

## CONNECTED TRANSACTIONS

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

In order to ensure the smooth continuation of normal production and of business transacted between the Company and Sinopec Group Company, the parties entered into a number of agreements on connected transactions. Particulars of the connected transactions are set out below:

- (1) Agreement for the 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 service stations franchisee licenses to Sinopec Group Company.

### 2 WAIVER OF 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 the value of the transaction, with prior approvals from independent directors and the Hong Kong Stock Exchange. At the time of its listing, Sinopec Corp. applied for waivers from the Hong Kong Stock Exchange of the requirement to fully comply with the disclosure requirements of the Listing Rules in respect of the transactions mentioned above. The Hong Kong Stock Exchange

conditionally exempted Sinopec Corp. from complying with the obligations of continuous disclosure.

At the end of 2006, the above waiver conditionally granted by the Hong Kong Stock Exchange for disclosure requirements of the ongoing connected transactions, which had a term of three years (from 2004 to 2006), expired. Sinopec Corp. and Sinopec Group Company entered into a Supplementary Agreement of Connected Transaction on March 31, 2006, which is applicable to the continuing connected transactions conducted by the Company from January 1, 2007. The proposal of a three-year continuing connected transaction from 2007 to 2009 was approved at the Annual General Meeting of Shareholders for 2005 held on May 24, 2006. For details of the continuing connected transactions, please refer to relevant announcements published in China Securities Journal, Shanghai Securities News and Securities Times in mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 3rd April 2006.

### 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. Sinopec Corp. and Sinopec Group Company entered into Supplementary Agreement of Connected Transaction on March 31, 2006, whereby the terms of various connected transaction were supplemented. For details, please refer to relevant announcements published in China Securities Journal, Shanghai Securities News and Securities Times in mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on April 3, 2006. The accumulated amounts of the connected transactions for the year 2006 of Sinopec Corp. are in compliance with the relevant requirements of the Listing Rules of the Shanghai Stock Exchange.

### 4 CONNECTED TRANSACTIONS ENTERED INTO BY THE COMPANY DURING THE YEAR

Audited by the auditors of Sinopec Corp., the aggregate amount of connected transactions actually occurred in relation to the Company during the year was RMB 228.837 billion, of which, incoming trade amounted to RMB 99.504 billion, and outgoing trade amounted to RMB 129.333 billion (including, RMB 129.221 billion of sales of products and services, RMB 52 million of interest earned, RMB 60 million of income from agency fee). All of these transactions satisfied the conditions of waiver granted by the Hong Kong Stock Exchange. In 2006, the products and services provided by Sinopec Group Company (procurement, storage, transportation, exploration and production services, production-related services) to the Company were RMB 87.835 billion, representing 8.85% of the Company's operating expenses for year 2006, a decrease of 0.69 percentage points compared with those in 2005, which were within the cap of 18% for waiver. The auxiliary and community services provided by Sinopec Group Company to the Company were RMB 1.710 billion, representing 0.17% of the operating expenses, with a slight decrease compared with 0.23% in the preceding year, which were within the cap of 2% for waiver. In 2006, the product sales from the Company to Sinopec Group Company amounted to RMB 76.758 billion, representing 7.16 % of the Company's operating revenue, which were within the cap of 14% for waiver. With regard to the Leasing Agreement for Land Use Rights, the amount of rent paid by the Company as of December 31, 2006 was approximately RMB 3.241 billion. With regard to the premium payable under SPI Fund Document, the amount of fund paid by the Company in 2006 shall not be less than the amount specified in the SPI Fund Document.

Please refer to Note 36 to the financial statements prepared under the IFRS in this annual report for details of the connected transactions actually occurred during the year.

The above mentioned connected transactions in 2006 have been approved at the ninth meeting of the Third Session of the Board of Directors of Sinopec Corp..

## CONNECTED TRANSACTIONS (CONTINUED)

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

- (1) The transactions have been approved by the Board of Directors;
- (2) The transactions have been entered into for considerations consistent with the pricing policies as stated in the relevant agreements;
- (3) The transactions have been entered into in accordance with the terms of the respective agreements and documents governing the respective transactions; and
- (4) The relevant actual amounts have not exceeded the relevant caps.

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

- (1) The transactions have been entered into by Sinopec Corp. in its ordinary course of business;
- (2) The transactions have been entered into based on one of the following terms:
  - (a) on normal commercial terms;
  - (b) on terms not less favorable than those available from/to independent third parties; or
  - (c) on terms that are fair and reasonable to the shareholders of Sinopec Corp.,

where there is no available comparison to determine whether item (a) or (b) is satisfied; and

- (3) The total value of each category of transactions does not exceed its respective cap.

### 5 ACQUISITION OF OIL PRODUCTION ASSETS OF SHENGLI PETROLEUM ADMINISTRATION BUREAU FROM SINOPEC GROUP COMPANY

For details, refer to Section SIGNIFICANT EVENTS in this annual report.

### 6 THE PRINCIPAL OPERATIONS CATEGORISED 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.

	Income from principal operations (RMB millions)	Cost of principal operations (RMB millions)	Gross profit margin (%)	Increase/decrease of income from principal operations compared with the preceding year (%)	Increase/decrease of cost of principal operation compared with the preceding year (%)	Increase/decrease of gross profit margin compared with the preceding year (%)
Categorised by business segments						
Exploration and production	128,938	42,268	58.96	23.64	9.89	1.68
Refining	570,772	579,183	(4.19)	21.63	24.91	(2.52)
Chemicals	221,432	195,668	11.36	28.01	31.58	(2.25)
Marketing and distribution	592,871	535,463	9.53	28.20	25.48	1.93
Corporate and others	261,468	258,934	0.95	115.62	119.22	(1.62)
Elimination of inter-segment sales	(730,902)	(731,487)	N/A	N/A	N/A	N/A
Total	1,044,579	880,029	13.04	30.72	31.69	(1.19)
Of which: connected transactions	112,621	103,772	6.97	40.61	39.05	1.07
Connected transactions	please refer to Item 4 "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.					

### 7 FUNDS PROVIDED BETWEEN CONNECTED PARTIES

Unit: RMB millions

Connected Parties	Funds provided to connected party		Funds provided to the Company by connected party	
	Occurrence	Balance	Occurrence	Balance
Sinopec Group Company	(928)	1,560	5,154	10,572
Other Connected Parties	(211)	306	321	321
Total	(1,139)	1,866	5,475	10,893

#### Use of fund and repayment plan as of the end of the reporting period

Not applicable