

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 prior to the overseas listings. 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 agency marketing services on products to Sinopec Group Company.
- (8) The Company provides petrol 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. Subsequently, relevant materials shall be disclosed in the annual report. 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 2003, 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 2001 to 2003), expired. Sinopec Corp. readjusted the cap amount for the 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 independent shareholders in the General Meeting of Shareholders. On December 24, 2003, 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 fiscal years ending on December 31, 2006. Within this period, Sinopec Corp. is not required to comply with the Listing Rules of the Hong Kong Stock Exchange relevant to connected transactions disclosure and independent shareholders' approval of connected transactions, provided that it satisfies the conditions for the waivers which 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 on October 29, 2003 and published in the announcement of Sinopec Corp.'s Third Extraordinary General Meeting of Shareholders for the Year 2003 in China Securities Journal News, Shanghai Securities News and Securities Time on October 29, 2003.

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 were no significant changes to the agreements governing the above mentioned connected transactions. The accumulated connected transactions for the year 2005 of Sinopec Corp. are in accordance with the related 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 179.296 billion, of which, incoming trade amounted to RMB 84.073 billion, and outgoing trade amounted to RMB 95.223 billion (including, RMB 95.123 billion of sales of products and services, RMB 52 million of interest earned, RMB 48 million of income from agency fee). All of these transactions satisfied the conditions of waiver granted by the Hong Kong Stock Exchange. In 2005, the products and services provided by Sinopec Group Company (procurement, storage, transportation, exploration and production services, production-related services) to the Company were RMB 75.486 billion, representing 9.86% of the Company's operating expenses for year 2005, a decrease of 1.33 percentage points compared with those in 2004, which were within the cap of 18% for waiver. The auxiliary and community services provided by Sinopec Group Company to the Company were RMB 1.79 billion, representing 0.23% of the operating expenses, with a slight decrease compared with 0.31% in the preceding year, which were within the cap of 2% for waiver. In 2005, the product sales from the Company to Sinopec Group Company amounted to RMB 58.579 billion, representing 7.12% 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, 2005 was approximately RMB

2.557 billion. With regard to the premium payable under SPI Fund Document, the amount of fund paid by the Company in 2005 shall not be less than the amount specified in the SPI Fund Document.

Please refer to Note 35 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 2005 have been approved at the twenty-fifth 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 for 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 amounts have not exceeded the relevant caps for waiver.

After reviewing the above 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 entered into based on 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 to the shareholders of Sinopec Corp., where there is no available comparison to determine whether item i or ii is satisfied; and

(c) The total value of each category of transactions does not exceed its respective cap for waiver.

5 OTHER MATERIAL CONNECTED TRANSACTIONS DURING THE YEAR

In the reporting period, there was no other connected transaction undisclosed which was required to be disclosed.

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/income from principal operations compared with the preceding year percentage points	Increase/decrease of principal operation cost compared with the preceding year percentage points	Increase/decrease of gross profit margin compared with the preceding year percentage points
Categorised by business segments						
Exploration and production	104,285	38,464	57.28	37.18	10.12	7.30
Refining	469,266	463,682	(1.67)	33.11	41.98	(5.08)
Chemicals	172,982	148,710	13.61	41.65	54.36	(6.96)
Marketing and distribution	462,464	426,727	7.60	33.79	39.59	(3.79)
Corporate and others	121,265	118,117	2.57	53.22	50.67	1.64
Elimination of inter-segment sales	(531,147)	(527,451)	N/A	N/A	N/A	N/A
Total	799,115	668,249	14.23	35.30	45.52	(5.28)
Of which: connected transactions	80,096	74,628	5.90	36.38	37.70	(1.45)
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	(3,647)	2,488	(4,261)	5,418
Other Connected Parties	209	517	—	—
Total	(3,438)	3,005	(4,261)	5,418

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

Not-applicable



