

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 parties entered into a number of agreements on connected transactions prior to Sinopec Corp.'s overseas listings. Particulars of the connected transactions are set out below:

- (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 franchisee licenses to Sinopec Group Company.

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

Pursuant to the Listing Rules of the Hong Kong Stock Exchange, the above connected transactions are subject to full disclosure, reporting and, 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 ended on 31 December 2003. Within such period of time, Sinopec Corp. is not required to comply with the relevant Listing Rules of the Hong Kong Stock Exchange, providing that it must satisfy the conditions for waivers on continuous disclosure obligations which 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 published in Annex 3 to the announcement of the Sinopec Corp.'s Extraordinary General Meeting of Shareholders of the year 2001 in China Securities News, Shanghai Securities News, and Securities Times on 10 July 2001.

At the end of 2003, the above waiver conditionally granted by Hong Kong Stock Exchange for disclosure requirements of ongoing connected transactions, which had a term of three years (from 2001 to 2003), 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 (from 2004 to 2006) with regard to the relevant major ongoing connected transactions and the cap amount of ongoing connected transactions (as defined in the announcement dated 28 October 2003) in accordance with the Listing Rules of the Hong Kong Stock Exchange, which exempts Sinopec Corp from strict compliance with the relevant disclosure requirements and approval by shareholders with regard to the major ongoing connected transactions and exempts Sinopec Corp. from strict compliance with rules of relevant disclosure with regard to the cap amount of ongoing connected transactions. Those major ongoing connected transactions and the cap amount of ongoing connected transactions have been approved by the shareholders in 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 period of time, Sinopec Corp. is not required to comply with the relative requirements of connected transactions under the Listing Rules, but Sinopec Corp. must satisfy the conditions of waiver 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 the year 2003 in China Securities News, Shanghai Securities News, and Securities Times on 29 October 2003.

The above mentioned cap amount of land use rights rent of ongoing connected transactions has been readjusted during the reporting period. At the twelfth meeting of the Second Session of the Board of Directors of Sinopec Corp. held on 31 October 2004, the Board approved the Proposal on Acquisition and Disposal of Assets to China Sinopec Group Company (refer to item 9 (2) in Disclosure of Significant Events) and the Proposal on Adjusting Items of Connected Transaction of Sinopec Group Company. After the completion of above transaction, Sinopec Group Company approved the lease of the land use rights by Sinopec Corp. of an area 8,888,498 square meters at an annual rent of RMB 110 million (equivalent to HK\$104 million) and approved the Proposal Regarding the Adjustment of the Cap Amount of Annual Land Rent according to the Agreement on Lease of Land Use Rights. The board agreed to adjust the cap amount of annual rent payable for the leasing of the land use rights from Sinopec Group Company by Sinopec Corp from RMB 2.15 billion (equivalent to HK\$2.028 billion) to RMB 2.45 billion (equivalent to HK\$2.311 billion) or according to the cap amount agreed by the Hong Kong Stock Exchange which approval was conditional upon completion of the transaction. The Hong Kong Stock Exchange agreed the above cap amount of annual rent for the leasing of land use rights to be adjusted to RMB 2.45 billion.

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. During the reporting period, there was no significant change to the agreements governing the above mentioned connected transactions. The reasonable estimates of the amount of the accumulated connected transactions for the year 2005 of Sinopec Corp. comply with the relative requirements under the Listing Rules of the Shanghai Stock Exchange.

4 CONNECTED TRANSACTIONS ENTERED INTO BY THE COMPANY DURING THE YEAR

The aggregate amount of connected transactions actually occurred in relation to the Company during the year was RMB 131.589 billion, of which, incoming trade amounted to RMB 67.982 billion, and outgoing trade amounted to RMB 63.603 billion (including, RMB 63.507 billion of sales of products and services, RMB 59 million of interest earned, RMB 41 million of income from agency fee). All of these transactions satisfied the conditions of waiver imposed by the Hong Kong Stock Exchange. In 2004, 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 62.313 billion, representing 11.19% of the Company's annual operating expenses, a decrease of 2.42% compared with those in 2003, 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 1.740 billion, representing 0.31% of operating expenses,

with a slight decrease compared with 0.43% in the preceding year, which were within the cap of 2% for waiver. In 2004, the product sales from the Company to Sinopec Group Company amounted to RMB 63.507 billion, representing 10.25% of the Company's operating revenue, which were within the cap of 14% for waiver. With regard to the Leasing Agreement of Land Use Rights, the amount of rent paid by the Company for the year ended 31 December 2004 was approximately RMB 2.146 billion. With regard to the premium payable under the SPI Fund Document, the amount of fund paid by the Company in 2004 was not less than the amount specified in the SPI Fund Document.

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 the year.

The above mentioned connected transactions in 2004 have been approved at the fifteenth 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 not 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 cap amounts.

5 OTHER MATERIAL CONNECTED TRANSACTIONS DURING THE YEAR

(1) Connected transactions for new leasing of Sinopec Group Company's land use rights

At the third meeting of the Second Session of the Board of Directors of

Sinopec Corp., the Board approved the Proposal Regarding 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. The parties entered into an Agreement on Lease of Land Use Rights in August 2003. The amount of rent under the leasing agreement incurred in this reporting period was approximately RMB 300 million.

The auditors of Sinopec Corp. have confirmed to the Board of Directors in writing 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) Acquisition of shares of Jinzhi Company

Please refer to item 9(1) in Disclosure of Significant Events.

(3) Acquisition of petrochemical, catalyst and gas stations assets from parent company and the disposal of downhole operation assets

Please refer to item 9(2) in Disclosure of Significant Events.

CONNECTED TRANSACTIONS (CONTINUED)

6 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 (RMB millions)	Gross profit (%) *	Increase/decrease of income from principal operations compared with the same period of preceding year (%)	Increase/decrease of cost from principal operations 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)
				22.18%	14.05%	3.72
Exploration and production	76,023	34,929	49.98%	22.18%	14.05%	3.72
Refining	352,548	326,590	3.41%	32.41%	34.44%	(1.00)
Marketing and distribution	345,671	305,690	11.39%	43.54%	45.60%	(1.22)
Chemicals	122,118	96,339	20.57%	48.32%	32.55%	9.37
Others	79,145	78,395	0.93%	30.60%	30.72%	(0.09)
Elimination of inter-segment sales	(384,873)	(382,736)	N/A	N/A	N/A	N/A
Total	590,632	459,207	19.51%	41.57%	42.12%	0.16
Of which: Connected transactions	58,732	54,197	7.35%	85.58%	92.91%	(3.32)
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					

* Gross profit = Profit from principal operations/income from principal operations

7 FUNDS PROVIDED BETWEEN CONNECTED PARTIES

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	(2,759)	6,135	(4,836)	9,679
Other connected parties	(23)	308	—	—
Total	(2,782)	6,443	(4,836)	9,679