

CONNECTED TRANSACTIONS

The following connected transactions were carried out by the Company during the year:

(1) Reorganisation Agreement and Assets Swap Agreement

China Petrochemical Corporation (“Sinopec Group Company”) and Sinopec Corp. on 3rd June 2000 entered into a reorganisation agreement effective from 31st December 1999 (the “Reorganisation Agreement”), pursuant to which Sinopec Group Company transferred to Sinopec Corp. most of its assets and liabilities. According to the Reorganisation Agreement, Sinopec Group Company has agreed to indemnify Sinopec Corp. and its subsidiaries (“the Company”) against certain taxes and claims relating to the reorganisation. Sinopec Corp. has agreed to indemnify Sinopec Group Company and its subsidiaries (“Sinopec Group”) against the breach of any provision of the Reorganisation Agreement on the part of the Company.

In addition, Sinopec Group Company and Sinopec Corp. entered into an assets swap agreement dated 16th August 2000 with effect from 31st December 1999 (“Assets Swap Agreement”) under which Sinopec Corp. transferred its assets, interests and the related liabilities of the Tianjin polyester project and the Luoyang polyester project (both under construction) to Sinopec Group Company, and Sinopec Group Company transferred to Sinopec Corp. certain assets and liabilities in China Petrochemical International Company (and its subsidiary, Unipech) and other domestic companies. According to the Assets Swap Agreement, if any party suffers any actual economic loss as a result of the breach of any representation, guarantee and undertaking by the other party under the agreement, the defaulting party shall indemnify the other party against the loss incurred by that party.

(2) Accounts Receivable Agreement

Sinopec Group Company and Sinopec Corp. entered into an accounts receivable transfer agreement dated 16th August 2000 with effect from 30th April 2000 (“Accounts Receivable Agreement”) under which Sinopec Corp. transferred its accounts receivable in an amount of RMB 5.8 billion to Sinopec Group Company, and in consideration of this, Sinopec Group Company assumed the same

amount of debts owed by Sinopec Corp. to various financial institutions. According to the Accounts Receivable Agreement, if any party suffers any actual economic loss as a result of the breach of any representation, guarantee and undertaking by the other party under the agreement, the defaulting party shall indemnify the other party against the loss incurred by that party.

(3) Guarantee

Sinopec Group Company has given guarantees to certain banks in the PRC and overseas as security for the novation of its obligations under certain loans in favour of Sinopec Corp.. Sinopec Corp. does not provide any security or any amount by way of fees or otherwise to Sinopec Group Company for the provision of these guarantees.

(4) Service Stations Franchise Agreement

Effective from 1st January 2000, Sinopec Group Company (for itself and on behalf of its subsidiaries) and Sinopec Corp. entered into an agreement relating to service stations of Sinopec Group dated 16th August 2000 (“Service Stations Franchise Agreement”) under which Sinopec Group Company has agreed that its service stations and petroleum retail stores shall have the same external public image, selling prices, standard of service and quality as the service stations and petroleum retail stores of Sinopec Corp.. Sinopec Group Company has also agreed that these service stations and petroleum retail stores shall exclusively sell the petrochemical products of Sinopec Corp.. The Service Stations Franchise Agreement is for a term of 10 years commencing from 1st January 2000. Neither Sinopec Corp. nor Sinopec Group Company has to pay any fees under the Service Stations Franchise Agreement.

(5) Intellectual Property Licence Agreements

Sinopec Corp. and Sinopec Group Company have on 3rd June 2000 with effect from 1st January 2000 entered into three intellectual property and technology licensing agreements, namely, a trademarks licence agreement (“Trademarks Licence Agreement”), a patents and proprietary technology licence agreement (“Patents and Proprietary Technology Licence Agreement”) and a computer software licence agreement

("Computer Software Licence Agreement") (collectively, the "Licence Agreements"). Each of the Licence Agreements is for a term of 10 years commencing from 1st January 2000. Subject to the pre-existing licences granted by Sinopec Group Company to the subsidiaries of Sinopec Corp. before the Trademarks Licence Agreement and the Patents and Proprietary Technology Licence Agreement were entered into, Sinopec Group Company has granted to Sinopec Corp. and its associates (for the purpose of this only, "associate" means an entity in which Sinopec Corp. can directly or indirectly control 30% or more of the capital interest or voting rights or majority of the board of directors) rights to use certain trademarks, patents and proprietary technology and computer software relating to the business operations of Sinopec Corp. at no cost.

While the above intellectual property rights are granted to Sinopec Corp. at no cost, Sinopec Corp. shall, before December 31st of each year, pay to Sinopec Group all such expenses which Sinopec Group paid in the relevant year according to the relevant laws and regulations for maintaining the validity of the relevant trademarks, patents and computer software.

(6) Safety Production Insurance Fund (the "SPI Fund")

With the approval of the Ministry of Finance, Sinopec Group Company has established the SPI Fund which currently provides insurance cover on a consolidated basis on certain assets used in the operations of the Company.

Under a document jointly issued by Old Sinopec and the Ministry of Finance in 1997 (Cai Gong Zi [1997] No.268) ("SPI Fund Document"), Sinopec Corp. is required to pay twice a year an insurance premium amounting to 0.2% of the historical value of the fixed assets and the average month-end inventory value of the Company of the previous six months.

After Sinopec Group Company has received the premium from Sinopec Corp., Sinopec Group Company will refund 20% of the paid premium to Sinopec Corp. if Sinopec Corp. pays the semi-annual premium on time according to the SPI Fund Document

("Refund"). The Refund shall be used by Sinopec Corp. in dealing with accidents and potential risks and safety measures; in safety education and training and in preventing major accidents and potential risks and as awards to units and individuals who have made a special contribution to safety production.

(7) Agency Agreement in respect of the Ethylene Enterprises ("Agency Agreement") and its related supplemental agreement

Effective from 1st January 2000, Sinopec Group Company, representing the Ethylene Enterprises, and Sinopec Corp. entered into the Agency Agreement dated 3rd June 2000 for a term of 3 years. Sinopec Corp. is appointed as the exclusive agent for the sale of all the products produced by the Ethylene Enterprises. Sinopec Corp. will receive an agency fee which is equal to 0.2% to 1% of the amount of purchase price actually received by Sinopec Corp.. Sinopec Corp. shall bear the expenses incurred in collecting payment for the purchases except for the expenses relating to any arbitration proceedings (including legal fees) for the purposes of collecting the payments.

(8) Agreement for Mutual Provision of Products and Ancillary Services ("Mutual Supply Agreement") and its related supplemental agreement

Sinopec Group Company and Sinopec Corp. entered into the Mutual Supply Agreement dated 3rd June 2000 with effect from 1st January 2000 for a term of 3 years, whereby Sinopec Group Company agreed to provide to Sinopec Corp. supply services, storage and transportation services, ancillary production services and financial services.

The above products and ancillary services shall be provided at:

- (i) government-prescribed price;
- (ii) where there is no government-prescribed price but where there is a government-guidance price, the government-guidance price will apply;
- (iii) where there is neither a government-prescribed price nor a government-guidance price, the market price will apply; or

CONNECTED TRANSACTIONS (CONTINUED)

(iv) where none of the above is applicable, the price is to be agreed between the relevant parties for the provision of the above products or services, which shall be the reasonable cost incurred in providing the same plus not more than 6% of such cost.

(9) Agreement for the Provision of Cultural, Educational, Hygiene and community Services (“Community Service Agreement”) and its related supplemental agreement

Sinopec Group Company and Sinopec Corp. entered into the Community Services Agreement dated 3rd June 2000 with effect from 1st January 2000 for a term of 3 years whereby Sinopec Group Company agreed to provide cultural, educational and hygiene services and Community services to the Company.

The services under the Community Services Agreement are provided in accordance with the same pricing policy as that of the Mutual Supply Agreement.

(10) Land Use Rights Leasing Agreement

Effective from 1st January 2000, Sinopec Group Company and Sinopec Corp. entered into a land use rights leasing agreement on 3rd June 2000 whereby Sinopec Group Company agreed to lease to the Company certain lands, with an aggregate area of approximately 0.367 billion square metres (“Leased Lands”) at an annual rent of approximately RMB 1.95 billion (“Land Use Rights Leasing Agreement”). The rent is to be reviewed every 3 years and any such revised rent shall not be higher than the prevailing market rent as confirmed by an independent valuer.

The Leased Lands can be divided into two types:

- (i) those which members of the Sinopec Group have land use rights certificates;
- (ii) those which members of the Sinopec Group have obtained approval from the Ministry of Land and Resources evidencing its rights to lease the same to Sinopec Corp..

The Leased Lands which are industrial use lands are leased by members of the Sinopec Group to the Company for a term of 50 years. The commercial use lands are leased for 40 years and the lands mentioned in sub-paragraph (i) above are leased for a term up to the date of expiry of the respective land use rights certificates, in each case, commencing from 1st January 2000, the Company may require the member of Sinopec Group to renew the term of the lease by giving notice to it twelve months before the expiry of the lease.

Apart from the Leased Lands, the Company is using, at no cost, an aggregate of 1,392,976 square metres of collectively owned lands and certain administratively allocated land previously occupied by Sinopec Group Company. Sinopec Group Company has obtained approval from the Ministry of Land and Resources to allow Sinopec Corp. to use the lands and undertaken to obtain land use rights in respect of such collectively owned lands within one year from the date when the business licence of Sinopec Corp. was issued and lease such lands to Sinopec Corp..

(11) Properties Leasing Agreement

Effective from 1st January 2000, Sinopec Group Company and Sinopec Corp. entered into a properties leasing agreement dated 3rd June 2000 whereby members of the Sinopec Group have agreed to lease to the Company certain properties with a gross floor area of approximately 2,380,026 square metres at an annual rent of RMB 435,994,973 (“Properties Leasing Agreement”). The rent is to be reviewed once a year and any such revised rent shall not be higher than the prevailing market rent and, in no event, higher than RMB 435,994,973. Property taxes and land use fees in relation to the properties shall be borne by Sinopec Group Company.

The said properties are leased by the Sinopec Group to the Company for a term of 20 years commencing from 1st January 2000.

If Sinopec Group Company negotiates to sell a property leased by the Company to a third party, Sinopec Corp. shall have a pre-emptive right to purchase such property under the same terms.

(12) Waivers

The above connected transactions are subject to the disclosure and shareholders' approval requirements in accordance with the Listing Rules depending on their nature and amount of consideration.

Waivers have been obtained from the Stock Exchange for a period of three financial years expiring on 31st December 2002 from compliance with the relevant requirements of the Listing Rules in respect of these transactions and subject to the following conditions:

- (a) that the transactions, and the respective agreements (if any) governing such transactions, shall be:
 - (i) entered into by the Company in the ordinary and usual course of its business; and
 - (ii) either
 - (A) on normal commercial terms; or
 - (B) on terms no less favourable than those available from/to independent third parties;
 - (C) where there is no available comparison for the purpose of determining whether (A) or (B) is satisfied, on terms that are fair and reasonable so far as the shareholders of Sinopec Corp. are concerned;

(b) that Sinopec Corp. shall disclose, in Sinopec Corp.'s annual report and accounts for the relevant year, brief details of the transactions in each year as required by Rule 14.25(1)(A) to (D) of the Listing Rules.

(c) that the independent non-executive Directors of Sinopec Corp. shall review annually the transactions and confirm, in Sinopec Corp.'s annual report and accounts for the year in question, that such transactions have been conducted in the manner stated in conditions (i) and (ii) in paragraph (a) above;

(d) that the auditors of Sinopec Corp. shall carry out review procedures annually on the transactions and shall confirm to the Directors in writing whether, based on those procedures, the transactions:

- (i) received the approval of the board of Directors; and
- (ii) have been entered into at amounts consistent with the pricing policies as stated in the relevant agreements; and
- (iii) have been entered into in accordance with the terms of the respective agreements and documents governing the transactions;

(e) that for the purpose of the above review by the auditors of Sinopec Corp., Sinopec Group Company will undertake to Sinopec Corp. that it will provide the auditors with access to its and its associates' accounting records;

CONNECTED TRANSACTIONS (CONTINUED)

(f) the aggregate value of certain transactions shall not exceed the limits set out below:

The transaction	Annual limit
Mutual Supply Agreement	
(i) annual expenditures of the Company in respect of products and services (except financial services) provided by Sinopec Group;	18% of the total operating expenses
(ii) annual revenues derived by the Company in respect of products and services (except provision of guarantee) provided by the Company to Sinopec Group;	16% of the total operating revenues
(iii) the aggregate of average month-end amount of deposits and total amount of interest received in respect of these deposits;	2.5% of the total operating revenues
(iv) guarantees provided by the Company to Sinopec Group at any time;	RMB 1,000 million
Community Services Agreement	
annual expenditures for the provision of products and services by Sinopec Group to the Company	3% of the total operating expenses
Intellectual Property Licence Agreement	
annual payment by the Company	RMB 35 million
Properties Leasing Agreement	
annual rents payable by the Company	RMB 530 million
Agency Agreement	
agency fees payable by the Ethylene Enterprises	RMB 50 million

With regard to the Land Use Rights Leasing Agreement, the annual rents payable by the Company is approximately RMB 1.95 billion. With regard to the insurance premium payable with the SPI Fund document, the amount payable by the Company should not be lower than the amount specified in the SPI Fund document.

Details of the connected transactions are disclosed in note 32 on the accounts.

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

- (i) the transactions have been approved by the board of Directors;
- (ii) the transactions have been entered into at amounts consistent with the pricing policies as state in the relevant agreements; and
- (iii) the transactions have been entered into in accordance with the terms of the

respective agreements and documents governing the transactions. Having reviewed the above related transaction, the Independent Non-Executive Directors of Sinopec Corp. confirmed:

- (I) the transaction have been entered into by Sinopec Corp. in the ordinary and usual course of its business;
- (II) either (A) on normal commercial terms; or (B) on terms no less favourable than those available from/to independent third parties; or (C) where there is no available comparison for the purpose of determining whether (A) or (B) is satisfied, on terms that are fair and reasonable so far as the shareholders of Sinopec Corp. are concerned; and
- (III) the aggregate value of certain transactions have not exceeded the limits.