

1 AGREEMENTS CONCERNING CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND SINOPEC GROUP COMPANY

In order to ensure continuous normal operation of production and businesses between the Company and Sinopec Group Company, the two parties entered into a number of agreements on connected transactions before Sinopec Corp. was listed overseas. The particulars of connected transactions include the following:

- (1) Agreement for mutual supply of ancillary services for products, production and construction services (“Mutual Supply Agreement”).
- (2) Sinopec Group Company provides trademarks, patents and computer software to the Company for use free of charge.
- (3) Sinopec Group Company provides cultural and educational, hygienic and community services to the Company.
- (4) Sinopec Group Company provides leasing of land and certain properties to the Company.
- (5) Sinopec Group Company provides consolidated insurance to the Company.
- (6) Sinopec Group Company provides shareholders' loan to the Company.
- (7) The Company provides agency marketing services on products to Sinopec Group Company.
- (8) The Company provides petrol stations franchise to Sinopec Group Company.

2 WAIVER OF THE CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND SINOPEC GROUP COMPANY GRANTED BY THE HONG KONG STOCK EXCHANGE

In accordance with the Listing Rules of the Hong Kong Stock Exchange, the above connected transactions are subject to full disclosure, depending on their nature and value of transaction, with prior approvals from independent directors and the Hong Kong Stock Exchange. At the time of listing, Sinopec Corp. applied for waivers from the Hong Kong Stock Exchange to exempt it from full compliance with the Listing Rules for the transactions mentioned above. The Hong Kong Stock Exchange conditionally exempted Sinopec Corp from undertaking the obligations of continuous disclosure.

At the Extraordinary General Meeting of Sinopec Corp. held on 24 August 2001, “the Connected Transaction Adjustment Agreement” was approved, and the ongoing connected transactions were adjusted accordingly. On 29 June 2001, the Hong Kong Stock Exchange conditionally agreed to grant new waivers of continuous disclosure obligations to Sinopec Corp. and granted Sinopec Corp. a waiver, for a period of three financial years ending on 31 December 2003. Within such period of time, Sinopec Corp. is not required to comply with the requirements of connected transactions under the Listing Rules of the Hong Kong Stock Exchange, but Sinopec Corp. must satisfy the conditions of waivers. The relevant conditions for waivers on continuous disclosure obligations were set out in the eighth paragraph of the letter from the Chairman incorporated in the circular concerning connected transactions and ongoing connected transactions which was dispatched to the holders of H shares on 30 June 2001, and were published in Annex 3 to the announcement of the Sinopec Corp.'s Extraordinary General Meeting of Shareholders of Year 2001 in China Securities News, Shanghai Securities News, and Securities Times on 10 July 2001.

3 THE PROVISIONS ON WAIVER OF DISCLOSURE AND APPROVAL OF CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND SINOPEC GROUP COMPANY UNDER THE LISTING RULES OF THE SHANGHAI STOCK EXCHANGE

In the prospectus for the issue of A shares of Sinopec Corp., the above connected transactions together with the agreements and arrangements between the Company and Sinopec Group Company were fully disclosed. In accordance with the Listing Rules of the Shanghai Stock Exchange, if there is no significant change in the agreements governing the above connected transactions during the period of this report, Sinopec Corp. would be exempted from implementing the disclosure and approval regulations for connected transactions under the Listing Rules of the Shanghai Stock Exchange.

4 CONNECTED TRANSACTIONS ENTERED INTO BY THE COMPANY DURING THIS YEAR:

As reviewed by the auditors of Sinopec Corp., the aggregate amount of connected transactions actually occurred in relation to the Company during this year was RMB 102.001 billion, of which, incoming trade amounted to RMB 63.558 billion, and outgoing trade amounted to RMB 38.443 billion (including, RMB 38.291 billion of sales of products and services, RMB 111 million of interest earned, RMB 41 million of receivable agency fee). All of these satisfied the conditions of waiver imposed by the Hong Kong Stock Exchange. In 2003, the products and services provided by Sinopec Group Company (purchase, storage and transportation, exploration and production services and production-related services) to the Company amounted to RMB 58.158 billion, representing 14.33% of the Company's annual operating expenses, a decrease of 0.22% compared with those in 2002, which were within the cap of 18% for waiver. The auxiliary and community services provided by Sinopec Group Company to the Company amounted to RMB 1.821 billion,

representing 0.45% of operating expenses, with a slight decrease compared with 0.62% in the preceding year, which were within the cap of 3% for waiver. In 2003, the product sales from the Company to Sinopec Group Company amounted to RMB 38.291 billion, representing 8.64% of the Company's operating income, which were within the cap of 16% for waiver. With regard to the Leasing Agreement of Land Use Rights, the amount of rent payable by the Company for the year ended 31 December 2003 was approximately RMB 2 billion. With regard to the premium payable under the SPI Fund Document, the amount of fund payable per annum by the Company shall not be less than the amount specified in the SPI Fund Document.

The above mentioned connected transactions in 2003 have been approved at the seventh meeting of the second session of the Board of Directors of Sinopec Corp.

The auditors of Sinopec Corp. have confirmed to the Board of Directors in writing that:

- (a) The transactions have been approved by the Board of Directors;
- (b) The transactions have been entered into at considerations consistent with the pricing policies as stated in the relevant agreements;
- (c) The transactions have been entered into in accordance with the terms of the respective agreements and documents governing the respective transactions; and
- (d) The relevant amount has not exceeded the relevant cap for waiver.

After reviewing the above relevant transactions, the independent directors of Sinopec Corp. have confirmed that:

- (a) The transactions have been entered into by Sinopec Corp. in its ordinary course of business;

(b) The transactions have been concluded on any one of the following terms:

- i on normal commercial terms;
- ii on terms no less favorable than those available from/to independent third parties; or
- iii on terms that are fair and reasonable as to the shareholders of Sinopec Corp., where there is no available comparison to determine whether item i or ii is satisfied; and

(c) the aggregate values of the transactions have not exceeded the respective limits.

Please refer to Note 33 to the financial statements prepared pursuant to the IFRS in this annual report for details of the connected transactions actually occurred during this year.

(1) The Principal Operations Categorized by Business Segments and the Status of the Connected Transactions

The following data are extracted from the financial statements prepared under the PRC Accounting Rules and Regulations.

Categorized by business segments	Income from principal operations RMB millions	Cost of principal operations, taxes and surcharges RMB millions	Gross profit ratio (%)	Increase/decrease of income from principal operations compared with the same period of preceding year (%)	Increase/decrease of cost of principal operations, taxes and surcharges compared with the same period of preceding year (%)	Increase/decrease of gross profit margin ratio compared with the same period of preceding year (percentage points)
Exploration and production	62,223	31,596	46.26	23.64	9.75	2.60
Refining	266,253	254,360	4.41	27.46	28.39	(0.66)
Chemicals	82,334	73,116	11.20	25.50	20.99	3.31
Marketing and distribution	240,812	210,456	12.61	28.98	28.56	0.29
Others	60,600	59,984	1.02	41.67	41.55	0.09
Elimination of inter-segment sales	(295,031)	(293,037)	Inapplicable	Inapplicable	Inapplicable	Inapplicable
Total	417,191	336,475	19.35	28.69	27.92	0.49
Of which: connected transactions	31,648	28,272	10.67	38.60	36.28	1.52
Details of connected transactions	Refer to the section 4 of Connected Transactions					
Principle of pricing for connected transactions	(1) Government-prescribed prices and government-guided prices are adopted for products or projects if such prices are available; (2) Where there is no government-prescribed price or government-guided price for products or projects, the market price (inclusive of bidding price) will apply; (3) Where none of the above is applicable, the price will be decided based on the cost incurred plus a reasonable profit of not more than 6% of the price.					

CONNECTED TRANSACTIONS (CONTINUED)

(2) Funds Provided to and by Connected Party

Unit: RMB millions

Connected party	Funds provided to connected party		Funds provided to the Company by connected party	
	Occurrence amount	Balance	Occurrence amount	Balance
Sinopec Group Company and its subsidiaries	(2,236)	8,894	4,889	14,515
Total	(2,236)	8,894	4,889	14,515

5 OTHER MATERIAL CONNECTED TRANSACTIONS OCCURRING DURING THIS YEAR

(1) Connected transactions for leasing of Sinopec Group Company's petrol stations

On 20 January 2003, Sinopec Corp. issued an announcement about the leasing of petrol stations by a number of Sinopec Corp.'s branches from a number of Sinopec Group Company's subsidiaries. The two parties signed 983 new lease agreements, each of which would expire on 31 December 2003 for a term of one year. For details, please refer to the relevant announcement published in China Securities News, Shanghai Securities News, and Securities Times in China, and South China Morning Post and Hong Kong Economic Times in Hong Kong on 21 January 2003. The total amount of rent incurred during the period of this report was about RMB 84.18 million, which was in conformity with the conditions of waiver approved by the Hong Kong Stock Exchange for such connected transactions. The auditors of Sinopec Corp. have issued a letter to the Board of Directors to certify that:

- (a) The above leasing agreements have been approved by the Board of Directors;
- (b) The above leasing agreements have been entered according to relevant terms; and

- (c) The amounts of rent paid in accordance with the above leasing agreements have not exceeded the cap amount.

After reviewing the connected transactions above, the independent directors of Sinopec Corp. confirmed the following:

- (a) The above leasing agreement:
 - i have been concluded by Sinopec Corp. or its subsidiaries in the ordinary course of business;
 - ii have been concluded (a) on normal commercial terms (the terminology shall be applied in reference to transactions of similar nature, and shall be made by similar Chinese entities) or (b) (where there is no available comparison) on terms that are fair and reasonable to the independent shareholders; and
 - iii have been concluded in accordance with the provisions of the standard leasing agreement;
- (b) The total amount of rent incurred in the fiscal year of Sinopec Corp. under the above leasing agreements have not exceeded the cap amount for the relevant fiscal year.

(2) Connected transactions for new leasing of land use rights

At the third meeting of the second session of the Board of Directors of Sinopec Corp., the Board approved "the Proposal Concerning the New Leasing of Land Use Rights from Sinopec Group Company", and approved the lease of the land use rights by Sinopec Corp. of an area of 51.71 million square meters from Sinopec Group Company at an annual rent of RMB 273.4717 million. The two parties signed an "Agreement on Lease of Land Use Rights". For details, please refer to the relevant announcement published in China Securities News, Shanghai Securities News, Securities Times in China, South China Morning Post and Hong Kong Economic Times in Hong Kong on 25 August 2003. The amount of rent under the leasing agreement incurred in this reporting period was about RMB 263.31 million. The auditors of Sinopec Corp. have issued a letter to the Board of Directors to certify that:

- (a) The leasing agreement mentioned above has been approved by the Board of Directors;

- (b) The above leasing agreement has been concluded according to relevant terms; and
- (c) The amount of rent paid in accordance with the leasing agreement has not exceed the cap amount.

After reviewing the connected transactions above, the independent directors of Sinopec Corp. confirmed the following:

- (a) The above leasing agreement:
 - (i) has been concluded by Sinopec Corp. or its subsidiaries in the ordinary course of business;
 - (ii) has been concluded (a) on normal commercial terms (the terminology shall be applied in reference to transactions of similar nature, and shall be made by similar Chinese entities) or (b) (where there is no available comparison) on terms that are fair and reasonable to the independent shareholders; and
 - (iii) has been concluded in accordance with the provisions of the standard leasing agreement.
- (b) The total amount of rent incurred in the fiscal year of Sinopec Corp. under the above leasing agreement have not exceeded the cap amount for the relevant fiscal year.

(3) Connected transactions for acquisition of Maoming Ethylene

At the fourth meeting of the second session of the Board of Directors of Sinopec Corp. held on 28 October 2003, the Board approved the proposal regarding Sinopec Corp.'s acquisition of the production and operating assets for principal businesses owned by Maoming Petrochemical Co., Ltd. ("Maoming Ethylene") at a price of RMB 3.3 billion. The two parties entered into an

acquisition agreement. For details, please refer Sinopec Corp.'s relevant announcement published in China Securities News, Shanghai Securities News, Securities Times in China, and South China Morning Post and Hong Kong Economic Times in Hong Kong on 29 October 2003.

(4) Acquisition of Tahe Petrochemicals and Xi'an Petrochemicals

At the fifth meeting of the second session of the Board of Directors of Sinopec Corp. held on 29 December 2003, the Board approved the Company to acquire the entire operating assets and liabilities of Tahe Oilfield and Petrochemical Plant ("Tahe Petrochemicals") and the entire operating assets and liabilities of Xi'an Petrochemical Plant General ("Xi'an Petrochemicals") in cash respectively, which were both wholly owned by Sinopec Group Company. The purchase prices were about RMB 135 million and RMB 221 million respectively. For details, please refer to Sinopec Corp.'s relevant announcement published in China Securities News, Shanghai Securities News, Securities Times in China, South China Morning Post and Hong Kong Economic Times in Hong Kong on 30 December 2003.

(5) Ongoing connected transactions:

At the time of listing in 2000, Sinopec Corp. and Sinopec Group Company signed a series of agreements regarding ongoing connected transactions. The Hong Kong Stock Exchange conditionally granted a waiver from disclosure requirements of ongoing connected transactions, which had a term of three years (from 2001 to 2003). At the end of 2003, this waiver has expired. Sinopec Corp. readjusted the cap amount for waiver from disclosure requirements of ongoing connected transactions, and re-applied for a new 3-year waiver from disclosure requirements of ongoing connected transactions and approval by

shareholders from the Hong Kong Stock Exchange with regard to the relevant major ongoing connected transactions (as defined in the announcement dated 28 October 2003) in accordance with the Listing Rules of the Hong Kong Stock Exchange, and re-applied for a new waiver from disclosure requirements of ongoing connected transactions from the Hong Kong Stock Exchange with regard to the cap amount of ongoing connected transactions (as defined in the announcement dated on 28 October 2003). Those major ongoing connected transactions concerning disclosure of ongoing connected transactions and waiver from disclosure with approval from shareholders, and at the request of the Shanghai Stock Exchange, those de minimus ongoing connected transactions concerning a waiver from disclosure of ongoing connected transactions, were approved by the General Meeting of Shareholders. On 16 January 2004, the Hong Kong Stock Exchange conditionally agreed to grant the new waivers from ongoing disclosure obligations to Sinopec Corp. and granted Sinopec Corp. a waiver for a period of three financial years expiring on 31 December 2006. Within such a period of time, Sinopec Corp. does not need to follow the requirements for disclosure of connected transactions under the Listing Rules, but Sinopec Corp. must satisfy the conditions of waiver. The conditions for the waivers of ongoing disclosure obligations were set out in the letter from the Chairman incorporated in the circular concerning connected transactions and ongoing connected transactions which was dispatched to the holders of H shares by Sinopec Corp. on 29 October 2003, and were published in the announcement of the Third Extraordinary General Meeting of Shareholders for Year 2003 in China Securities News, Shanghai Securities News, and Securities Times on 29 October 2003.