.

### CHAPTER 2 FUNCTIONS AND POWERS OF THE SHAREHOLDERS' GENERAL MEETING

Article 11 The shareholders' general meeting is the authority organ of the Company and shall exercise the following functions and powers according to law:

- (1) to decide on the Company's operational policies and investment plans;
- (2) to elect and replace directors and to decide on matters relating to the remuneration and liability insurance of directors;
- (3) to elect and replace supervisors who are shareholder representatives and to decide on matters relating to the remuneration and liability insurance of supervisors;
- (4) to examine and approve the board of directors' reports;
- (5) to examine and approve the supervisory committee's reports;
- (6) to examine and approve the Company's profit distribution plans and loss recovery plans;
- (7) to examine and approve the Company's proposed annual preliminary and final financial budgets;
- (8) to pass resolutions on the increase or reduction of the Company's registered capital;
- (9) to pass resolutions on matters such as merger,

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- division, dissolution and liquidation of the Company;
- (10) to pass resolutions on the issue of debentures by the Company;
  - (11) to pass resolutions on the appointment, dismissal and non-reappointment of the accounting firm by the Company;
  - (12) to amend the Articles of Association and its appendices (including the Rules and Procedures for the Shareholders' General Meetings, Rules and Procedures for the Board of Directors' Meetings and Rules and Procedures for the Supervisors' Meetings);
  - (13) to consider motions raised by the supervisory committee or shareholders who represent 5% or more of the total number of voting shares of the Company at the annual general meetings;
  - (14) to decide on other matters which, according to laws, administrative regulations, rules of the competent authorities and the Articles of Association, shall be approved by the shareholders' general meetings.

The shareholders' general meetings shall exercise its powers within the scope stipulated by the Company Law and shall not interfere with the decision of shareholders regarding their own rights.

### CHAPTER 3 AUTHORITY OF THE SHAREHOLDERS' GENERAL MEETINGS

- Article 12 Matters which, in accordance with laws, administrative regulations, rules of the relevant government authorities and provisions of the Articles of Association, fall within the scope of the authority of the shareholders' general meeting must be examined at such meeting so as to protect the decision-making power of the shareholders of the Company on such matters.
- Article 13 In order to ensure and increase the stability and efficiency of the daily operations of the Company, the shareholders' general meeting authorises the board of directors of the Company, on a partial basis, to exercise the following powers on investment plans, asset disposals and external guarantees:
- (1) Investment:
    - (i) The shareholders' general meetings shall examine and approve medium and long-term investment plans and annual investment plans of the Company. The board of directors is authorised to make adjustments of not more than 15% of the amount of the capital expenditure for the current year as approved at the shareholders' general meeting.
    - (ii) Individual project investments (including but not limited to exploration and development, fixed assets, external shareholdings) shall be approved by the shareholders' general meeting

if the investment amounts are more than 5% of the latest audited net asset value of the Company. The board of directors is authorised to examine and approve projects if the investment amount is not more than 5% of the latest audited net asset value of the Company.

- (iii) Where the Company uses its own assets to make risky investment in areas not related to the business of the Company (including but not limited to debentures, futures, shares), risky investments shall be approved by the shareholders' general meeting if the amount of investment is more than 1% of the latest audited net asset value of the Company. The board of directors is authorised to examine and approve projects if the investment amount is not more than 1% of the latest audited net asset value of the Company.

(2) Asset disposal:

- (i) When the Company acquires or sells assets, it has to take into account of the following 4 testing indices: (1) total asset ratio: the total amount of the assets to be acquired or sold (according to the latest audited financial report, valuation report or capital verification report) divided by the latest audited total asset value of the Company; (2) net profit (loss) ratio of the acquisition: the absolute value of the net profit or loss relating to the assets to be acquired (according to the audited financial report of the preceding year) divided by the absolute value of the audited net profit or loss of the Company for the preceding year; (3) net profit (loss) ratio of the sale: the absolute value of the net profit or loss relating to the assets to be sold (according to the audited financial report of the preceding year) or the absolute value of the profit or loss arising from such transaction divided by the absolute value of the audited net profit or loss of the Company for the preceding year; (4) transaction amount ratio: the transaction amount (taking into account of the assumed liabilities and costs, etc) of the acquired assets divided by the total amount of the latest audited net asset value of the Company.

The shareholders' general meeting shall examine and approve any of the above projects with a ratio of not less than 50%. The board of directors is authorised to examine and approve any of the above projects with a ratio of less than 50%.

- (ii) In disposing of fixed assets, where the total value of the expected value of the fixed assets to be disposed of and the value of the fixed assets which have been disposed of in

the four months prior to such proposed disposal exceeds 33% of the value of the fixed assets as shown in the latest balance sheet considered by the shareholders' general meeting, the shareholders' general meeting shall examine and approve such disposal, and the board of directors is authorised to examine and approve those fixed asset disposals of less than 33%.

The disposal of fixed assets referred to in this Article includes the transfer of certain asset interests but excludes the provision of guarantee by way of fixed assets.

The validity of the transactions for disposal of fixed assets by the Company shall not be affected by any breach of paragraph (2)(i) of this Article.

- (iii) Regarding others (including but not limited to the entering into, varying and termination of important contracts relating to entrustment of operation, entrusted operation, entrusted financial management, contracting and leasing), the relevant amount or the amount accumulated in 12 months shall be calculated according to one of four testing indices referred to in paragraph (2)(i) of this Article.

Any of the above projects with a ratio of more than 5% shall be examined and approved by the shareholders' general meeting. The board of directors is authorised to examine and approve any of the above projects with a ratio of not more than 5%.

- (3) External guarantees

The Company shall not provide guarantees for its shareholders, controlling subsidiaries of its shareholders, subsidiary enterprises of shareholders or personal liability and shall not directly or indirectly provide liability guarantee for debtors with an asset to liability ratio exceeding 70%. If the Company provides guarantees to others, the guaranteed person shall provide counter-guarantee to the Company or take other necessary risk preventive measures. The total amount of external guarantees of the Company shall not exceed 50% of the net assets stated in the consolidating accounting statements of the latest accounting year of the Company."

If the guarantee amount exceeds 5% of the latest audited net asset value of the Company, such guarantees shall be examined and approved by the shareholders' general meeting. The board of directors is authorised to examine and approve guarantees of not more than 5% of the latest audited net asset value of the Company.

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- (4) If, when applying the relevant standards as set out above, the approving offices of any investment, asset disposal and external guarantee matters as referred to above include both shareholders' general meeting and the board of directors, such matters shall be submitted to the shareholders' general meeting for approval.
- (5) If the above investment, asset disposal and external guarantee matters constitute connected transactions according to the regulatory stipulations of the places where the Company is listed, the relevant matters shall be dealt with according to the relevant stipulations.

Article 14 Under necessary and reasonable circumstances, as regards specific matters related to the matters to be resolved and those which cannot or are not required to be decided at the shareholders' general meeting, the shareholders' general meeting may authorise the board of directors or the secretary to the board of directors to decide within the scope of authority authorised by the shareholders' general meeting.

### CHAPTER 4 PROCEDURES FOR CONVENING A SHAREHOLDERS' GENERAL MEETING

#### Section 1 Putting Forward, Collecting and Examining Motions

- Article 15 Motions put forward in a shareholders' general meeting shall be specific and shall relate to the matters which shall be discussed at a shareholders' general meeting.
- Article 16 Motions at the shareholders' general meeting are usually put forward by the board of directors.
- Article 17 Where two or more than half of the independent directors request the board of directors to convene an extraordinary general meeting, they shall be responsible for putting forward the motions to be examined at the meeting. If the board of directors disagrees with the convening of an extraordinary general meeting, it shall disclose the relevant details.
- Article 18 Where the Company convenes an AGM, the supervisory committee or shareholders individually or jointly holding more than 5% of the total voting shares of the Company are entitled to put forward provisional motions. If the proposing shareholders have any objection to the decision of the board of directors of not including their motions in the agenda, they may request the convening of an extraordinary general meeting according to the provisions of these Rules.
- Article 19 Where the supervisory committee proposes to convene a shareholders' general meeting, it shall be responsible for putting forward motions.
- Article 20 Where shareholders individually or jointly holding more than 10% of the Company's voting shares propose to convene a shareholders' general meeting, the proposing shareholders shall be responsible for putting forward the motions, whether or not the meeting is convened by the board of directors.
- Article 21 Before the Chairman of the board of directors issues a notice



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of the board meeting relating to the convening of a shareholders' general meeting, the secretary to the board of directors may collect motions from shareholders individually holding more than 5% of the Company's voting shares (at the time of proposing to convene an AGM) or shareholders individually holding more than 10% of the Company's voting shares (at the time of proposing to convene an extraordinary general meeting), supervisors and independent directors and submit the same to the board of directors for examination and approval and subsequently submit the same as motions to the shareholders' general meeting for examination.

Article 22 The following motions shall be put forward at the AGM for consideration:

- (1) to examine the board of directors' annual reports, including the investment plans and operation strategy for the following year;
- (2) to examine the supervisory committee's annual reports;
- (3) to examine the Company's audited final budget proposal for the preceding year;
- (4) to examine and approve the Company's profit distribution plans and loss recovery plans for the preceding year;
- (5) to appoint, dismiss or not to reappoint the accounting firm.

Article 23 Shareholders individually or jointly holding more than 5% of the Company's voting shares are entitled to put forward provisional motions at an AGM. The board of directors shall examine and approve such shareholders' motions according to the following principles:

- (1) **Relevance.** The board of directors shall conduct preliminary examination of a motion, that is, the motion should be submitted or delivered to the board of directors or chairman of the meeting in a written form, and the contents of the motion shall comply with laws, administrative regulations and the Articles of Association, shall fall within the scope of business of the Company and the duties of the shareholders' general meeting, and shall cover a specific subject for discussion with concrete matters to be resolved. If the motion complies with the above requirements, it shall be submitted to the AGM for discussion. Otherwise no such submission shall be effected. If the board of directors decides not to submit the shareholders' motion to the AGM for voting, it shall give an explanation and statement at the AGM.
- (2) **Procedures.** The board of directors may decide on the procedural issues relating to the motion. Where a motion needs to be divided into different motions or merged with other motions to be voted on, consent of the person putting forward the original motion is required. If the person putting forward the original motion does not agree with any change, the chairman of the meeting may request the AGM to decide on the

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procedural issues and conduct discussion according to the procedures decided by the AGM.

Article 24 Where the supervisory committee or shareholders individually or jointly holding more than 10% of the Company's voting shares propose to convene an extraordinary general meeting or class shareholders' general meeting, they may sign one or more written request(s) of identical form and contents stating the topics for discussion at the meeting, and at the same time submit motions complying with the above requirements of these Rules to the board of directors.

Article 25 Motions involving the following circumstances shall be deemed to lead to a change or abrogation of the rights of a class shareholder and the board of directors shall submit them to a class shareholders' general meeting for examination:

- (1) to increase or decrease the number of shares of such class, or to increase or decrease the number of shares of a class having voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;
- (2) to change all or part of the shares of such class into shares of another class or to change all or part of the shares of another class into shares of that class or to grant such conversion right;
- (3) to cancel or reduce rights to accrued dividends or cumulative dividends attached to shares of such class;
- (4) to reduce or remove preferential rights attached to shares of such class to receive dividends or to the distribution of assets in the event that the Company is liquidated;
- (5) to add, cancel or reduce share conversion rights, options, voting rights, transfer rights, pre-emptive placing rights, or rights to acquire securities of the Company attached to shares of such class;
- (6) to cancel or reduce rights to receive payment payable by the Company in a particular currency attached to shares of such class;
- (7) to create a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;
- (8) to restrict the transfer or ownership of shares of such class or to impose additional restrictions;
- (9) To issue rights to subscribe for, or to convert into, shares of such class or another class;
- (10) To increase the rights or privileges of shares of another class;
- (11) to restructure the Company in such a way so as to cause the shareholders of different classes to bear liability to different extents during the restructuring;

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- (12) to amend or abrogate the provisions of Chapter 9 of the Articles of Association "Special Procedures for Voting by a Class of Shareholders".

### Section 2 Notice of Meeting and its Alterations

Article 26 The notice of a shareholders' general meeting shall be issued by the convenors of the meeting. Convenors of the meeting include the board of directors or shareholders individually or jointly holding more than 10% of the Company's voting shares.

Article 27 A written notice shall be issued 45 days (excluding the date of the meeting) prior to the meeting, informing all shareholders of the matters to be considered at the meeting, and the date and place of the meeting.

The notice of a shareholders' general meeting shall be delivered to the shareholders (whether or not such shareholders are entitled to vote at the meeting) by hand or by pre-paid mail to the addresses of the shareholders as shown in the register of shareholders of the Company. For the holders of domestic shares, the notice of the meeting may also be given by way of public announcement.

The public announcement referred to in the preceding paragraph shall be published in one or more newspapers designated by the securities regulatory authority of the State Council during the period between forty-five to fifty days before the date of the meeting. Once the announcement is made, the holders of domestic shares shall be deemed to have received the notice of the relevant shareholders' general meeting.

Where the Company fails to issue a notice of meeting according to schedule thus resulting in the failure of the Company to convene an AGM within six months from the end of the preceding accounting year, it shall report the same immediately to the stock exchanges on which its shares are listed stating the reasons and shall make an announcement accordingly.

Article 28 The notice of a class shareholders' general meeting shall be delivered only to the shareholders who are entitled to vote at such meeting.

Article 29 The notice of a shareholders' general meeting shall satisfy the following requirements:

- (1) in writing;
- (2) specify the place, date and time of the meeting;
- (3) set out the matters to be discussed at the meeting and fully disclose the contents of the motions. If it is required to alter matters involved in the resolutions of the previous shareholders' general meeting, the contents of the motion shall be complete and not only the contents of the changes are stated. Items included under "any other businesses" without specific contents shall not be deemed as a motion and the same shall not be voted at a shareholders' general meeting;
- (4) provide the shareholders with such information and

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explanation as necessary to enable the shareholders to make an informed decision on the proposals put before them. Such principle includes (but not limited to) where a proposal is made to amalgamate the Company with another, to repurchase shares of the Company, to reorganize its share capital, or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with contracts (if any) and the cause and effect of such proposal must be properly explained;

- (5) contain a disclosure of the nature and extent of the material interests of any director, supervisor, president, vice-president, Chief Financial Officer and secretary of the board of directors in the proposed transaction and the effect which the proposed transaction will have on them in their capacity as shareholders in so far as it is different from the effect on the interests of shareholders of the same class;
- (6) contain the full text of any special resolution to be proposed at the meeting;
- (7) contain a clear statement that a shareholder entitled to attend and vote at such meeting is entitled to appoint one or more proxies to attend and vote at such meeting on his behalf and that such proxy needs not be a shareholder;
- (8) specify the shareholding registration date for the shareholders who are entitled to attend the shareholders' general meeting;
- (9) specify the time and place for lodging proxy forms for the meeting;
- (10) state names and telephone numbers of the contact persons for the meeting.

Article 30 The board of directors shall issue a notice to convene the shareholders' general meeting within fifteen days upon receipt of a written request for convening a shareholders' general meeting from the supervisory committee which is in compliance with the relevant requirements.

Article 31 After the board of directors has received a written request for convening an extraordinary general meeting in compliance with the relevant requirements from shareholders individually or jointly holding more than 10% of the Company's voting shares, it shall issue a notice to convene a shareholders' general meeting as soon as possible. Any alterations to the original motion shall have the consent of the proposing shareholders. After the issue of the notice, the board of directors shall not propose any new motions or change or defer the time for holding the shareholders' general meeting without the consent of the proposing shareholders.

Article 32 If the board of directors fails to issue a notice to convene a meeting within thirty days upon receipt of a written request from shareholders individually or jointly holding more than 10% of the Company's voting shares, the proposing shareholders may

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convene a shareholders' extraordinary general meeting themselves within four months after the board of directors has received such request. Where the proposing shareholders decide to convene such a meeting themselves, it shall notify the board of directors in writing, and shall issue a notice to convene the meeting after reporting to the branch of the securities regulatory authority of the State Council of the locality of the Company and the stock exchanges on which the Company's shares are listed. The notice of the meeting shall comply with the general requirements for notices of meetings and shall also satisfy the following requirements:

- (1) new contents shall not be added to a motion, otherwise the proposing shareholders shall resubmit a request to convene a shareholders' general meeting to the board of directors;
- (2) the meeting shall be held at the offices of the Company.

Article 33 After the issue of the notice of a meeting, the convenors of the meeting shall not put forward any new motion which is not set out in the notice.

Where a shareholder who has the largest shareholding of the Company intends to put forward a new motion on profit distribution at an AGM, such shareholder shall, not less than ten days before the date of the AGM, submit the motion to the board of directors to enable it to make an announcement, failing which the shareholder is not entitled to put forward the motion at the AGM.

Article 34 Shareholders and authorised proxies intending to attend a shareholders' general meeting shall deliver to the Company their written replies concerning their attendance at such meeting twenty days before the date of the meeting.

The Company shall, based on the written replies which it receives from the shareholders twenty days before the date of the shareholders' general meeting, calculate the number of voting shares represented by the shareholders and the authorised proxies who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting amount to more than one-half of the Company's total voting shares, the Company may hold the shareholders' general meeting; if not, then the Company shall, within five days, notify the shareholders again by way of public announcement the matters to be considered at, and the place and date for, the meeting. The Company may then hold the shareholders' general meeting after publication of such announcement.

Article 35 After the convenors of a meeting have issued the notice of the shareholders' general meeting, the shareholders' general meeting shall not be convened at an earlier date, nor shall it be postponed without reasons. Where a shareholders' general meeting has to be postponed for special reasons, the convenors of the meeting shall publish a postponement notice at least five working days before the original date of the shareholders' general meeting. The convenors of the meeting shall state the relevant reasons and the date for convening the meeting after the postponement in the postponement notice.

Article 36 Where the Company postpones the shareholders' general meeting, it shall not change the shareholding registration date for the shareholders who are entitled to attend the shareholders' general meeting according to the original notice.

Article 37 The Company shall post all information relating to the shareholders' general meeting on the website of the Shanghai Stock Exchange at least five working days before the date of the meeting according to the requirements of the Shanghai Stock Exchange.

Section 3 Registration of a Meeting

Article 38 A shareholder may attend the shareholders' general meeting in person or appoint a proxy to attend and vote on his behalf. Directors, supervisors, secretary to the board of directors and the PRC lawyer(s) engaged by the Company shall attend the meeting. The president, vice-president, Chief Financial Officer of the Company and persons invited by the board of directors may also attend the meeting.

In order to ensure the solemnity and proper order of the shareholders' general meeting, the Company shall have the right to refuse persons other than those stated above to enter into the venue.

Article 39 The Company shall be responsible for preparing an attendance register, which will be signed by the personnel attending the meeting. The attendance register shall set out the names of persons present at the meeting (and/or names of units), identification document numbers, information confirming the identities of the shareholders (such as shareholder account numbers), the number of voting shares held or represented, names of the proxies (or names of the units) and so on.

Article 40 The contents of registration for the shareholders or proxies attending the shareholders' general meeting shall include:

- (1) confirmation of the identity as a shareholder or proxy;
- (2) request to speak and contents of the text (if any);
- (3) collecting the voting slips according to the number of shares held/represented by the shareholders or proxies;
- (4) registering new motions (if any).

Article 41 The instrument appointing a proxy of a shareholder shall be in writing. Such written instrument shall state the following:

- (1) the name of the authorised proxy of the shareholder;
- (2) the number of shares of the principal represented by the authorised proxy;
- (3) whether or not the proxy has any voting right;
- (4) an indication to vote for or against each and every matter included in the agenda;

- (5) whether or not the proxy has voting rights in respect of the provisional motion which may be included in the agenda of the AGM; and, if this is the case, specific instructions as to the type of voting rights to be exercised;
- (6) the date of issue and validity period of the proxy form;
- (7) the signature (or seal) of the principal or its agent appointed in writing; if the principal is a legal person shareholder, the proxy form shall bear the seal of the legal person unit, or signed by its director or an agent duly appointed by it.

The proxy form shall state clearly that the proxy shall be entitled to vote at his discretion in the absence of specific instructions from the shareholder.

Article 42 The proxy form shall be lodged with the Company's premises or such other place as specified in the notice convening the meeting at least twenty-four hours prior to the relevant meeting for which the proxy is appointed to vote or twenty-four hours prior to the scheduled voting time. Where the proxy form is signed by a person authorised by the principal, the power of attorney or other authorisation documents shall be notarised. The notarised power of attorney and other authorisation documents, together with the proxy form, shall be lodged with the Company's premises or such other place as specified in the notice convening the meeting.

Article 43 Shareholders attending a shareholders' general meeting shall fulfil registration procedures. Shareholders shall produce the following documents for registration purposes:

- (1) Natural person shareholders: an individual shareholder shall produce his identification documents and provide information enabling the Company to confirm his identity as a shareholder. Where a proxy is appointed to attend the meeting, the proxy shall produce his own identification documents and the proxy form, and provide the Company with information enabling the Company to confirm the identity of his principal as a shareholder.
- (2) Legal person shareholders: if a legal representative is appointed to attend the meeting, the legal representative shall produce his identification documents and proof of his qualification as a legal representative, and he shall provide the Company with the information enabling the Company to confirm the identity of the legal person shareholder. Where a proxy is appointed to attend the meeting, the proxy shall produce his own identification documents, the proxy form issued by the legal representative of the legal person shareholder pursuant to law, or a notarised copy of a resolution on authorisation adopted by the board of directors of the legal person shareholder or other decision-making organs, and shall provide information enabling the Company to confirm the identity of the principal as a legal person

shareholder.

Article 44 Where a shareholder or a proxy requests to speak at the shareholders' general meeting, he shall register with the Company prior to the meeting. The number of speakers shall be limited to ten. If there are more than ten speakers, the first ten shareholders who have the largest shareholdings shall have the right to speak in an order according to their shareholdings.

Article 45 Where an AGM is convened, the supervisory committee and shareholders individually or jointly holding more than 5% of the Company's voting shares shall be entitled to propose new motions to the Company for registration. For the new motions put forward by the shareholders, it is for the chairman of the meeting to decide according to Article 23 of these Rules whether or not to include the same in the agenda.

Where an extraordinary general meeting is convened, no new motions are allowed to be registered with the Company, and the chairman shall not add such new motions to the agenda of the meeting.

#### Section 4 Convening a Meeting

Article 46 A shareholders' general meeting shall be chaired by the Chairman of the board of directors, who shall act as the chairman of the meeting. If the Chairman is unable to attend the meeting, the Vice Chairman shall act as the chairman of the meeting.

If both the Chairman and Vice Chairman are unable to attend the meeting and the Chairman has not appointed another director to act as the chairman of the meeting, the board of directors may appoint a director of the Company to take the chair. If the board of directors fails to do so, the shareholders present at the meeting may choose a person to act as the chairman. If, for any reason, the shareholders cannot elect a chairman, the shareholder (including a proxy) holding the largest number of voting shares shall be the chairman of the meeting.

Article 47 Where shareholders individually or jointly holding more than 10% of the Company's voting shares of their own motion decide to convene an extraordinary general meeting, the board of directors and secretary to the board of directors shall earnestly perform their duties. Directors and supervisors shall attend the meeting, and the secretary to the board of directors must attend the meeting to ensure the meeting is held in proper order. The meeting shall be presided over by the Chairman, who shall also act as the chairman of the meeting. If the Chairman is unable to attend the meeting for any reason, the Vice Chairman shall act as the chairman of the meeting. If both the Chairman and Vice Chairman are unable to attend the meeting and the Chairman has not designated a person to act as chairman of the meeting, the board of directors may designate a director of the Company to so act. If the board of directors is unable to designate a director to chair the shareholders' general meeting, the proposing shareholder shall take the chair after filing a report with the branch of the securities regulatory authority of the State Council of the locality of the Company.

Article 48 The chairman shall declare that the meeting commences at the



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scheduled time after he has been informed that the participants are in compliance with legal requirements and new motions and speakers are registered. In any of the following circumstances, the meeting may be declared to commence later than the time scheduled:

- (1) when any equipment of the venue is out of order so that the meeting cannot proceed as usual;
- (2) when any matters of material importance take place affecting the proceeding of the meeting.

Article 49 After the chairman of the meeting has declared the official commencement of the meeting, he shall firstly announce that the number of shareholders attending the meeting and the number of shares represented by such shareholders are in compliance with the legal requirements. Subsequently he shall read out the agenda as stated in the notice of the meeting, and shall inquire whether any person present at the meeting has any objection to the voting order of the motions. If an AGM is convened, the chairman of the meeting shall also inquire whether the supervisory committee or the shareholders individually or jointly holding more than 5% of the Company's voting shares need to put forward new motions. Where a new motion is put forward by a shareholder, the chairman of the meeting shall decide whether to accept the motion according to Article 23 of these Rules.

Where the board of directors or chairman of the meeting decides not to include the motion of the supervisory committee or shareholders into the agenda of the AGM, explanations and statements shall be given at such AGM.

At an extraordinary general meeting, no person shall be allowed to request for discussion of new motions not set out in the notice of the shareholders' general meeting.

Article 50 After the chairman of the meeting has made inquires regarding the agenda, he shall read out the motions or appoint another person to read out the motions, and shall explain the motions according to the following requirements if necessary:

- (1) Where the motion is put forward by the board of directors, the motion shall be explained by the Chairman or other persons designated by the Chairman;
- (2) Where the motion is put forward by the supervisory committee or shareholders individually or jointly holding more than 5% of the Company's voting shares, the motion shall be explained by the person putting forward the motion or its legal representative or lawful and valid proxy.

Article 51 Motions included in the agenda shall be examined before voting. Reasonable time shall be given at the shareholders' general meeting for each motion to be discussed, and the chairman of the meeting shall orally ask the shareholders attending the meeting whether they have completed the examination procedures. Examination procedures shall be regarded as completed if there are no objections by shareholders attending the meeting.

Article 52 No shareholder shall speak for more than twice at the meeting

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without the consent of the chairman. A shareholder is allowed to speak for no more than five minutes for the first time, and no more than three minutes for the second time.

When a shareholder requests to speak, he shall only do so if he does not interrupt report which is being made by the meeting reporter or speeches which are being made by other shareholders.

Article 53 Shareholders may query the Company at the shareholders' general meeting. The chairman of the meeting shall direct the directors or supervisors to answer such queries unless they relates to the Company's business secret and shall not be disclosed at the meeting.

### Section 5 Voting and Resolution

Article 54 Shareholders' general meeting shall resolve on any specific motions.

Article 55 Matters not included in the notice convening the shareholders' extraordinary general meeting shall not be resolved on at such a meeting. In approving the motions included in the notice of an extraordinary general meeting, no alteration shall be made to the relevant motions in respect of the following matters:

- (1) increase or reduction of the registered capital of the Company;
- (2) issuance of bonds of the Company;
- (3) division, merger, dissolution and liquidation of the Company;
- (4) amendment to the Articles of Association;
- (5) profits distribution plans and loss recovery plans of the Company;
- (6) appointment and removal of a member of the board of directors and the supervisory committee;
- (7) changing the use of proceeds from a share offer;
- (8) the entering into of a connected transaction which requires the approval of the shareholders in general meetings;
- (9) acquisition or sale of assets which requires the approval of the shareholders in general meetings;
- (10) changing the accounting firm engaged.

Any alteration in respect of the contents of the above motions shall be deemed to be a new motion and shall not be voted on at that shareholders' general meeting.

Shareholders' general meetings shall resolve on all motions included in the agenda one by one, and shall not for any reason cause delay in considering, or fail to consider, such motions. Where different motions are put forward at the annual general meeting for the same matter, such motions shall be resolved on

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in the order of time in which they are put forward.

Article 56 The chairman of the meeting is obliged to request the shareholders to approve the motions by open ballot at the general meeting.

Each shareholder or proxy shall exercise his voting rights in accordance with the number of voting shares represented by him. Except for the circumstances where cumulative voting system is applicable to the election of directors in accordance with the Articles of Association, each share shall carry one voting right.

Article 57 Resolutions in respect of the election of directors shall be passed by a way of cumulative voting at shareholders' general meeting in accordance with the Articles of Association. The details of the cumulative voting system are as follows:

- (1) Where the number of directors to be elected is more than two, the cumulative voting system must be adopted.
- (2) Where cumulative voting system is adopted, each of the shares held by a shareholder shall carry the same number of votes as the number of directors to be elected.
- (3) The notice of a shareholders' general meeting shall notify the shareholders that a cumulative voting system will be adopted for the election of directors. The convenors of the shareholders' general meeting shall prepare ballots suitable for cumulative voting, and shall give explanations in writing regarding the cumulative voting system, the completion of the ballots and the methods of counting the votes.
- (4) In casting his votes for the director candidates at a shareholders' general meeting, a shareholder may exercise his voting rights by spreading his votes evenly and cast for each of the candidates the number of votes corresponding to the number of shares he holds; or he may focus his votes on one candidate and cast for a particular candidate the total number of votes carried by all of his shares while the number of voting rights carried by each of his shares is the same as the number of directors to be elected; or he may spread his votes over several candidates and cast for each of them part of the total number of votes carried by the shares he holds while the number of voting rights carried by each of his shares is the same as the number of directors to be elected.
- (5) Upon the exercise of his voting rights by focusing his votes on one or several of the candidates while the number of voting rights carried by each of his shares is the same as the number of directors to be elected, a shareholder shall not have any right to vote for any other candidates.
- (6) Where the total number of votes cast by a shareholder for one or several of the candidates is in excess of the number of votes carried by the total number of

shares held by him, the votes cast by the shareholder shall be invalid, and the shareholder shall be deemed to have waived his voting rights. Where the total number of votes cast for one or several candidates by a shareholder is less than the number of votes carried by the total number of shares held by such a shareholder, the votes cast by the shareholder shall be valid, and the voting rights attached to the shortfall between the votes actually cast and the votes which the shareholder is entitled to cast shall be deemed to have been waived by the shareholder.

(7) Where the number of approval votes won by a director candidate exceeds one-half of the total voting rights (to be calculated according to the total number of shares if the cumulative voting is not adopted) represented by the shareholders present at the shareholders' general meeting and the approval votes exceeds the objection votes, the candidate shall be the elected director candidate. If the number of the elected director candidates exceeds the total number of directors to be elected, those candidates who win the largest number of approval votes shall be elected as directors (however, if the elected director candidates whose approval votes are comparatively fewer win the same number of approval votes, and the election of such candidates as directors will give rise to the number of directors elected exceeding the number of directors to be elected, such candidates shall be deemed as having not been elected); if the number of directors elected at a shareholders' general meeting is less than the number of directors to be elected, a new round of voting shall be carried out for the purpose of filling such directorship vacancies, until all the directors to be elected are validly elected.

(8) Where a new round of voting is carried out according to the provisions of paragraph (7) of this Article at the shareholders' general meeting, the number of votes casted by the shareholders in the cumulative voting shall be re-counted according to the number of directors to be elected in the new round of voting.

Article 58 In examining the motions on the election of directors and supervisors at a shareholders' general meeting, shareholders shall vote on the candidates for the office of directors or supervisors one by one.

Article 59 Resolutions of a shareholders' general meeting shall be divided into ordinary resolutions and special resolutions.

(1) Ordinary resolutions

(i) Ordinary resolutions shall be passed by votes representing more than one-half of the voting rights represented by the shareholders (including proxies) present at the meeting.

(ii) The following matters shall be approved by ordinary resolutions at shareholders' general meetings:

- (a) work reports of the board of directors and the supervisory committee;
- (b) profit distribution plans and loss recovery plans formulated by the board of directors;
- (c) appointment and removal of members of the board of directors and members of the supervisory committee, their remuneration and manner of payment and their liability insurance;
- (d) annual preliminary and final budgets, balance sheets and profit and loss accounts and other financial statements of the Company;
- (e) annual reports of the Company;
- (f) matters other than those which are required by laws and regulations or by the Articles of Association to be passed by special resolutions.

(2) Special resolutions

- (i) Special resolutions shall be passed by votes representing more than two-thirds of the voting rights represented by the shareholders (including proxies) present at the meeting.
- (ii) The following matters shall be approved by special resolutions at a shareholders' general meetings:
  - (a) increase or reduction in share capital and the issue of shares of any class, warrants and other similar securities;
  - (b) issue of bonds of the Company;
  - (c) division, merger, dissolution and liquidation of the Company;
  - (d) repurchase of shares of the Company;
  - (e) amendment to the Articles of Association, the Rules and Procedures for the Shareholders' General Meetings, the Rules and Procedures for the Board of Directors' Meetings and the Rules and Procedures for the Supervisors' Meetings;
  - (f) any other matters approved by an ordinary resolution by the shareholders at a general meeting which may have material impacts on the Company and accordingly should be passed by special resolutions.

Article 60 As far as any matter relating to sub-paragraphs (2) to (8),

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(11) to (12) of Article 25 of these Rules, the affected class shareholders, whether or not such shareholders originally have the right to vote at shareholders' general meetings, shall have the right to vote at the class meetings. However, interested shareholder(s) shall not be entitled to vote at such class meetings.

"(An) interested shareholder(s)", as such term is used in the preceding paragraph, means:

- (1) in the case of a repurchase of shares by way of a general offer to all shareholders of the Company or by way of public dealing on a stock exchange pursuant to Article 29 of the Articles of Association, an interested shareholder is a controlling shareholder within the meaning of Article 55 of the Articles of Association;
- (2) in the case of a repurchase of shares by an off-market agreement pursuant to Article 29 of the Articles of Association, a holder of the shares to which the proposed agreement relates;
- (3) in the case of a restructuring of the Company, a shareholder who assumes a relatively lower proportion of obligation than the obligations imposed on shareholders of that class under the proposed restructuring or who has an interest in the proposed restructuring which is different from the general interests of the shareholders of that class.

Article 61 Resolutions of a class of shareholders shall be passed by votes representing more than two-thirds of the voting rights of shareholders of that class represented at the relevant meeting who, according to Article 62, are entitled to vote at the meeting.

The special procedures for approval by a class of shareholders shall not apply in the following circumstance: where the Company issues, upon the approval by special resolution of its shareholders in a general meeting, either separately or concurrently once every twelve months, not more than 20% of each of its existing issued Domestic-Invested Shares and Overseas-Listed Foreign-Invested Shares.

Article 62 Where a connected transaction is being considered at a shareholders' general meeting, the connected shareholders shall abstain from voting, and the voting rights represented by the shares held by them shall not be counted towards the total number of valid votes. The voting result of the non-connected shareholders shall be fully disclosed in the announcement in relation to the resolutions passed at the shareholders' general meeting.

If any shareholder are required to abstain from voting or may only vote for or against a matter according to the Rules Governing the Listing of Securities of the Hong Kong Stock Exchange Limited, any vote by such shareholder or his proxy in violation of the relevant rules or restrictions referred to above shall not be counted in the voting results.

Article 63 Shareholders (and proxies) shall complete their ballot papers

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carefully as instructed and put the ballot papers into the ballot box. Any ballot paper containing uncompleted parts, false information, illegible writing and any uncast paper shall be deemed to be an abstention of voting by the shareholder, and such ballot papers shall not be regarded as valid votes.

Article 64 Prior to voting, the shareholders present at a shareholders' general meeting shall nominate at least one supervisor and two shareholders to act as counting officers. Such counting officers shall count all the votes cast on site and sign the counting statistical sheet.

If the votes for and against a resolution are equal, the chairman of the meeting shall be entitled to cast one more vote.

Article 65 The chairman of the meeting shall be responsible for deciding whether or not a resolution is duly passed according to the results of the votes counting. The chairman's decision, which shall be final and conclusive, shall be announced at the meeting and recorded in the minutes of the meeting.

Article 66 A shareholders' general meeting shall be recorded by the minutes of the meeting, which shall be signed by the directors present at the meeting and the minutes-taking officer. If no director is present at the meeting, the shareholder or the shareholder's proxy chairing the meeting together with the minutes-taking officer shall sign the minutes. The minutes of the meeting shall record the following matters:

- (1) the number of voting shares represented by the shareholders present at the meeting, and the percentage of such shares out of the total number of shares of the Company;
- (2) the date and place of the meeting;
- (3) the name of the person chairing the meeting and the agenda of the meeting;
- (4) the main points regarding the matters made by each person who speaks at the meeting;
- (5) the voting result of each matter considered;
- (6) the inquiries and suggestions of the shareholders and the answers to these inquiries or statement made by the directors and supervisors;
- (7) other matters which according to the opinions of the shareholders' general meeting and the provisions of the Articles of Association shall be recorded in the minutes of the meeting.

Article 67 The board of directors of the Company shall retain (a) PRC lawyer(s) to attend the shareholders' general meeting in accordance with law to enable him(them) to give legal opinions on the following matters, and shall publish these legal opinions together with the resolutions of the shareholders' general meeting:

- (1) whether the procedures for convening and holding the

shareholders' general meeting comply with the relevant laws and regulations as well as the Articles of Association;

- (2) verification of the legality and validity of the eligibility of the participants of the meeting;
- (3) verification of the eligibility of the shareholders who put forward new motions at the shareholders' annual general meeting;
- (4) whether the voting procedures of the shareholders' general meeting are lawful and valid;
- (5) the issue of any legal advice on any other matters requested by the Company.

Where the shareholders' extraordinary general meeting is chaired by the shareholders proposing the holding of such a meeting, the proposing shareholders shall, in accordance with law, retain (a) lawyer(s) to give witness legal opinions according to the provisions as set out above, and the procedures for convening such a meeting shall also comply with relevant laws, regulations and this Article.

#### Section 6 Adjournment of a Meeting

Article 68 The board of directors of the Company shall ensure that a shareholders' general meeting is held continuously within reasonable office hours, until the resolutions are finally voted on.

Article 69 If, in the course of the meeting, disputes arising out of the identity of any shareholder or the results of the calculation of the votes and so on cannot be resolved on site in such a way that the order of the meeting is affected and the meeting cannot proceed as usual, the chairman shall declare an adjournment of the meeting.

If the foregoing circumstances cease to exist, the chairman of the meeting shall notify the shareholders of the resumption of the meeting as soon as possible.

Article 70 Where a shareholders' general meeting is adjourned for more than one working day due to force majeure or any other extraordinary reasons, and the meeting cannot be convened properly or no resolution is passed, the board of directors of the Company shall give explanations to the stock exchanges on which the Company's shares are listed and make a proper announcement. The board of directors of the Company is obliged to take all necessary measures to resume the shareholders' general meeting as soon as possible.

#### Section 7 Post-meeting Affairs and Announcement

Article 71 The secretary to the board of directors shall be responsible for submitting the minutes of the meeting and the resolutions passed at the meeting and other relevant documentation to the relevant regulatory authorities in accordance with laws, regulations, the requirements of the securities regulatory authority of the State Council and the stock exchanges on which the Company's shares are listed after the meeting. He shall



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also be responsible for handling the announcement to be published in the designated media.

Article 72 The announcement of the resolutions of the shareholders' general meeting shall state the number of the shareholders (or the proxies) present at the meeting, the number of shares held by them (or nominees) and the percentage of such shares out of the total voting shares of the Company, the method of voting and the voting result of each motion. The resolutions on the motions shall state the names of the proposing shareholders, the percentage of shares held and the details of the motions. Where a shareholder's motion is not included in the agenda of an AGM, the details of the motion and the statement made by the board of directors or the chairman at the AGM shall be published together with the resolutions of the AGM.

Where the board of directors or the chairman of the meeting decides not to include the motions put forward by the supervisory committee or the shareholders in the agenda of the AGM, explanations and statements shall be given at such a meeting. Such statements and details of the motions shall, together with the resolutions of the AGM, be published after the conclusion of the AGM.

Where a resolution of the meeting is not adopted, or a resolution passed at the previous shareholders' general meeting is changed at the current shareholders' general meeting, the board of directors shall give an explanation in relation to the resolutions of the current shareholders' general meeting.

The announcement of resolutions passed at shareholders' general meetings shall be published in designated newspapers and on the Company's website.

Article 73 The secretary to the board of directors shall be responsible for keeping written information such as the register of attendees, power of attorney, voting statistical sheet, minutes of the meeting, legal opinions endorsed by lawyer(s) and announcements of resolutions.

### CHAPTER 5 SUPPLEMENTARY ARTICLES

Article 74 These Rules shall come into effect upon the adoption by the shareholders' general meeting by a special resolution and the approval by the relevant authorities in accordance with law.

Article 75 Any amendment to these Rules shall be proposed by the board of directors in the form of an amendment proposal, and shall be submitted to the shareholders' general meeting for approval by a special resolution.

Article 76 The right to interpret these Rules shall rest with the board of directors.

Article 77 Where any relevant matters are not covered in these Rules or where these Rules fail to comply with the relevant laws, administrative rules and other relevant regulatory documents as promulgated from time to time, those laws, administrative rules and other relevant regulatory documents shall prevail.

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## Rules and Procedures

for

The Board of Directors' Meetings

of

China Petroleum & Chemical Corporation

Approved at the First Extraordinary General  
Meeting of 2003 on 22 April 2003 Amended at the  
Annual General Meeting for the Year 2003 on 18 May 2004

### DIRECTORY

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### CHAPTER 1 GENERAL PROVISIONS

Article 1 In order to ensure that the board of directors of China Petroleum & Chemical Corporation (the "Company") fulfils the duties and responsibilities conferred by all shareholders of the Company, conducts discussions efficiently, makes scientific, immediate and prudent decisions and standardizes the operation of the board of directors, these Rules are formulated according to the "Company Law of the People's

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Republic of China" (the "Company Law"), "Mandatory Provisions for the Articles of Association of Companies to be Listed Overseas", "Guidelines for the Articles of Association of Listed Companies", "Standards for the Governance of Listed Companies" and other governing regulations of the places of the Company's listings inside and outside the PRC and the Articles of Association of China Petroleum & Chemical Corporation ("Articles of Association").

### CHAPTER 2 FUNCTIONS, POWERS AND AUTHORITY OF THE BOARD OF DIRECTORS

Article 2 The board of directors is accountable to the shareholders' general meetings and shall exercise the following functions and powers:

- (1) to be responsible for convening shareholders' general meetings and to report on its work to the shareholders' general meetings;
- (2) to implement the resolutions passed at shareholders' in general meetings;
- (3) to determine the Company's business plans and investment proposals;
- (4) to formulate the Company's annual preliminary and final financial budgets;
- (5) to formulate the Company's profit distribution proposals and loss recovery proposals;
- (6) to formulate proposals for the credit and financial policies of the Company, the increase or reduction of the registered capital of the Company and for the issue of debentures and securities of any kinds (including but without limitation to the debentures of the Company) and the listing or repurchase of the shares of the Company;
- (7) to draw up plans for significant acquisition or disposal proposals, the merger, division or dissolution of the Company;
- (8) to determine the risks investment of the Company according to the authority given in the shareholders' general meeting;
- (9) to determine matters relating to external guarantees (including pledging of assets) of the Company according to the authority given in the shareholder's general meeting;
- (10) to decide on the Company's internal management structure;
- (11) to appoint or remove the Company's president and to appoint or remove the vice-president and Chief Financial Officer of the Company according to the recommendations of the president; to appoint or remove the secretary of the board of directors and to decide on their remuneration;

- (12) to appoint or replace the members of the board of directors and the supervisory committee of its wholly-owned subsidiaries; to appoint, replace or recommend the shareholders' proxies, directors (candidates) and supervisors (candidates) of its subsidiaries which are controlled or invested by the Company;
- (13) to determine the establishment of the Company's branch offices;
- (14) to formulate proposals for any amendment of the Company's Articles of Association and its appendices;
- (15) to formulate the Company's basic management system;
- (16) to manage the disclosure of information of the Company;
- (17) to propose in a shareholders' general meeting to engage or replace the accounting firm which undertakes auditing work of the Company;
- (18) to listen to the president's work report and check the president's work;
- (19) to determine important matters and administrative matters of the Company other than those which should be determined by resolution of a shareholders' general meeting of the Company except for matters as specified by law, administrative rules, regulations of the competent government department(s) and the Articles of Association, and to sign other important agreements;
- (20) to exercise any other powers stipulated by laws, administrative rules, regulations of the competent government department(s) or the Articles of Association, and any other functions and powers conferred by the shareholders' in general meetings.

The necessary conditions for the board of directors to perform its duties shall include the following:

Article 3 The president shall provide the directors with necessary information and data, enabling the board of directors to make scientific, immediate and prudent decisions.

A director may require the president or, through the president, require the relevant departments of the Company to provide information and explanations which are necessary for him to make scientific, immediate and prudent decisions.

Where the independent directors think necessary, they may engage (an) independent institution(s) to provide independent opinions to be relied upon by them in making decisions. The fees incurred in the engagement of such (an) independent institution(s) shall be borne by the Company.

Article 4 The board of directors shall examine and resolve on the matters which the board of directors is required by laws, administrative rules, regulations of the competent government

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department(s) and the Articles of Association to submit to the shareholders in general meetings for determination (including matters proposed by two or more than half of the independent directors).

The board of directors shall examine the provisional motions put forward by the shareholders individually or jointly holding more than 5% of the Company's voting shares at the shareholders' annual general meeting (the "AGM") according to the standard of "relevance" as set out in the Rules and Procedures for the Shareholders' General Meetings, and to decide whether to submit the provisional motions to the AGM for examination.

Article 5 In order to ensure and increase the stability and efficiency of the daily operation of the Company, the board of directors shall explicitly authorise, on a partial basis, the chairman, other one or more directors or the president to exercise its functions and powers on investment plans, assets disposals, external guarantees, the credit and financial policies and the internal management structure of the Company according to the provisions of the Articles of Association and the authorisation of the shareholders' general meeting.

Article 6 The powers and authority of the board of directors on investments shall include the following:

- (1) The board of directors shall be responsible for conducting preliminary examination of the medium and long-term investment plans proposed by the president, and shall submit them to the shareholders' general meetings for approval.
- (2) The board of directors shall be responsible for conducting preliminary examination of the annual investment plans proposed by the president, and shall submit them to the shareholders' general meetings for approval. The board of directors may make adjustments of not more than 15% of the amount of the capital expenditure for the current year as approved at the shareholders' general meeting. The chairman of the board of directors is authorised to make adjustments of not more than 8% of the amount of the capital expenditure for the current year as approved at the shareholders' general meeting.
- (3) Individual project investments (including but not limited to exploration and development, fixed assets, external shareholdings) shall be approved by the board of directors if the investment amounts are not more than 5% of the latest audited net asset value of the Company. The Chairman of the board of directors is authorised to examine and approve projects if the investment amount is not more than 3% of the latest audited net asset value of the Company.
- (4) Where the Company uses its own assets to make risky investment in areas not related to the business of the Company (including but not limited to debentures, futures, shares), risky investments shall be approved by the board of directors if the amount of the individual investment is not more than 1% of the

latest audited net asset value of the Company. The chairman of the board of directors is authorised to examine and approve projects if the investment amount is not more than 0.5% of the latest audited net asset value of the Company.

Article 7 The powers and authority of the board of directors on asset disposals shall include the following:

- (1) When the Company acquires or sells assets, it has to take into account of the following four testing indices: (i) total asset ratio: the total amount of the assets to be acquired or sold (according to the latest audited financial report, valuation report or capital verification report) divided by the latest audited total asset value of the Company; (ii) net profit (loss) ratio of the acquisition: the absolute value of the net profit or loss relating to the assets to be acquired (according to the audited financial report of the preceding year) divided by the absolute value of the audited net profit or loss of the Company for the preceding year; (iii) net profit (loss) ratio of the sale: the absolute value of the net profit or loss relating to the assets to be sold (according to the audited financial report of the preceding year) or the absolute value of the profit or loss arising from such transaction divided by the absolute value of the audited net profit or loss of the Company for the preceding year; (iv) transaction amount ratio: the transaction amount (taking into account of the assumed liabilities and costs, etc) of the acquired assets divided by the total amount of the latest audited net asset value of the Company.

The board of directors shall examine and approve projects with a ratio of less than 50% according to all the above four testing indices. The chairman of the board of directors is authorised to examine and approve projects with a ratio of less than 10% according to all the above four testing indices.

- (2) In disposing of fixed assets, where the total value of the expected value of the fixed assets to be disposed of and the value of the fixed assets which have been disposed of in the four months prior to such proposed disposal does not exceed 33% of the value of the fixed assets as shown in the latest balance sheet considered by the shareholders' general meeting, the board of directors shall examine and approve such disposal, and the Chairman of the board of directors is authorised to examine and approve those fixed asset disposals of less than 10%.
- (3) As regards others (including but not limited to the entering into, varying and termination of important contracts relating to entrustment of operation, entrusted operation, entrusted financial management, contracting and leasing), the relevant amount or the amount accumulate in twelve months shall be calculated according to one of four testing indices referred to in paragraph (1) of this Article.

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Projects with a ratio of not more than 5% according to all the above four testing indices shall be examined and approved by the board of directors. The chairman of the board of directors is authorised to examine and approve projects with a ratio of not more than 1% according to all the above four testing indices.

Article 8 The powers and authority of the board of directors on debt liabilities shall include the following:

- (1) The board of directors shall examine and approve the amount of the long-term loans for the current year according to the annual investment plan as approved by the shareholders' general meeting. The chairman of the board of directors is authorised to make adjustments of not more than 10% of the total amount of the long-term loans for the current year as approved by the board of directors. Within the total amount of the long-term loans as approved by the board of directors, the chairman of the board of directors is authorised to approve and sign the contract for every single long-term loan for the amount exceeding RMB1 billion, and the president is authorised to approve and sign the contract for every single long-term loan for the amount not exceeding RMB1 billion.
- (2) Within the total amount of the working capital loans for the current year as approved by the board of directors, the Chairman of the board of directors is authorised to sign the overall short-term loan facility contracts for raising working capitals required by the operation and management of the Company according to the demand of the Company. Within the amount limit as fixed by these loan facility contracts, the chairman of the board of directors is authorised to approve and sign the working capital short-term loan contracts where the amount of one single loan exceeds RMB1 billion, and the president is authorised to approve and sign the working capital short-term loan contracts where the amount of one single loan does not exceed RMB1 billion.
- (3) The Company shall not provide any guarantees for its shareholders, controlling subsidiaries of its shareholders, subsidiary enterprises of shareholders or personal liability. If the Company provides guarantees to others, the guaranteed person shall provide counter-guarantee to the Company or take other necessary risk preventive measures.

If the guarantee amount does not exceed 5% of the latest audited net asset value of the Company, such guarantees shall be examined and approved by the board of directors. The chairman of the board of directors is authorised to approve and sign the external guarantee contracts the guaranteed amount of which does not exceed 1% of the latest audited net asset value of the Company but more than RMB100 million. The president is authorised to approve and sign the external guarantee contracts the guaranteed amount of which does not exceed RMB100 million.

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Article 9 If, when applying the relevant standards as set out above, the approving offices of any investment, asset disposal and external guarantee matters as referred to above include the board of directors, chairman of the board of directors and/or president, such matters shall be submitted to the approving offices of the highest level for approval.

If the above investment, asset disposal and loan matters constitute connected transactions according to the regulatory stipulations of the places where the Company is listed, the relevant matters shall be dealt with according to the relevant stipulations.

Article 10 The board of directors authorises the chairman to determine the following matters: (1) internal management structure of the Company; (2) the establishment of branch offices by the Company; (3) to appoint or replace the members of the board of directors and the members of the supervisory committee of the wholly-owned subsidiaries of the Company; and (4) to appoint, replace or recommend the shareholders' representatives, director (candidates) and supervisors (candidates) of the subsidiaries which are controlled or invested by the Company.

### CHAPTER 3 COMPOSITION OF THE BOARD OF DIRECTORS AND ITS SUBORDINATED OFFICES

Article 11 The board of directors shall consist of thirteen directors. The board of directors shall have one chairman and one vice-chairman.

Article 12 The board of directors shall establish strategic decision-making sub-committee, auditing sub-committee, remuneration and evaluation sub-committee and other special committees. These special committees shall conduct research on specific matters and provide opinions and suggestions on these matters to the board of directors for the reference.

Members of the special committees shall be directors of the Company. The majority of the membership of the auditing sub-committee, and remuneration and evaluation sub-committee shall consist of the independent directors, who shall also act as convenors. The auditing sub-committee shall have at least one independent director who is also an accounting professional.

Article 13 The major responsibilities of the strategic decision-making sub-committee shall be to conduct research and put forward proposals on the long-term development strategy and significant investment decisions of the Company.

Article 14 The major responsibilities of the auditing sub-committee shall include the following:

- (1) to propose the appointment or replacement of the external auditor of the Company;
- (2) to oversee the Company's internal auditing system and its implementation;
- (3) to be responsible for the communication between the internal auditing department of the Company and the



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external auditor;

- (4) to examine and approve the Company's financial information and its disclosure;
- (5) to examine the internal control system of the Company.

Article 15 The major responsibilities of the remuneration and evaluation sub-committee shall include the following:

- (1) to research on the criteria for the evaluation of directors and the president, to conduct evaluation of them and make necessary suggestions;
- (2) to research on and review the policies and proposals in respect of the remuneration of directors, supervisors, president, vice-president, Chief Financial Officer and secretary of the board of directors.

Article 16 The special committees of the board of directors shall formulate detailed working rules, which shall come into effect upon the submission to, and the approval of, the board of directors.

### CHAPTER 4 SECRETARY OF THE BOARD OF DIRECTORS

Article 17 The Company shall have one secretary of the board of directors. The main duty of the secretary of the board of directors is to promote and improve the Company's corporate governance standards and properly deal with the matters regarding disclosure of information.

Article 18 The main duties of the secretary of the board of directors include:

- (1) to organize and arrange for board meetings and shareholders' general meetings, prepare the meeting materials, handle the meeting related affairs, to be responsible for record of meetings, ensure the accuracy and completeness of records, keep the meeting documents and records and take initiative to keep abreast of the execution of the related resolutions; and submit reports to the board of directors and put forward the proposals for importance issues arising during the implementation;
- (2) to ensure that the material issues concerning the resolutions of the board of directors can be strictly implemented in accordance with the specified procedures; to participate and organize the consultation and analysis on the decision-making matters of the board in accordance with its requirements, and put forward the related opinions and suggestions; to deal with the daily matters of the board of directors and its related committees if authorized;
- (3) to be the contact person of the Company with the securities regulatory authorities, be responsible for organisation, preparation and timely submission of

- related documents as required by the regulatory authorities, and be responsible for related tasks assigned by the regulatory authorities and to organise and complete these tasks, and to ensure that the Company prepares and submits the reports and other documents as required by the regulatory authorities in accordance with law;
- (4) to be responsible for the co-ordination and organization of the matters on disclosure of information of the Company, establish and perfect the system concerning information disclosure, participate in all related meetings of the Company concerning information disclosure, and keep abreast of the important business policies and related information of the Company in a timely manner;
- (5) to be responsible for keeping confidential of the sensitive materials concerning the share price of the Company, and formulate effective and enforceable secrecy systems and measures. For the divulgence of the sensitive materials concerning the share price of the Company due to various reasons, he shall take necessary remedial measures, make timely explanation and clarification, and notify the regulatory organizations in the places where the shares of the Company are listed as well as the securities regulatory authority of the State Council;
- (6) to be responsible for the co-ordination and organization of market promotion, coordinate the visit and interview, deal with the relationship with investors, maintain the relationship with investors, intermediary organs and news agencies, be responsible for the co-ordination and explanation of the inquiries of the public, and ensure the investors to obtain the information as disclosed by the Company in a timely manner, organize and arrange the promotion and advertising activities of the Company inside and outside the PRC, prepare and work out the summary report on market promotion and other important visiting activities, and report the related matters to the securities regulatory authorities of the State Council; to establish effective communication channels between the Company and its shareholders, including designating a staff and/or establishing (a) special office(s) to keep sufficient and necessary contacts with the shareholders, and to relay, in a timely manner, all the feedbacks including opinions and suggestions of the shareholders to the board of directors or the management team of the Company;
- (7) to ensure the proper preparation of the register of shareholders, to be responsible for the management and proper maintenance of the materials concerning register of shareholders, directors' register, quantity of shares held by majority shareholders and record of shares held by directors, as well as the name list of the beneficiaries of the outstanding debentures of the Company;
- (8) to assist directors and the president to practically

implement the domestic and foreign laws, regulations, the Company's Articles of Association and other provisions in discharge of their duties and exercise of their powers; be liable to remind directors and the president timely on becoming aware that the Company passes or may pass resolutions which may breach the relevant regulations, and be entitled to report the related matters to securities regulatory authorities of the State Council and other regulatory authorities according to the facts;

- (9) to provide the related information necessary for the supervisory committee of the Company and other approving authorities to discharge their duties and to exercise their powers, assist the investigation on the Chief Financial Officer, directors and the president of the Company concerning the performance of their fiduciary duties;
- (10) to ensure the complete organizational documents and records of the Company are kept properly, and the persons who have the rights of access to the relevant documents and records of the Company obtain those documents and records in a timely manner; and
- (11) to discharge other duties and to exercise other powers as conferred by the board of directors, as well as other duties and powers as required by the listing rules of the stock exchanges on which the Company's shares are listed.

Article 19 The board of directors of the Company shall have a secretarial office, which shall be a daily working body assisting the secretary of the board of directors in performing his duties.

Article 20 The Company shall formulate regulations in relation to the work of the secretary of the board, and perform the work for disclosure of information and investor relations. The relevant system shall be effective after reporting to the board of directors for approval.

#### CHAPTER 5 RULES OF THE BOARD OF DIRECTORS' MEETING

Article 21 The board of directors' meetings shall be divided into regular meetings and provisional meetings according to the regularity of such meetings.

Article 22 The regular meetings shall include the following:

- (1) The board meetings approving financial reports of the Company:

- (i) The annual results meetings

The annual results meetings shall be convened within 120 days from the end of the accounting year of the Company. The directors shall approve the Company's annual reports and deal with other relevant matters at such meetings. The timing of such meetings shall ensure that

the annual reports of the Company will be despatched to the shareholders within the time limit specified by the relevant regulations and the Articles of Association, and shall ensure that the preliminary annual financial results of the Company will be announced within the time limit specified by the relevant regulations of the Company, and shall ensure that the AGM will be convened within 180 days from the end of the accounting year of the Company.

(ii) The interim results meetings

The interim results meetings shall be convened within 60 days from the end of the first six months of the accounting year of the Company. The directors shall approve the Company's interim reports and deal with other relevant matters at such meetings.

(iii) The quarterly results meetings

The quarterly results meetings shall be held in the first month of each of the second and fourth quarter of the Gregorian calendar year. The directors shall approve the Company's quarterly reports for the preceding quarters at such meetings.

(2) The year-end review meetings

The year-end review meetings shall be convened in December of each year. The directors shall listen to and approve the president's report in respect of the expected performance of the Company in the year and the work arrangements for the following year at such meetings.

Article 23 The chairman of the board of directors shall approve the issue of a notice convening the provisional board of directors' meeting within seven days in any one of the following events:

- (1) where the chairman of the board of directors considers necessary;
- (2) where more than one-third of the directors propose in their joint names;
- (3) where more than one-half of the independent directors propose in their joint names;
- (4) where the supervisory committee proposes;
- (5) where the president proposes.

Article 24 The board of directors' meetings shall be divided into meetings at which all directors must be physically present and meetings which the directors may authorise other directors to attend on their behalf, according to whether the directors are physically present at the meetings.

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The meetings which all directors must be physically present shall be held at least once every six months, and such meetings shall not be held by way of written resolutions or video-telephone meetings.

Article 25 The board of directors' meetings shall be divided into on-site meetings, video-telephone meetings and meetings by way of written resolutions.

All the meetings of the board of directors may be held by the way of on-site meetings.

The board of directors' meetings may be held by the way of video-telephone meetings, provided that the attending directors are able to hear clearly the director who speaks at the meeting and communicate amongst themselves. The meetings convened by this way shall be recorded and videotaped. In the event that the attending directors are unable to sign for the resolutions on site, they shall express their opinions orally during the meeting and shall complete the signing procedures as soon as practicable. The verbal voting by a director shall have the same effect as signing in the voting sheet, provided that there is no discrepancy between the opinions expressed by such director in completing signing procedure and the opinions orally expressed by him during the meeting.

In the case of urgency (limiting to cases where an on-site meeting or a video-telephone meeting is impractical), and the matters to be examined are comparatively procedural and unique so that the a discussion of the motions proves to be unnecessary, the board of directors' meeting may be held by written resolutions, in which case the motions shall be passed by way of circulating the motions for directors' review. Unless otherwise expressed by the directors, signing on the written resolutions by the directors shall be sufficient evidence that they have agreed to the resolutions.

### CHAPTER 6 PROCEEDINGS OF THE BOARD OF DIRECTORS' MEETING

Article 26 Putting forward Motions

The motions of the board of directors' meetings shall be put forward in the following circumstances:

- (1) matters proposed by the directors;
- (2) matters proposed by the supervisory committee;
- (3) motions from the special committees of the board of directors;
- (4) matters proposed by the president;
- (5) matters to be considered by the shareholders of the subsidiaries controlled or invested by the Company in their shareholders' meetings (shareholders' general meetings).

Article 27 Collecting Motions

The secretary of the board of directors shall be responsible for

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collecting the draft motions in respect of the matters to be considered at the meeting. Each person who puts forward the relevant motion(s) shall submit the motions and relevant explanatory materials before the date of the meeting. Motions concerning material connected transactions (which are determined according to the standards promulgated by the relevant regulatory authorities from time to time) shall first be approved by the independent directors. The relevant materials shall be submitted to the chairman of the board of directors after scrutinized by the secretary of the board of directors, who shall also set out the time, place and agenda of the meeting in the materials submitted.

### Article 28 Convening the Meetings

A board of directors' meeting shall be convened by the chairman of the board of directors, who shall also approve the issue of the notice convening the meeting. If the chairman of the board of directors is unable to convene the meeting due to special reasons, he shall designate the vice-chairman or other director(s) to convene the meeting. Where the chairman fails to convene a meeting with no reason or designate specific personnel to act on his behalf, a director chosen by the vice-chairman and one-half of the directors jointly shall convene the meeting. The convenors of the meeting shall be responsible for approving the issue of the notice of the meeting.

### Article 29 Notice of the Meetings

- (1) The notice of a board of directors' meeting shall be delivered to all directors, supervisors and other personnel attending the meeting before the date of the meeting. The notice of the meeting shall generally set out the following:
  - i. the time and place of the meeting;
  - ii. the duration of the meeting;
  - iii. the agenda, reasons, subject matters and other relevant particulars of the meeting;
  - iv. the date of the issue of the notice.
- (2) The board of directors' meetings shall be noticed according to the following requirements and form:
  - i. the notice of the meeting may be served on the directors by courier, facsimile, electronic means, telegraph or mail;
  - ii. the notice of the board of directors' meeting shall be delivered to the directors ten days before the date of the meeting;
  - iii. the notice shall be written in Chinese, if necessary, the English version can be attached.

Any director may waive the right to receive the notice of board meeting.

Notice of a meeting shall be deemed to have been given to any

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director who attends the meeting without protesting against, before or at its commencement, any lack of notice.

### Article 30 Communication before the Meetings

After the issue of the notice of a meeting and before the date of the meeting, the secretary of the board of the directors shall be responsible for, and shall communicate and liaise with all supervisors, to seek their opinions or suggestions in respect of the motions of the meeting, and shall pass on these opinions or suggestions to the persons put forward the motions, so as to enable necessary amendments to be made to them. The secretary of the board of directors shall also, in a timely manner, arrange for the provision of the supplemental materials which are required for the directors to make decisions on the motions of the meeting, including the background information relating to the subject of the meeting and other information which will assist the directors in making scientific, immediate and prudent decisions.

Where more than one-fourth of the directors or two external directors are of the opinion that the materials provided are insufficient or unclear, they may make a proposal jointly concerning the postponement of holding of the board meeting or the postponement of discussions on the part of the issues put forward by the board of directors, and the board of directors shall adopt such a proposal. Unless such a proposal is put forward during the meeting, the secretary of the board of directors shall serve a notice on the directors, supervisors and other personnel attending the meeting upon receiving a written request concerning the postponement of holding of the meeting or the postponement of discussions on part of the issues put forward by the board of directors.

### Article 31 Attendance of the Meetings

Meetings of the board shall be held only if more than half of the directors are present.

Directors shall attend the meetings of the board of directors in person. Where a director is unable to attend a meeting for any reason, he may by a written power of attorney appoint another director to attend the meeting on his behalf (where an independent director is unable to attend in person, he shall appoint another independent director to attend on his behalf). The power of attorney shall set out the name of the attorney, the particulars and the scope of authorisation, duration of the validity of such authorisation, and shall be signed or sealed by the principal.

In the event that an independent director does not attend the board of directors' meeting for three consecutive meetings, the board of directors may propose to the shareholders' general meeting to have such independent directors dismissed.

The board of directors' meeting shall be chaired by the chairman of the board of directors. Where circumstances preclude the Chairman, he may designate the vice-chairman or other directors to act on his behalf. Where the chairman of the board fails to chair the meeting without reason or designate specific personnel to act on his behalf, a director chosen by the vice-chairman or more than half of the directors shall

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chair the meeting. Upon the expiry of the term of office of the directors and the re-election of the new directors at the shareholders' general meeting, the directors who obtains the largest number of votes at such re-election (if more than one, one shall be chosen amongst them) shall chair such meeting, at which the chairman of the new board of directors shall be elected.

### Article 32 Examining the Motions

The chairman of the meeting shall declare the commencement of the meeting as scheduled. The directors in presence shall reach an agreement on the agenda of the meeting thereafter. Where more than one-fourth of the directors or more than two external directors are of the opinion that the materials of the meeting are insufficient or unclear, they may make a proposal jointly concerning the postponement of holding of the board meeting or the postponement of discussions on the part of the issues put forward by the board of directors, and the board of directors shall adopt such a proposal.

When an agreement is reached in respect of the agenda of the meeting by the directors present at the meeting, the chairman of the meeting shall direct the motions to be examined one by one. Persons who put forward the motions or their attorneys shall first report to the board of directors their work or make statements in respect of the motions.

In reviewing the relevant proposals, motions and reports, in order to understand the main points and the background information of the motions in detail, the board of directors' meeting may require the heads of the departments which are responsible for handling the motions to attend the meeting to listen to and make inquiries of the relevant statements made at the meeting, so that proper decisions can be made at the meeting. If, in the course of the meeting, any motions examined are found to be unclear or infeasible, the board of directors shall require the departments which are responsible for handling the motions to give a statement at the meeting, and the motions can be returned to such departments for re-handling and their examination and approval shall be postponed.

The independent directors shall give their independent opinions to the board of directors on the following matters:

- (1) the nomination, appointment and removal of the directors;
- (2) the appointment and dismissal of the president, vice-president, Chief Financial Officer and secretary of the board of directors;
- (3) the remuneration of the directors, the president, vice-president, Chief Financial Officer and secretary of the board of directors of the Company;
- (4) the loans made by the Company to its shareholders, the person in actual control of the Company or the associated enterprises of the Company or other money transfer between them, the amounts of which are equivalent to or exceed the relevant thresholds of the Company's material connected transactions (which shall



be determined in accordance with the standards promulgated from time to time by the relevant regulatory authorities) which must be examined by the board of directors or shareholders' general meeting according to law, and whether the Company has taken effective measures to recover such debts;

- (5) any matters which the independent shareholders consider to be detrimental to the interests of minority shareholders.

An independent director shall give his opinion on the above-mentioned matters in the following manner:

- (1) consent;
- (2) opinion reserved and reasons;
- (3) opposition and its reasons;
- (4) no opinion can be expressed and the obstacles.

Article 33 Voting on the Motions

In reviewing the motions at the board of directors' meeting, all attending directors shall deliver their opinions in respect of approval or objection to such motions or abstention from voting.

The directors who are acting as proxies of others shall exercise the rights of voting within the authorisation.

Where a director is not present at a board of directors' meeting and fails to appoint a proxy to act on his behalf, such director shall be deemed to have waived his rights to vote at the meeting.

In reaching resolutions by the board of directors, except the following matters the resolutions of which shall be passed by the consent of more than two-thirds of the directors, the other matters shall be passed by the consent of more than one-half of the directors:

- (1) to formulate proposals for the credit and financial policies of the Company, the increase or reduction of the registered capital of the Company and the issuance of debentures and securities of any kind (including but without limitation to the debentures of the Company) and the listing or repurchase of the shares of the Company;
- (2) to draw up plans for significant acquisition or disposal proposals, the merger, division or dissolution of the Company;
- (3) to determine to provide external guarantees;
- (4) to formulate proposals for any amendment to the Articles of Association and its schedules.

The resolutions of the board of directors may be decided on a poll or show of hands. Each director shall have one vote. Where

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the votes for an against a resolution are equal, the chairman of the board of directors is entitled to cast one more vote.

If a director or his associate (as defined in the Rules Governing the Listing of Securities of the Hong Kong Stock Exchange Limited) have a material interest in any contract, transaction, arrangement or other matters that requires the approval of the board of directors, the relevant director shall not vote for the relevant matter at the meeting of the board of directors, and shall not be listed in the quorum of the meeting. Where resolutions cannot be reached due to the abstention from voting of the connected directors, the relevant motions shall be submitted directly to the shareholders' general meeting for examination.

### Article 34 Liability of Directors in respect of Resolutions of the Board of Directors' Meetings

A written resolution of the board of directors shall not take effect as a resolution of the board of directors if it has not been formulated in accordance with the stipulated procedures, notwithstanding all the directors have already expressed their opinions in different ways. The directors shall be responsible for the resolutions passed at the meetings of the board of directors. Any director who votes for a resolution which contravenes the laws, administrative regulations or the Articles of Association thus causing serious damages to the Company shall be directly liable (including the compensation of damages) for all the loss incurred by the Company as a result. A director who votes against the resolution, and who has been proved as having expressed dissenting opinions on the resolution and such opinions are recorded in the minutes of the meeting can be exempt from liability. A director who waives his right of voting, or who fails to attend the meeting and fails to appoint a proxy to act on his behalf, cannot escape liability. A director who explicitly express his objection in the course of discussion but fails to cast an objection vote in the voting cannot escape liability.

### Article 35 Resolutions of the Meeting

In principle, the board of directors' meeting shall resolve on all the matters examined at the meeting.

A resolution on the Company's connected transaction shall not be valid until it is signed by all directors.

The independent directors' opinions shall be set out in the resolutions of the board of directors meetings.

### Article 36 Minutes of the Meetings

Minutes of the board of directors' meeting are proof of the resolutions on the matters examined at the meeting. Detailed minutes in respect of the matters examined at the meeting shall be recorded. The minutes of the board of directors' meeting shall state the following:

- (1) the date, place, names of the convenors and chairman of the meeting;
- (2) the names of the attending directors and the names of

the present, the names of appointing directors and their attorneys;

- (3) the agenda of the meeting;
- (4) the essential points of the directors' presentations (for the written resolution meeting, the version containing the directors' feedbacks in writing shall prevail);
- (5) the voting methods and outcome for each proposal (the outcome of the voting shall set out the respective number of assenting or dissenting votes or votes that were waived);
- (6) the directors' signature.

The secretary of the board of directors shall take initiative to arrange for the matters examined at the meeting to be recorded. The minutes of each meeting shall be provided to the directors for review without delay. Those directors who wish to make supplementary revision on the minutes shall report their opinions on the revision to the chairman of the board of directors in written form within one week after the receipts of the minutes of the board meeting. After the minutes of board meeting are finally determined, the attending directors, the secretary of the board of directors and the minute-taking officer shall sign the minutes of the board meeting. The secretary of the board of directors shall deliver the complete duplicate of the minutes to all directors. The minutes of the board meeting, being an important document, shall be properly kept at the business address of the Company.

CHAPTER 7 DISCLOSURE OF INFORMATION RELATING TO THE BOARD OF DIRECTORS' MEETING

Article 37 The board of directors of the Company shall strictly comply with the requirements of the regulatory authorities and the stock exchanges on which the Company's shares are listed in relation to the disclosure of information. It shall ensure that matters examined or resolutions passed at the board of directors' meeting which are discloseable are disclosed accurately and in a timely manner. Information relating to significant matters of the Company must be reported to the stock exchanges on which the Company's shares are listed at the earliest opportunity, and shall be submitted to relevant regulatory authorities for filing.

Article 38 Where a matter which requires the independent opinions of the independent directors is discloseable, the Company shall disclose such opinions in the relevant announcement. If the independent directors are of divergent views and cannot reach any consensus, the board of directors shall disclose the respective opinions of each of the independent directors.

Article 39 Regarding confidential information, the attendees of the meeting must keep such information confidential. Punishment shall be imposed on those who are in breach of this duty.

CHAPTER 8 IMPLEMENTATION OF THE RESOLUTIONS OF THE BOARD OF DIRECTORS' MEETING AND FEEDBACKS

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Article 40 The following matters shall not be implemented until they are examined and preliminarily approved by the board of directors and submitted to the shareholders' general meeting for approval thereafter:

- (1) the formulation of the Company's annual preliminary and final financial budgets;
- (2) the formulation of Company's profit distribution proposals and loss recovery proposals;
- (3) the increase or reduction of the registered capital of the Company and the issue of debentures or other securities, as well as the listing or repurchase of the shares of the Company;
- (4) the formulation of plans for merger, division or dissolution of the Company;
- (5) the formulation of proposals for any amendment to the Articles of Associations; and
- (6) proposal to be submitted to the shareholders in general meeting for the appointment or replacement of the accounting firm auditing the accounts of the Company.

Article 41 After resolutions are passed at a board of directors' meeting, the president shall implement the resolutions which fall within the scope of the authority of the president, or which the board of directors authorises the president to handle, and shall report the status of implementation to the board of directors.

Article 42 The chairman of the board shall have the power to, or authorize the vice-chairman or the directors to, urge, examine and supervise the implementation of the resolutions of the meeting.

Article 43 At each board of directors' meeting, the president shall deliver a written report to the meeting in relation to the status of implementation of the matters which, according to the resolutions of the previous meeting, must be implemented.

Article 44 Under the direction of the board of directors and the chairman, the secretary of the board of directors shall take initiative to obtain information in respect of the progress on the implementation of the resolutions, and shall, in a timely manner, report to and submit proposals to the board of directors and the chairman in relation to the important issues to be implemented.

### CHAPTER 9 SUPPLEMENTAL ARTICLES

Article 45 Where these Rules fail to comply with relevant laws, regulations and other regulatory documents as promulgated from time to time, these laws, regulations and other regulatory documents shall prevail.

Article 46 Upon the unanimous consensus of all directors of the Company, the formulation of and the amendment to these Rules shall come into effect if they are adopted by the shareholders' general

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meeting by a special resolution and approved by the relevant authorities.

Article 47 The right to interpret these Rules shall vest with the board of directors.

### Rules and Procedures

for

The Supervisory Committee's Meeting

of

China Petroleum & Chemical Corporation

Approved at the First Extraordinary General Meeting of 2003 on 22 April 2003

### DIRECTORY

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### CHAPTER 1 GENERAL PROVISIONS

Article 1 In order to standardize the operation of the supervisory committee of China Petroleum & Chemical Corporation (the "Company"), to ensure the supervisory committee implementing the duties and responsibilities conferred by all shareholders of the Company, these Rules are formulated according to the "Company Law of the People's Republic of China" (the "Company law"), "Mandatory Provisions for the Articles of Association of Companies to be Listed Overseas", "Guidelines for the Articles of Association of Listed Companies", "Standards for the Governance of Listed Companies" and other relevant laws and regulations regulating listed companies inside and outside the PRC and the Articles of Association of China Petroleum & Chemical Corporation ("Articles of Association").

Article 2 The supervisory committee is accountable to the shareholders' general meetings. It shall be responsible for supervising the financial affairs of the Company and the lawfulness of the performance of their duties by the directors, president, vice-president, Chief Financial Officer and secretary of the board of directors of the Company so as to safeguard the legitimate interests of the Company and its shareholders.

Article 3 The Company shall take measures to ensure the supervisors' rights to know the Company's affairs, and provide them with necessary information and materials, so as to enable the supervisory committee to conduct effective supervision, inspection and evaluation of the financial status and management situation of the Company.

The president shall report to the supervisory committee the entering into of, and the enforcement of, material contracts by the Company, the use of capitals and the profitability of the Company upon the request of the supervisory committee. The president shall ensure the truthfulness of such report.

#### CHAPTER 2 COMPOSITION OF THE SUPERVISORY COMMITTEE AND ITS ADMINISTRATIVE OFFICE

Article 4 The supervisory committee shall compose of twelve supervisors. Of which, eight of them shall be shareholder representatives (including those who are eligible to be external supervisors); four of them shall be representatives of workers and staff of the Company.

The election and removal of the chairman of the supervisory committee shall be determined by two-thirds or more of the members of the supervisory committee.

Article 5 The term of the office of a supervisor shall be three years. The supervisors representing the shareholders shall be elected and removed by the shareholders' general meeting. The supervisors representing the workers and staff of the Company shall be elected and removed democratically by those workers and staff of the Company. The term of a supervisor is renewable upon re-election and re-appointment.

Article 6 Except for complying with the eligibility requirements as set out in the Company Law and the Articles of Association, the supervisors shall possess professional knowledge and work experience in the field of law or accounting.

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Article 7 A supervisor may resign before the expiry of his term of office by submitting a written resignation letter to the supervisory committee.

Provisions in respect of the resignation of directors as set out in the Articles of Association shall be applicable to the resignation of supervisors, including (but without limitation to) where a supervisor's resignation will result in the number of supervisors of the Company falling below the quorum as provided by law, the resignation letter of such supervisor shall not be effective until the vacancy created by his resignation has been filled.

Article 8 The supervisory committee shall have an administrative office responsible for handling daily affairs of the supervisory committee.

### CHAPTER 3 FUNCTIONS AND POWERS OF THE SUPERVISORY COMMITTEE

Article 9 The supervisory committee shall exercise the following functions and powers in accordance with law:

- (i) to review the Company's financial position. Where necessary, the supervisory committee may appoint another accounting firm on behalf of the Company to carry out independent audit;
- (ii) to supervise the directors, president, vice-president, Chief Financial Officer and secretary of the board of directors of the Company in order to ensure that they do not act in contravention of any law, regulation or the Articles of Association in performing their duties;
- (iii) to demand the directors, president, vice-president, Chief Financial Officer and secretary of the board of directors of the Company who acts in a manner which is harmful to the Company's interest to rectify such acts, and report to the shareholders' general meeting and relevant authorities of the State when necessary;
- (iv) to check and inspect the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the board of directors to the shareholders' general meetings and to authorize, in the Company's name, publicly certified and practicing accountants to assist in reviewing such information should any doubt arise in respect thereof;
- (v) to give opinions on the appointment of an accounting firm of the Company;
- (vi) to propose to convene an extraordinary general meeting, and may put forward provisional motions at the shareholders' annual general meeting;
- (vii) to propose to convene provisional board meetings;
- (viii) to represent the Company in negotiations with or in bringing actions against a director;

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- (ix) other duties and powers provided for in the Articles of Association. The supervisors shall attend meetings of the board of directors.

Article 10 The supervisory committee shall declare the Company's supervisory report for the preceding year at the AGM. Such report shall include the following matters:

- (i) the review of the Company's financial position;
- (ii) the implementation of relevant laws, regulations, Articles of Association and the resolutions of the shareholders' general meetings by the directors, president, vice-president, Chief Financial Officer and secretary of the board of directors of the Company;
- (iii) the evaluation of the performance of the directors, president, vice-president, Chief Financial Officer and secretary of the board of directors of the Company by the supervisory committee, in particular the specific opinions of the external supervisors;
- (iv) other significant events which in the opinion of the supervisory committee shall be reported to the shareholders' general meeting.

Where the supervisory committee thinks necessary, it may express its opinions on the motions examined at the shareholders' general meetings, and may submit an independent report to the shareholders' general meetings.

Article 11 All reasonable fees incurred in respect of the employment of professionals such as lawyers, certified public accountants or practicing auditors which are required by the supervisory committee in the exercise of its functions and powers shall be borne by the Company.

The expenses incurred by the supervisors in attending the supervisors' meeting shall be borne by the Company. These expenses shall include the transport fares incurred by the supervisors in travelling from their own addresses to the places of the meetings, and fees for the accommodation and meals during the meeting.

Article 12 The chairman of the supervisory committee shall exercise the following functions and powers:

- (i) to convene and chair the meetings of the supervisory committee;
- (ii) to organise and carry out the duties of the supervisory committee;
- (iii) to review and approve, and signing the reports of the supervisory committee and other important documents;
- (iv) to represent the supervisory committee to report to the shareholders' general meetings;
- (v) other duties that shall be performed by him in accordance with law or the Articles of Association.



Where special circumstances preclude the chairman from exercising his functions and powers, these functions and powers shall be exercised by a supervisor designated by him.

Article 13 In performing its duties, the supervisory committee may report to the board of directors and the shareholders general meetings the breach of laws and rules relating to the Company's financial affairs and the acts of the directors, president, vice-president, Chief Financial Officer and secretary of the board of directors of the Company which are in violation of laws, regulations or the Articles of Association. It may also directly report the same to the securities regulatory authorities of the State Council and other relevant authorities.

Article 14 A supervisor shall abide by the laws, regulations and the Articles of Association, and shall perform his duties faithfully and diligently.

#### CHAPTER 4 RULES OF THE SUPERVISORS' MEETINGS

Article 15 The supervisors' meetings shall be divided into regular meetings and provisional meetings according to the regularity of such meetings.

Article 16 The regular meetings shall be convened at least four times each year, including the interim results meeting, the annual results meeting, the year-end review and the arrangement meetings for supervisors financial management meetings.

The interim results meetings shall be convened within sixty days from the end of the first six months of the accounting year of the Company. The supervisors shall listen to and approve the Company's interim reports and deal with other relevant matters at such meetings.

The annual results meetings shall be convened within 120 days from the end of the accounting year of the Company. The supervisors shall listen to and approve the Company's annual reports and deal with other relevant matters at such meetings.

The year-end review and arrangement meetings shall be convened in December of each year. The supervisors shall listen to and approve the president's report in respect of the expected performance of the Company in the year and the work arrangements for the following year at such meetings.

The financial management meetings shall be convened within 30 days from the end of the annual financial work meeting of the Company. The supervisors shall listen to and approve the report of the Company's financial department in respect of conducting the overall budget management and strengthening financial control by the Company.

Article 17 A provisional supervisors' meeting shall be convened in any one of the following events:

- (i) here the chairman of the supervisory committee considers necessary;
- (ii) where more than two-thirds of the supervisors propose in

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their joint names;

(iii) where the Company has suffered or is suffering loss of substantial assets causing the shareholders' interests to be damaged;

(iv) where the directors, president, vice-president, Chief Financial Officer and secretary of the board of directors of the Company act in a way which is in contravention of laws, regulations or the Articles of Association causing the Company's interests to be seriously damaged.

Article 18 The supervisors' meetings shall be divided into on-site meetings, video-telephone meetings and meetings by way of written resolutions.

All the meetings of the supervisory committee may be held by the way of on-site meeting.

The meetings of the supervisory committee may be held by the way of video-telephone meetings, provided that the attending supervisors are able to hear clearly the supervisor who speaks at the meeting and communicate amongst themselves. In the event that the attending supervisors are unable to sign for the resolutions on site, they shall express their opinions orally during the meeting and shall complete the signing procedures as soon as practicable.

Where an on-site meeting or a video-telephone meeting is impractical, the supervisors' meeting may be held by way of written resolutions, in which case details of the motions to be discussed and examined at the meeting, which are in the written form, shall be despatched to the supervisors for decision. Unless otherwise expressed by the supervisors, signing on the written resolutions by the supervisors shall be sufficient evidence that they have agreed to the resolutions.

Article 19 A supervisors' meeting shall be validly convened by the presence of not less than two-thirds of the supervisors.

The supervisors shall be physically present at the supervisors' meetings. If for any reason a supervisor is unable to attend the meeting, he shall by written authorisation appoint another supervisor to act as his proxy to attend the meeting and exercise his functions and powers. The written authorisation shall state the name of the proxy, the scope of the authorisation, the authority of the proxy and the period of validity. It shall also be signed by the proxy or affix the seal of the proxy.

In the event that a supervisor does not attend the supervisors' meeting in person for two consecutive meetings, he shall be deemed to be unable to perform his duties, and the shareholders' general meeting or the staff representative meeting shall dismiss such supervisor.

### CHAPTER 5 PROCEEDINGS OF THE SUPERVISORS' MEETING

Article 20 The supervisory committee shall put forward motions according to the matters to be examined by the board of directors and matters proposed by the supervisors.

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Article 21 The administrative office of the supervisory committee shall be responsible for gathering the matters to be examined by the board of directors and the matters proposed by the supervisors, and shall submit these matters to the chairman of the supervisory committee in time. The chairman of the supervisory committee shall determine whether to submit these matters to the supervisory committee for review according to the importance and urgency of these matters.

Article 22 The chairman of the supervisory committee shall be responsible for convening the supervisors' meeting, and shall sign the notice of the meeting. Such notice shall state the date, place, duration, agenda, reasons and subject matters of the meeting and other relevant information, as well as the date of the issuance of such notice.

The notice of a supervisors' meeting shall be delivered to the supervisors ten days before the date of the meeting. Any supervisor may waive his right to demand the notice of the meeting.

The notice of the meeting may be served on the supervisors by courier, facsimile, telegraph or mail.

Article 23 After the issue of the notice of a meeting and before the date of the meeting, the administrative office of the supervisory committee shall be responsible for, and shall communicate and liaise with all supervisors, to seek their opinions or suggestions in respect of the motions of the meeting, so as to enable necessary amendments to be made to them.

Where more than one-fourth of the members of the supervisors or two external supervisors are of the opinion that the information in respect of a specific motion is insufficient to allow judgment to be made, or the motion is not convincing, they may in their joint name propose to postpone the examination of such a motion, and the supervisory committee shall adopt such a proposal.

Article 24 The supervisors' meeting shall be chaired by the chairman of the committee. Where circumstances preclude the chairman to chair the meeting, he may designate a supervisor to chair the meeting. Upon the expiry of the term of office of the supervisory committee and the re-election of the new supervisors by the shareholders' general meeting, the supervisor who obtains the largest number of approval votes at such re-election (if more than one, one shall be chosen amongst them) shall chair such meeting, at which the chairman of the new supervisory committee shall be elected.

Article 25 The chairman of the meeting shall declare the commencement of the meeting as scheduled. The supervisors in presence shall reach an agreement on the agenda of the meeting thereafter.

Where more than one-fourth of the supervisors or two external supervisors are of the opinion that the information in respect of one specific motion is insufficient to allow judgment to be made, or the motion is not convincing, they may in their joint name propose to postpone the examination of such a motion, and the chairman of the meeting shall adopt their proposal.

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Where an agreement is reached in respect of the agenda of the meeting by the supervisors present at the meeting, the chairman of the meeting shall direct the motions to be examined one by one.

Article 26 In reviewing the relevant motions and reports, the supervisors' meeting may require the directors, president, vice-president, Chief Financial Officer, secretary of the board of directors and the internal and external auditors of the Company to attend the meeting to give necessary explanations to the relevant matters, and to answer the questions which the supervisory committee is concerned with.

Article 27 In reviewing the motions at supervisors' meetings, all attending supervisors shall deliver their opinions in respect of approval or objection to such motions or abstention from voting.

The supervisors who are acting as proxies of others shall exercise the rights of voting within the authorization.

Where a supervisor is not present at a supervisors' meeting and fails to appoint a proxy to act on his behalf, such supervisor shall be deemed to have waived his rights to vote at the meeting.

Article 28 In principle, resolutions shall be made on the matters examined at the supervisors' meeting. Such resolutions shall be decided on a poll or show of hands. No resolution shall be effective unless approved by more than two-thirds of all the supervisors.

Article 29 Detailed minutes of a supervisors' meeting shall be recorded as proof of the resolutions on the matters examined at the meeting.

The minutes of the meeting shall state the date and place of the meeting, name of the chairman of the meeting, names of the attending supervisors and names of the principals and proxies who have fulfilled the necessary procedures for attending the meeting, agenda of the meeting, main points of each supervisor's speech, the methods of voting for each matter to be resolved on and the voting result (the result shall state the number of votes for approval or objection to the motion or abstention).

The administrative office of the supervisory committee shall designate staff to arrange for the matters examined at the meeting to be recorded. The minutes of each meeting shall be provided to the attending supervisors for review without delay. Supervisors present at the meeting and the minutes-taking officer shall sign the minutes of that meeting. A supervisor shall have the right to request an explanatory note be made for his speech at the meeting.

Article 30 Minutes of a supervisors' meeting and the resolutions passed at such meeting, being important documents, shall be properly kept by the administrative office of the supervisory committee at the Company's place of business.

CHAPTER 6 DISCLOSURE OF INFORMATION RELATING TO THE SUPERVISORS' MEETING

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Article 31 The supervisory committee shall strictly comply with the requirements of the regulatory authorities and the stock exchanges on which the Company's shares are listed in relation to the disclosure of information. It shall ensure that matters examined or resolutions passed at supervisors' meetings which are discloseable are disclosed accurately and in a timely manner.

Article 32 Regarding confidential information, the attendees of the meeting must keep such information confidential. Punishment shall be imposed on those who are in breach of this duty.

### CHAPTER 7 IMPLEMENTATION OF THE RESOLUTIONS OF THE SUPERVISORS' MEETING AND FEEDBACKS

Article 33 The supervisory committee may pass resolutions and make proposals to the board of directors and the shareholders' general meetings. These resolutions and proposals shall be implemented by the relevant departments of the Company under the direction of the board of directors.

Article 34 The administrative office of the supervisory committee shall, under the direction of the committee and its chairman, take initiative to obtain the information in respect of the implementation of the relevant resolutions, and shall report and make proposals to the supervisory committee and the chairman of the committee.

Article 35 Where resolutions concerning the proposals to convene a provisional board meeting or shareholders' extraordinary general meeting, or the submission of provisional motions to the AGM are passed by the supervisory committee, the supervisory committee shall, within a specified period, submit to the board of directors the subjects of such meetings and the detailed motions in writing, and shall ensure that the contents of the motions comply with relevant laws, regulations and the Articles of Association.

### CHAPTER 8 SUPPLEMENTARY ARTICLES

Article 36 The right to interpret these Rules shall vest with the supervisory committee.

Article 37 Where these Rules fail to comply with relevant laws, regulations and other regulatory documents as promulgated from time to time, these laws, regulations and other regulatory documents shall prevail.

Exhibit 8

#### List of Subsidiaries

A list of China Petroleum & Chemical Corporation's principal subsidiaries is provide in Note 31 to the consolidated financial statements included in this annual report following Item 19.

CERTIFICATIONS

I, Chen Tonghai, certify that:

1. I have reviewed this annual report on Form 20-F of China Petroleum & Chemical Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this annual report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure procedures, as of the end of the period covered by the report based on such evaluation; and

(c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

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Date: June 18, 2004

By: /s/ Chen Tonghai  
Chen Tonghai, Chairman

Exhibit 12.2

I, Wang Jiming, certify that:

1. I have reviewed this annual report on Form 20-F of China Petroleum & Chemical Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this annual report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure procedures, as of the end of the period covered by the report based on such evaluation; and
  - (c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

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Date: June 18, 2004

By: /s/ Wang Jiming  
Wang Jiming, President

Exhibit 12.3

I, Zhang Jiaren, certify that:

1. I have reviewed this annual report on Form 20-F of China Petroleum & Chemical Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this annual report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure procedures, as of the end of the period covered by the report based on such evaluation; and
  - (c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.



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Date: June 18, 2004

By: /s/ Zhang Jiaren  
Zhang Jiaren,  
Senior Vice President and  
Chief Financial Officer

Exhibit 13

Certification of CEO and CFO Pursuant to  
18 U.S.C. Section 1350,  
and Pursuant to Rule 13a-14(b)  
under the Securities Exchange Act of 1934, as amended (the "Exchange Act")

In connection with the Annual Report on Form 20-F of China Petroleum & Chemical Corporation (the "Company") for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Chen Tonghai, as Chairman of the Company, Wang Jiming, as President of the Company, and Zhang Jiaren, as Senior Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. ss. 1350 and Rule 13a-14(b) under the Exchange Act, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Exchange Act; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Chen Tonghai  
Name: Chen Tonghai  
Title: Chairman  
Date: June 18, 2004

By: /s/ Wang Jiming  
Name: Wang Jiming  
Title: President  
Date: June 18, 2004

By: /s/ Zhang Jiaren  
Name: Zhang Jiaren  
Title: Senior Vice President and Chief Financial Officer  
Date: June 18, 2004

This certification accompanies the Report pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350 and shall not be deemed "filed" by the Company for purposes of ss.18 of the Exchange Act, or otherwise subject to the liability of that section.