

### 1. AGREEMENTS CONCERNING CONNECTED TRANSACTIONS ENTERED INTO BETWEEN THE COMPANY AND SINOPEC GROUP COMPANY

During the process of restructuring prior to its listing overseas, entities under the Company were separated from Sinopec Group, so that the Company may focus on its principal business. The assets and businesses retained in Sinopec Group after the separation still form an integral part of the Company's production process. It would be quite difficult to replace the provision of certain businesses and services by third parties. Certain products and businesses of the Company would be of a similar nature to Sinopec Group Company. Therefore, there have been more connected transactions entered into between the Company and Sinopec Group Company.

In order to ensure the normal operation of production and businesses for both parties, the Company and Sinopec Group entered into a number of agreements. The connected transactions entered into between subsidiaries of both parties include the following:

- (1) Agreement for Mutual Provision of Ancillary Services Including Products, Production and Construction services ("Mutual Supply Agreement")
- (2) Sinopec Group Company provides trademarks and proprietary computer software licence to the Company free of charge.
- (3) Sinopec Group Company provides cultural, educational, hygiene 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 IN RESPECT OF THE CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND SINOPEC GROUP COMPANY GRANTED BY THE HONG KONG STOCK EXCHANGE

In accordance to the Listing Rules of the Hong Kong Stock Exchange, the above transactions are subject to full disclosure, depending on their nature and the value of consideration, with prior approval from independent shareholders and the Hong Kong Stock Exchange. This is, however, impracticable for the Company, and will increase its costs. Therefore, at the time of listing, the directors applied for waivers from the Hong Kong Stock Exchange from full compliance with the Listing Rules for the transactions mentioned above. The Hong Kong Stock Exchange has granted the waiver, subject to the fulfillment of ongoing disclosure obligations.

In the extraordinary general meeting of Sinopec held on 24th August, 2001, the On-going Connected Transaction Adjustment Agreement was approved, and the on-going connected transactions were adjusted accordingly. The On-going Connected Transaction Adjustment Agreement was mainly divided into three sections: first, the expansion in the scope of connected transactions as a result of the acquisition of Sinopec National Star, that adjustment would be necessary for agreements of certain original connected transactions. Second, Sinopec National Star granted the use of its intellectual property to Sinopec Group at no cost. Third, the term of the Mutual Supply Agreement for the provision of products, production and construction (including utilities), Cultural, Educational and Hygiene Services and Community Services Agreement, and Agency Agreement would be changed from three years to that of a continuing agreement. (Please refer to the relevant description in section 7 of preliminary prospectus published by Sinopec Corp. in China Securities News, Shanghai Securities News and Securities Times on 22nd June, 2001).

The Hong Kong Stock Exchange conditionally agreed to grant the new waivers on continuous disclosure obligations to Sinopec Corp. on 29th June, 2001. The conditions for the waivers on continuous disclosure obligations was the same with that as set out in section 8 of the Letter from the Chairman that was

incorporated in the circular to holders of H Shares concerning the connected transactions and on-going connected transactions, and annex 3 to the Notice of Extraordinary General Meeting 2001 of Sinopec Corp. as published in China Securities News, Shanghai Securities News and Securities Times on 10th July, 2001. The Hong Kong Stock Exchanged has indicated that it will grant Sinopec Corp. a waiver from compliance with the relevant requirements of the Listing Rules in respect of these transactions for a period of three financial years expiring on 31st December 2003, subject to the following conditions:

- (1) the on-going connected transactions will be (a) in the ordinary and usual course of business of the Company; and (b) either on normal commercial terms, or on terms no less favourable than those available to (or from) independent third parties, or 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;
- (2) the aggregate value of the following on-going connected transactions will not exceed the limits set out below:

Sinopec Corp. is required to disclose in each of its annual report, the total amount of operating expenses and operating revenues of the relevant financial year, and the historical value of the fixed assets and the average month-end inventory value of the Company for the purpose of calculating the insurance premium payable by the Company;

- (3) details of the on-going connected transactions as required by Rule 14.24 (1)(A) to (D) of the Listing Rules to be disclosed and published in Sinopec Corp.'s next and subsequent annual reports;
- (4) the independent non-executive directors of Sinopec Corp. shall review annually the on-going connected transactions and confirm in Sinopec Corp.'s annual report that the on-going connected transactions have been conducted in the manner stated in paragraph (1) above; and
- (5) the independent auditors of Sinopec Corp. shall review annually the on-going connected transactions, and confirm to the board of directors of Sinopec Corp. in writing that:
  - (a) the on-going connected transactions were approved by the board of Directors;
  - (b) have been entered into at amounts consistent with the pricing policies as stated in the relevant agreements;
  - (c) have been entered into in accordance with the terms of the respective agreements governing the on-going connected transactions or, where there is no agreement, on terms no less favourable than those terms available to (or from) independent third parties; and
  - (d) the caps as set out in the condition in paragraph (2) above have not been exceeded; and
- (6) As described in paragraph (5) above, regarding the review by the independent auditors of Sinopec Corp., Sinopec Group Company will provide the independent auditors of Sinopec Corp. with access to all accounting records of Sinopec Corp. and its associates for the purpose of review by the independent auditors of Sinopec Corp.

Connected transactions	Caps
<b>Mutual Supply Agreement</b>	
(a) annual expenditure of the Company in respect of products and services (except financial services) provided by Sinopec Group Company	18% of the total operating expenses
(b) annual revenues derived by the Company in respect of products and services (except provision of guarantee) provided by the Company to Sinopec Group Company	16% of the total operating revenues
(c) 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
(d) guarantees provided by the Company to Sinopec Group Company at any time	RMB 1,000 million
<b>Cultural, Educational and Hygiene Services and Community Services Agreement</b>	
annual expenditure for the provision of products and services by Sinopec Group Company to the Company	3% of the total operating expenses
<b>Intellectual Property Licence Agreements</b>	
annual payment by the Company	RMB 35 million
<b>Properties Leasing Agreement</b>	
annual rents payable by the Company	RMB 730 million
<b>Agency Agreement</b>	
agency fee payable by the Ethylene Enterprises	RMB 50 million
<b>Land Use Right Leasing Agreement</b>	
annual rents payable by the Company	RMB 2.05 billion
<b>Safety Production Insurance Fund Document ("SPI Fund Document")</b>	
annual amount payable by the Company	The amount specified in the SPI Fund Document

**3. THE PROVISIONS FOR THE WAIVER ON DISCLOSURE AND APPROVAL REGULATIONS OF CONNECTED TRANSACTION ENTERED INTO BETWEEN SINOPEC CORP. AND SINOPEC GROUP COMPANY UNDER THE LISTING RULES OF SHANGHAI STOCK EXCHANGE**

In the prospectus for the issue of A shares of Sinopec Corp., the above connected transactions together with agreements and arrangements between the Company and Sinopec Group were fully disclosed. In accordance with the Listing Rules of the Shanghai Stock Exchange, in the event that there is no significant change in the agreements governing the above connected transactions during the period under review, Sinopec Corp. would be exempted from 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 independent auditors of Sinopec Corp., the connected transactions entered into by the Company during this year, amounted to an aggregate amount of RMB85.886 billion of which, incoming trade amounted to RMB41.6 billion and outgoing trade amounted to RMB44.286 billion (including outgoing products and services amounted to RMB 37.261 billion, the average month-end amount of deposits and total amount of interest received by Sinopec Corp. was RMB 7.018 billion, agency fee receivable was RMB 7 million), satisfied the conditions of the waiver imposed by the Hong Kong Stock Exchange. In 2001, the products and services provided by Sinopec Corp. (purchase, storage, exploration and production services and production-related services) for the Company amounted to RMB37.101 billion, representing 12.74% of annual operating expenses, with 1.54% increase and was within the cap of 18%; the auxiliary and community services of Sinopec Corp. provided to the Company amounted to RMB2 billion, representing 0.69 % of operating expenses, with a slight decrease when compared with 0.85% last year and was within the cap of 3%. In 2001, the product sales from the Company to the Sinopec Group amounted to RMB37.261 billion, representing 11.7% of the Company's

operating income, and was within the cap of 16%. With regard to the Land Use Right Leasing Agreement, the amount of rent payable by the Company for the year ended 31st December, 2001 was approximately RMB 2.007 billion. With regard to the premium payable according to the SPI Fund Document, the amount payable by the Company per annum will not be less than the amount as stipulated in the SPI Fund Document.

Please refer to note 32 on the accounts prepared under IAS in this Annual Report for the details of the connected transactions actually incurred during this year.

These connected transactions had been approved by the 19th Meeting of the first term 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 amounts consistent with the pricing policies as stated in the relevant agreements; and
- (c) the transactions have been entered into in accordance with the terms of the respective agreements and documents governing the transactions.

Having reviewed the above relevant transactions, the independent directors of Sinopec Corp. confirmed that:

- (a) the transaction have been entered into by Sinopec Corp. in the ordinary and usual course of its businesses;
- (b) either:
  - I. on normal commercial terms;
  - II. on terms no less favourable than those available from/to independent third parties; or
  - III. where there is no available comparison for the purpose of determining whether (1) or (2) is satisfied, on terms that are fair and reasonable so far as the shareholders of Sinopec Corp. are concerned; and

- (c) the aggregate value of certain transactions have not exceeded the respective limits.

**5. OTHER MATERIAL CONNECTED TRANSACTIONS ENTERED INTO DURING THIS YEAR**

- (1) Sinopec Shijiazhuang Refining-Chemical Company Limited ("SSRC"), a subsidiary of the Sinopec Corp., which has an 79.73% interest, entered into an agreement with Sinopec Group Company on 30th October, 2001 for the disposal of 25% of the registered capital of Shijiazhuang Chemical Fibre Company Limited ("Chemical Fibre Company") contributed by SSRC, at a consideration of RMB 266 million. The disposal was approved by the Board of Directors of Sinopec Corp., the Board of Directors and the general meeting of of SSRC. As Sinopec Group Company was the substantial shareholder of Sinopec Corp. and the value of the consideration was less than 3% of the audited net asset value of Sinopec Corp. as at 31st December, 2000, the disposal constituted a connected transaction. Please refer to the announcement published by Sinopec Corp. in China Securities News, Shanghai Securities News and Securities Times in the PRC and Hong Kong Economic Times and South China Morning Post in Hong Kong on 30th October, 2001.
- (2) The Extraordinary General Meeting 2001 of Sinopec Corp. was held on 24th August, 2001, whereby the independent shareholders approved the acquisition of the entire interests of Sinopec National Star after its reorganization which was wholly owned by Sinopec Group Company. Please refer to section 2 of in this report "Disclosure of Significant Events" for details of the acquisition of Sinopec National Star.