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中国石油化工股份有限公司

**CHINA PETROLEUM & CHEMICAL CORPORATION**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 00386)**

## **Renewal of Continuing Connected Transactions and Disclosable Transactions**

Reference is made to the circular of Sinopec Corp. dated 7 September 2015 in relation to the Continuing Connected Transactions between the Company and Sinopec Group. At Sinopec Corp.'s first extraordinary general meeting of 2015, the Independent Shareholders approved, among other things, the Major Continuing Connected Transactions, the annual caps for three years ending 31 December 2018 for the Major Continuing Connected Transactions and the Non-major Continuing Connected Transactions.

Sinopec Corp. anticipates that the Continuing Connected Transactions with Sinopec Group will continue after 31 December 2018. In respect of the Continuing Connected Transactions commencing from 1 January 2019, Sinopec Corp. and China Petrochemical Corporation entered into the Continuing Connected Transactions Fifth Supplemental Agreement and Land Use Rights Leasing Agreement Fourth Amendment Memo on 24 August 2018, pursuant to which amendments were made to the terms of certain Continuing Connected Transactions under the Mutual Supply Agreement, the Cultural, Educational, Hygiene and Auxiliary Agreement (formerly named Cultural, Educational, Hygiene and Community Services Agreement), the Properties Leasing Agreement, the Intellectual Property Licensing Agreements, and the Land Use Rights Leasing Agreement.

Pursuant to the HK Listing Rules and the SH Listing Rules, China Petrochemical Corporation, holding approximately 71.32% of the total issued share capital of Sinopec Corp., and its associates will constitute connected persons of Sinopec Corp. As such, the continuing transactions between the Company and Sinopec Group constitute continuing connected transactions of Sinopec Corp. under Chapter 14A of the HK Listing Rules. Sinopec Corp. shall comply with the reporting, announcement and Independent Shareholders' approval (if necessary) requirements in respect of such continuing connected transactions. In addition, the deposit services to be provided by Sinopec Financial Institutions to the Company will also constitute disclosable transactions under chapter 14 of the HK Listing Rules.

Sinopec Corp. will seek the approval of Independent Shareholders in respect of the Renewal of Major Continuing Connected Transactions (including the relevant proposed caps), and, in accordance with the requirements of the SSE, the Non-Major Continuing Connected Transactions and the Exempted Continuing Connected Transactions (including the relevant proposed caps). A circular containing, among other things, (i) further details of the Continuing Connected Transactions, (ii) a letter from the Independent Board Committee and (iii) a letter from the IFA, ABCI, will be dispatched and/or notified to the Shareholders in due course.

## **1. BACKGROUND**

Reference is made to the circular of Sinopec Corp. dated 7 September 2015 in relation to the Continuing Connected Transactions between the Company and Sinopec Group. At Sinopec Corp.'s first extraordinary general meeting of 2015, the Independent Shareholders approved, among other things, the Major Continuing Connected Transactions, the annual caps for three years ending 31 December 2018 for the Major Continuing Connected Transactions and the Non-major Continuing Connected Transactions.

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## **2. CONTINUING CONNECTED TRANSACTIONS**

### **2.1 Mutual Supply Agreement**

#### **(1) *Signing Date and Term***

China Petrochemical Corporation and Sinopec Corp. entered into Mutual Supply Agreement on 3 June 2000 and the Continuing Connected Transactions Fourth Supplemental Agreement on 26 August 2015, the term of which ends on 31 December 2018. China Petrochemical Corporation and Sinopec Corp. entered into the Continuing Connected Transactions Fifth Supplemental Agreement dated 24 August 2018 to amend certain terms of the Mutual Supply Agreement including extending the Mutual Supply Agreement to 31 December 2021.

#### **(2) *Scope of Service***

The following transactions are contemplated under the Mutual Supply Agreement:

- (a) The products and services which are provided by the Company, including: crude oil, natural gas, refined and petrochemical products and by-products, semi-finished products, coal, steel, water, electricity, gas, heat, measurements, quality inspection, provision of other related or similar products and services and guarantee.

(b) The products and services which are provided by Sinopec Group, including:

- (i) Supply: fresh water, chemical water, recycled water, industrial air, hydrogen, nitrogen, electricity, steam, heat supply, materials and equipment parts, chemical raw materials, precious metals, the sourcing of crude oil and natural gas, (including crude oil and natural gas from overseas) and other related or similar products and services.
- (ii) Storage and transportation: railway, vehicular transport, water transport, pipeline transmission, loading and unloading, wharves, warehousing and other related or similar services.
- (iii) Ancillary production: well drilling, well surveying, well logging, exploration and development testing, technological research, communication, fire control, security guards, public security, chemical examination, material examination, information, pressure containers and pipelines inspection, metering inspection, computer services, equipment research, airports, feasibility study, design, construction, installation, production of electromechanical instruments, inspection and maintenance of equipment devices and electrical equipment meters, projects supervision, environmental protection, repair and maintenance of roads, bridges and culverts and slope protection, flood control and other related or similar services.
- (iv) Others: deposit and loan service, loan guarantee service, agent services in the collection and payment of administrative services fees, labour services, asset leasing, insurance, insurance agency service, entrusted loans, foreign exchange services, settlement service and other intermediary services, finance, human resources and information technology sharing services, and other related or similar services.

Specifically, the financial and insurance services provided by Sinopec Group to the Company mainly include the followings:

- Deposit services provided as part of the settlements process. The annual caps for such transactions have been proposed on page 19 of this announcement;
- Loan services, as such loans will be on normal commercial terms and the Company does not provide any securities in connection with such loan, such transactions will be fully exempted continuing connected transactions;

- Loan guarantee services, as such transactions will be on normal commercial terms and the Company does not provide any securities in connection with such guarantee, such transactions will be fully exempted continuing connected transactions;
- Finance sharing services, the annual cap for such transactions have been included in the proposed caps for products and services provided by Sinopec Group to the Company;
- Insurance services, the annual cap for such transactions have been included in the proposed caps for products and services provided by Sinopec Group to the Company; and
- Insurance agency service, entrusted loans, foreign exchange services, settlement service and other intermediary services, as Sinopec Corp. estimates that the annual fee payable by the Company to Sinopec Group for such transactions, on an aggregated basis, will be less than 0.1% for each of the applicable percentage ratios, such transactions will be fully exempted continuing connected transactions.

### (3) *Pricing Policy*

The transactions conducted under Mutual Supply Agreement shall be priced in accordance with the following terms:

- (a) government-prescribed price;
- (b) where there is no government-prescribed price but where there is government-guidance price, the government-guidance price will apply;
- (c) where there is neither a government-prescribed price nor a government-guidance price, the market price will apply; or
- (d) 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 service, which shall be the reasonable cost incurred in providing the same plus 6% or less of such cost.

In particular:

**(a) Government prescribed price (including government-guidance price)**

Applicable to gasoline, diesel, nature gas, liquefied gas, water supply, electricity supply and heating supply (plus diversion costs in respect of water, electricity and heating supply). The government pricing for different products and services is determined based on the following:

<b>Types of product/service with government-prescribed price</b>	<b>Primary basis for price determination</b>
Refined oil products (i.e., gasoline and diesel)	According to the Circular of the NDRC on Further Improving the Issues Concerning the Pricing Formation Mechanism of Refined Oil (Fa Gai Jia Ge [2016] No.64) (《國家發展改革委關於進一步完善成品油價格形成機制有關問題的通知》(發改價格 [2016]64號)) issued by the NDRC on 13 January 2016, the retail price and wholesale price of gasoline and diesel, as well as the supply price of gasoline and diesel to special users such as social wholesale enterprises, railway and transportation, etc., shall be government-guidance price; the supply price of gasoline and diesel to the national reserve and Xinjiang Production and Construction Corps, and the factory price of aviation gasoline and jet fuel, shall be government-prescribed price. The price of gasoline and diesel may be adjusted every ten working days with reference to the changes in the international market price of crude oil. The NDRC prescribes the maximum retail price of gasoline and diesel for all provinces (autonomous regions, municipalities) or central cities, and the supply price of gasoline and diesel to the national reserve and Xinjiang Production and Construction Corps, as well as the factory price of aviation gasoline. The price adjustment for refined oil products is subject to the documents issued by the relevant national competent authorities for pricing.

#### Natural gas

In recent years, the state has continued to promote natural gas market reform. According to the Circular of the NDRC on the Adjustment Reducing of the Gate Station Prices of Non-residential Natural Gas and Further Promoting Price Marketization Reform Prices (Fa Gai Jia Ge [2015] No.2688) (國家發改委關於降低非居民用天然氣門站價格並進一步推進價格市場化改革的通知》(發改價格(2015)2688號) issued by the NDRC on November 2015, converting the natural gas used by non-residents from the highest gate station price management to the benchmark gate station price management; the supplying party and requisitioning party can negotiate and determine the price within the range of up to 20%, down to unlimited range based on the benchmark gate station price. In 2016, the NDRC loosened its hold on the price of fertiliser-used gas and the price associated with gas storage facilities. In September 2017, considering the downward adjustment of natural gas pipeline price, the benchmark gate station price for non-residential gas was reduced by RMB 0.1 per square. At the end of May 2018, the NDRC released the Circular on Adjustment Rationalising of the Gate Station Price of Natural Gas for Residential use (《關於理順居民用氣門站價格的通知》) to rationalise the gate station price of natural gas used by residents by increasing it, thus realising the integration of gas prices used by non-residents and residents. The price of gas used by residents after the integration will rise starting from 10 June 2019.

#### Water supply

Subject to the regulations of the relevant local government authorities of commodity.

#### Electricity supply

Pursuant to the Circular of the NDRC on Reducing the On-Grid Price for Coal-fired Power and Electricity Prices for Industrial and Commercial Use (Fa Gai Jia Ge [2015] No.748) (《國家發展改革委關於降低燃煤發電上網電價和工商業用電價格的通知》(發改價格(2015)748號)) electricity supply is subject to the government-prescribed price. For transferring power supply, the price should be government-prescribed price plus diversion cost.

Heating supply

Subject to the regulations of the relevant local government authorities of commodity.

**(b) Relevant market price (including tender price)**

Applicable to crude oil, refined oil products (jet fuel, light chemical feedstock, lubricant, heavy oil, etc.), chemical products, coal, asset leasing, machinery repairs, transportation, warehousing, material procurement and etc. The relevant market price for each of the products is determined as per below:

<b>Types of product/service with relevant market price</b>	<b>Primary basis for price determination</b>
Crude oil	The relevant market price of crude oil is determined with reference to crude oil quoted prices on international markets, such as Brent, Dubai and/or Oman.
Refined oil products (jet fuel, light chemical feedstock, lubricant, heavy oil)	The relevant market price of jet fuel is determined in accordance with the CIF cum tax price for jet fuel imports from the Singapore market; the relevant market price of light chemical feedstock is determined in accordance with the CIF cum tax price for naphtha imports from Japan and Singapore markets; the relevant market price of lubricant is determined by referring to the quotations on the relevant domestic price websites for lubricant; the relevant market price of heavy oil is determined in accordance with the CIF cum tax price for imports of 180C heavy oil from Singapore market. Such product prices in Singapore and Japan markets are publicly available.
Chemical products	The relevant market price is determined in accordance with the order price or contract price of external sales, taking into account of factors, such as freight rate and quality.
Coal	The market price is determined through price enquiry and comparison on the relevant price websites and by tender through the e-commerce system in accordance with the type of coal and the quality requirements.



Asset leasing, machinery repairs, transportation, warehousing and materials procurement, etc.

The relevant market price is determined through price enquiry and comparison on the relevant price websites or by referring to the prices of similar transactions in surrounding markets or by tender through the e-commerce system.

The Company has established procedures and internal control system for pricing and terms of the continuing connected transactions. Please refer to pages 15-18 of this announcement.

**(c) Agreed price (determined as reasonable cost incurred plus reasonable profit<sup>1</sup>)**

**Types of product/service with agreed price**

**Primary basis for price determination**

Steam, industrial water, industrial air, hydrogen, nitrogen, oxygen and other utility products

Prices for connected transactions are determined as reasonable cost plus reasonable profit. Reasonable cost mainly refers to the comparable average cost of similar enterprises in proximity and reasonable profit margin is determined with reference to bank lending rates. For products and services with prices determined by agreement, the supplier will provide a cost list, the purchaser will conduct comparison with the comparable average cost of similar enterprises in proximity or the cost of same type of products of the Company to determine the reasonable cost for ascertaining the price of connected transaction. The price of connected transactions once determined and signed, shall not be changed by one party unilaterally.

Finance, human resources and information technology sharing services

The connected transaction price is determined at a reasonable cost plus a reasonable profit. The reasonable cost is determined on the basis of FTE (full-time labor equivalent). At this stage, the cost and tax are used as the cost benchmark, and the profit rate is controlled within 6% to determine the price of the shared services. The price of connected transactions once determined and signed, shall not be changed by one party unilaterally.

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<sup>1</sup> 6% or less of such cost.

**(d) For certain products or services, the following pricing principles are adopted:**

<b>Types of product/service</b>	<b>Primary basis for price determination</b>
Well drilling, well surveying, well logging and other petroleum engineering services	The connected transactions are determined, via public tendering <sup>2</sup> with reference to design budget and commissioned construction work content, which are depended on the geological block, well type, depth of well. If no public tendering has been made, price is determined based on professional fixed unit price of Petroleum Engineering published by Sinopec Group <sup>3</sup> . For engineering design, construction and installation of building and inspection and maintenance projects, the price is determined via public tendering with reference to the unit price of project budget and pricing standards set by relevant government department or Sinopec Group.

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<sup>2</sup> The Company has established a tender management committee (or special group) for sending bidding invitations to qualified suppliers to participate in public tender or invitation tender according to the specific conditions of the project, and observes the principles of openness, fairness, economy, safe protection and timely supply in evaluating the tenders submitted by adopting the lowest bid price method or comprehensive evaluation method to determine the specific supplier.

<sup>3</sup> The preparation method and composition of professional fixed unit price of Petroleum Engineering is determined in accordance with the industry pricing rules. Sinopec Corp. has taken the lead in formulating the professional fixed unit price of Petroleum Engineering published by Sinopec Group. The values used in pricing a project are determined in accordance with factors such as zone plots of different geological conditions, well types, well depth and the level of average advanced cost.

Deposit services	The interest rate of the deposit services provided by Sinopec Finance shall be determined in accordance with the relevant interest rate as promulgated by the People's Bank of China. For deposit services provided by Sinopec Financial Instructions to the Company, the interest rates of the relevant deposit will be not lower than those provided by independent third parties for the deposits of the same nature and the same maturity.
Insurance and other financial services	the price shall be determined based on the prices prescribed by government authorities including, among others, People's Bank of China and CBIRC, and the fee charging standards published by the aforementioned relevant regulatory authorities and are negotiated on arm's length with reference to the fee rates charged by major insurance companies for similar insurance products and/or commercial banks for comparable services provided to the Company.

## 2.2 Land Use Rights Leasing Agreement

China Petrochemical Corporation and Sinopec Corp. entered into Land Use Rights Leasing Agreement on 3 June 2000, the parcels of land leased will mainly be used for main production facilities, ancillary production facilities of the Company and certain petrol stations operated by Sinopec Corp.

The parcels of land leased can be categorised into the following two types:

- (1) authorised land for operation; and
- (2) assigned land.

The rent payable under the Land Use Rights Leasing Agreement is based on factors including the area of the land involved, their locations and the remaining terms of the use. According to the Land Use Rights Leasing Agreement, the rent may be adjusted every three years commencing from year 2000 and any such adjusted rent shall not be higher than the prevailing market rent as confirmed by an independent valuer.

Taking into account the actual operational demand for land of the Company and changes in the land market in recent years, China Petrochemical Corporation and Sinopec Corp. entered into the Land Use Rights Leasing Agreement Fourth Amendment Memo on 24 August 2018, and further adjusted the rent and the area for the leased land parcels. Members of Sinopec Group agreed to rent to the Company with an aggregate area of approximately 410 million square metres with annual rent adjusted to RMB 14 billion in accordance with the area of leased land parcels and the current situation of the land market. The Land Use Rights Leasing Agreement shall remain unchanged, apart from the rent and the leased area. The Land Use Rights Leasing Agreement Fourth Amendment Memo shall become effective from 1 January 2019.

An independent property valuer, Beijing Zhongdi Huaxia Land and Real Estate Appraisal Co., Ltd., a professional property valuer incorporated in the PRC, had been appointed to assess the prevailing market rent. The independent valuer has made an independent and objective assessment of the value of the land leased by the Company, and has confirmed that the adjusted rent is lower than the prevailing market rent. The valuation date is 30 June 2018.

Regarding authorised land for operation owned by members of Sinopec Group, land for industrial use are leased to the Company for a term of 50 years and land for commercial use for a term of 40 years. Regarding the lands of which members of Sinopec Group have been assigned land use rights with consideration, they are leased for a term up to the date of expiry of the respective land use rights certificates. The term of the lease in each land parcel commenced from 1 January 2000. The Company may require members of Sinopec Group to renew the term of the lease by giving them notice twelve months before the expiry of the lease. Members of Sinopec Group shall, upon receipt of the said notice and before the expiration of the term of the lease, make best efforts to obtain all the government approvals and complete all the procedures with relevant governmental authorities required for the renewal of the lease.

### **2.3 Cultural, Educational, Hygiene and Auxiliary Services Agreement**

China Petrochemical Corporation and Sinopec Corp. entered into Cultural, Educational, Hygiene and Community Services Agreement on 3 June 2000 and further entered into the Continuing Connected Transactions Third Supplemental Agreement on 24 August 2012 and the Continuing Connected Transactions Fourth Supplemental Agreement on 26 August 2015. Pursuant to the Continuing Connected Transactions Fourth Supplemental Agreement, the term of the Cultural, Educational, Hygiene and Community Services Agreement will be extended to 31 December 2018.

Pursuant to the relevant requirements of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance, certain Three Supplies and One Industry Assets of Sinopec Group shall be separated and handed over to the local governments. Therefore, certain transactions under the former Cultural, Education, Hygiene and Community Services Agreement no longer constitute the continuing connected transactions between the Company and Sinopec Group. China Petrochemical Corporation and Sinopec Corp. entered into Continuing Transactions Fifth Supplemental Agreement on 24 August 2018 to amend the name and certain terms of the Cultural, Educational, Hygiene and Community Services Agreement. The Cultural, Educational, Hygiene and Community Services Agreement will be renamed as Cultural, Educational, Hygiene and Auxiliary Services Agreement and extended to 31 December 2021.

The following services will be supplied by Sinopec Group to the Company under the Cultural, Educational, Hygiene and Auxiliary Services Agreement:

- (1) Culture, educational and hygiene services: education and training centres, cadre schools (party schools), technical universities, technical schools, medical care and sanitation, culture and physical education, newspapers and magazines, broadcasting and television, printing and other related or similar services;
- (2) Auxiliary services: base services (including management centres), office and factory property management, canteens, collective quarters, commuting, resignation and retirement management, settlement of land occupiers, re-employment service centres and other related or similar services.

Compared with the Cultural, Educational, Hygiene and Community Services Agreement, the relevant services on the community water supply, community power supply, community gas supply (heating supply) and relevant property management services, staff polytechnic schools, environmental sanitation, greening, nurseries, kindergartens, sanatoriums, public transport and other services will no longer be provided by Sinopec Group to the Company under the Cultural, Educational, Hygiene and Auxiliary Services Agreement.

The price of Cultural, Educational, Hygiene and Auxiliary Services is determined in accordance with the audited costs actually incurred in cultural, educational, hygiene and auxiliary services provided by Sinopec Group in 2017, and shared between the Company and Sinopec Group in accordance with factors such as the number of employees of the Company.

## 2.4 Safety Production Insurance Fund (the “SPI Fund”)

With the approval of the Ministry of Finance, China Petrochemical Corporation has established the SPI Fund. The SPI Fund currently provides property insurance cover on the operations of the Company.

Under the SPI Fund Document, Sinopec Corp. is required to pay twice a year an insurance premium amounting to a maximum of 0.2% (a statutory requirement by the PRC Government) of the historical value of the fixed assets and the average month-end inventory value for the previous six months of the Company. After the receipt by China Petrochemical Corporation of the premium from Sinopec Corp., China Petrochemical Corporation 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 (the “**Refund**”). The Refund would equal to 17% of the paid premium if Sinopec Corp. fails to pay the semi-annual premium on time. The Refund shall be used by Sinopec Corp. in dealing with accidents and potential risks and safety measures, in safety education and training, in preventing major accidents and potential risks, and as rewards to units and individuals who have made a special contribution to safety production.

## 2.5 Properties Leasing Agreement

On 3 June 2000, China Petrochemical Corporation and Sinopec Corp. entered into Properties Leasing Agreement of which term commenced on 1 January 2000 for a term of 20 years. Properties leased are used for ancillary production facilities, offices premises and petrol stations operated by the Company. Under the Properties Leasing Agreement, Sinopec Group has agreed to lease to the Company certain properties. The rent payable under the Properties Leasing Agreement is based on factors including the area of the properties involved, their locations and the nature and purpose of use of the properties. The rent may be reviewed once a year and any revised rent shall not be higher than the prevailing market rent as confirmed by an independent valuer. Property taxes, land use fees and other statutory taxes or fees in relation to the properties shall be borne by Sinopec Group.

The Company may require Sinopec Group to renew the term of the lease by giving them written notice six months before the expiry of the lease. Since the Properties Leasing Agreements will expire on 31 December 2019, China Petrochemical Corporation and Sinopec Corp. entered into the Continuing Connected Transactions Fifth Supplemental Agreement on 24 August 2018 to amend the term of the Properties Leasing Agreements. Pursuant to the Continuing Connected Transactions Fifth Supplemental Agreement, the term of the amended Properties Leasing Agreements is extended to 31 December 2021.

If China Petrochemical Corporation proposes to sell to a third party a property which has been leased to the Company, the Company shall have a pre-emptive right to purchase such property under the same terms.

## **2.6 Intellectual Property License Agreements**

Sinopec Corp. and China Petrochemical Corporation entered into the Intellectual Property License Agreements on 3 June 2000. Each of the Intellectual Property License Agreements is for a term of 10 years commencing from 1 January 2000. On 21 August 2009, Sinopec Corp. and China Petrochemical Corporation entered into the Continuing Connected Transactions Second Supplemental Agreement, pursuant to which the term of each of the Intellectual Property License Agreements is extended to 31 December 2019. Since the Intellectual Property License Agreements will expire on 31 December 2019, China Petrochemical Corporation and Sinopec Corp. entered into the Continuing Connected Transactions Fifth Supplemental Agreement on 24 August 2018 to amend the term of the Intellectual Property License Agreements. Pursuant to the Continuing Connected Transactions Fifth Supplemental Agreement, the term of the amended Intellectual Property License Agreements has been extended to 31 December 2029.

While the intellectual property rights under the Intellectual Property License Agreements are granted to the Company at nil consideration, Sinopec Corp. shall, before 31 December of each year, pay all such expenses which China Petrochemical Corporation should pay in the relevant year according to the relevant laws and regulations for maintaining the validity of the relevant trademarks, patents and computer software.

## **3. PROCEDURES AND INTERNAL CONTROL SYSTEM FOR PRICING AND TERMS OF THE CONTINUING CONNECTED TRANSACTIONS**

The Company has established a series of procedures and internal control measures in order to ensure that the pricing mechanism and terms of the transactions are fair and reasonable and no less favourable than the terms provided by any independent third party, so as to ensure that they serve the interest of the Company and its Shareholders as a whole. Such procedures and internal control measures mainly include:

- 3.1 The transactions contemplated under the connected transactions agreements are conducted on a non-exclusive basis.
- 3.2 As for the pricing mechanism of the Company's procurement and/or sales of products or services from Sinopec Group, according to the Company's



internal procurement and sales regulations, if there is no government-prescribed price or government-guided price, the Company seeks to obtain information about market price through various channels, for example, considering at least two comparable transactions with the independent third parties for the same period, transactions among independent third parties for the same period, conducting market price research through various independent industry information vendors (e.g., industry websites), and participating in activities organised by leading industry organisations. Market price information obtained through these channels above is provided to relevant departments and subsidiaries of Sinopec Corp. to assist in pricing of relevant continuing connected transactions. Such price is determined by the contracting parties (i.e., the subsidiaries of Sinopec Corp. on the one hand and the subsidiaries of China Petrochemical Corporation on the other hand) on normal commercial terms by reference of the information obtained as mentioned above. For products and services with agreed prices, the supplier provides a cost list and the purchaser conducts comparison with the comparable average cost of similar enterprises in proximity or the cost of same type of products to determine the reasonable cost for ascertaining the price of connected transaction. As to the Company, such price is subject to the approval of the financial department of Sinopec Corp. The price of connected transactions once determined and signed, shall not be changed by one party unilaterally.

- 3.3 As for the Company's procurement process of relevant products or services, according to the Company's internal procurement regulation, the Company will request suppliers, including Sinopec Group and other independent suppliers, to provide price quotations in respect of the requested services or products. Following the receipt of quotations, the Company compares and negotiates the terms of quotations with these suppliers, and determines the selection of suppliers by taking into account factors such as price quotations, quality of the products and services, particular needs of the transactional parties, technical advantages of the supplier, ability of the suppliers in performing the contracts and to continuously provide products and services, and qualification and relevant experiences of the suppliers.
- 3.4 The Company's internal control and risk management departments conduct scheduled internal assessments on the internal control measures of the Company on an annual basis, in order to ensure that the internal control measures in respect of connected transactions remain complete and effective. Furthermore, the legal and contract management departments conduct prudent reviews of the connected transaction contracts, the departments implementing the relevant contracts monitor the transactional amounts in a timely manner.



- 3.5 The Company implements connected transactions in accordance with the internal control process, and reviews the accounting statements on connected transactions submitted by relevant subsidiaries on a monthly basis. Review and analysis are conducted on the connected transaction statements and price implementation on a quarterly basis to prepare an analysis report on the implementation status of connected transactions and to recommend improvement measures for any issues identified.
- 3.6 The Board reviews the implementation of the continuing connected transactions on an annual basis and reviews the financial report which consists of the implementation of the continuing connected transactions on a half-year basis on matters mainly including: whether the Company and relevant connected person performed the continuing connected transaction agreement during the relevant period; whether the actual transaction amount incurred within the annual caps as approved at the general meeting. The independent non-executive directors report to the Shareholders' meeting on an annual basis on their performance of duties. Such report includes opinions on (i) whether the actual transaction amount incurred within the annual caps as approved at the general meeting; (ii) whether the continuing connected transactions are performed pursuant to the agreements; and (iii) whether the continuing connected transactions are fair and reasonable and in the interests of the Shareholders of Sinopec Corp. as a whole.
- 3.7 The board of supervisors of Sinopec Corp. supervises the matters relating to the continuing connected transactions. It reviews the annual financial report and interim financial report which consist of the implementation of the continuing connected transactions on an annual basis. It also reviews the domestic and overseas compliance of the connected transactions, whether the prices are fair and reasonable and whether there are any acts which are detrimental to the interests of the Company and the Shareholders.
- 3.8 The Audit Committee of Sinopec Corp. reviews the annual report, annual financial report, interim report and interim financial report which consist of the implementation of the continuing connected transactions and opine on the connected transactions during the relevant periods on matters mainly include the fairness of the connected transactions and whether the actual transaction amount incurred are within the annual caps.
- 3.9 The external auditor of the Company conducts interim review and year-end audit for each financial year, issues his opinion and letter to the Board in relation to the implementation of the pricing policies and whether the actual connected transaction amounts incurred are within the relevant annual caps during the preceding year pursuant to the HK Listing Rules and submits the same to the Stock Exchange.

By implementing the above internal control measures and procedures, the Directors consider that the Company has established sufficient internal control measures to ensure the pricing basis of the connected transactions agreements will be on market terms and on normal commercial terms and the continuing connected transactions will be fair and reasonable to the Company and the Shareholders as a whole.

#### 4. HISTORICAL FIGURES AND EXISTING CAPS

The historical figures for the past two financial years and the six months ended 30 June 2018 and the annual caps of the Continuing Connected Transactions are set out below:

*Unit: RMB billion*

Continuing Connected Transactions	Caps for 2018	Historical Transaction Amount for		
		2016	2017	the six months ended 30 June 2018
<b>1. Mutual Supply Agreement</b>				
(1) Product and service provided by the Company to Sinopec Group	168.8	80.675	113.136	61.247
(2) Products and services (except financial services) provided by Sinopec Group to the Company	252.9	159.341	208.801	108.914
(3) The maximum daily amount of deposits (including accrued interests) <sup>4</sup>	48.0	39.529	47.867	46.241
<b>2. Land Use Rights Leasing Agreement</b>				
Annual land rent paid by the Company to Sinopec Group	10.8	10.474	8.015	4.027
<b>3. Cultural, Educational, Hygiene and Community Services Agreement</b>				
Cultural, educational, hygiene and community services provided by Sinopec Group	6.8	6.584	6.652	3.255
<b>4. SPI Fund Document</b>				
Annual premium paid by the Company	3.3	1.976	2.067	0.423
<b>5. Properties Leasing Agreement</b>				
Annual property rent paid by the Company to Sinopec Group	0.73	0.449	0.511	0.219

<sup>4</sup> The maximum daily amount of deposits (including accrued interests) refers to the maximum amount of deposits (including accrued interests) at any point of time during a day.

As at the date of this announcement, none of the above annual caps has been exceeded.

## 5. PROPOSED ANNUAL CAPS OF THE CONTINUING CONNECTED TRANSACTIONS

5.1 Sinopec Corp. proposes the annual caps for the Continuing Connection Transactions for the years of 2019, 2020 and 2021 as follows:

*Unit: RMB billion*

	Proposed annual caps for the years ending 31 December		
	2019	2020	2021
<b>1. Mutual Supply Agreement</b>			
(1) Products and services provided by the Company to Sinopec Group	270.9	296.4	299.9
(2) Products and services provided by Sinopec Group to the Company	442.9	487.2	493.0
(3) The deposit services provided by Sinopec Financial Institutions to the Company <sup>5</sup>	80	80	80
<b>2. Land Use Rights Leasing Agreement</b>			
Annual land rent payable by the Company to Sinopec Group	14.0	14.0	14.0
<b>3. Cultural, Educational, Hygiene and Auxiliary Services Agreement</b>			
Cultural, educational, hygiene and auxiliary services provided by Sinopec Group to the Company	5.0	5.0	5.0
<b>4. SPI Fund Document</b>			
Annual premium payable by the Company	3.3	3.3	3.3
<b>5. Properties Leasing Agreement</b>			
Annual property rent payable by the Company to Sinopec Group	0.73	0.73	0.73

<sup>5</sup> The annual cap for deposit service refers to the maximum daily amount of deposits (including accrued interests) services which is the maximum amount of deposits (including accrued interests) at any point of time during a day.

5.2 The following are the basis for the proposed annual caps for each type of Continuing Connected Transactions:

**Continuing Connected Transactions**

**Basis for the proposed annual caps<sup>6</sup>**

**1. Mutual Supply Agreement**

- |  |   |
|--|---|
| (1) Products and services provided by the Company to Sinopec Group | <p>The proposed annual caps for 2019 to 2021 have increased as compared to the annual cap for 2018. Sinopec Corp. mainly has considered the following factors:</p> <ul style="list-style-type: none"><li>(i) Sinopec Shanghai Gaoqiao Petrochemical Co., Ltd. (“<b>Gaoqiao Petrochemical</b>”) became a connected subsidiary of Sinopec Corp. in June 2016 (China Petrochemical Corporation holds 45% of its shares and Sinopec Corp. holds 55% of its shares). The transaction amounts of the crude oil, naphtha and chemical raw materials provided by the Company to Gaoqiao Petrochemical will be included in the annual caps for 2019 to 2021. It is expected that the connected transaction amount will increase by approximately RMB 54.5 billion;</li><li>(ii) Shanghai Secco Petrochemical Co., Ltd. (“<b>Shanghai Secco</b>”) became a connected subsidiary of Sinopec Corp. in November 2017 (China Petrochemical Corporation indirectly holds 22.5% of its shares through Gaoqiao Petrochemical, Sinopec Corp. directly and through Sinopec Shanghai Petrochemical Company Limited hold 50% of its shares and consolidates its financial accounts). The transaction amount of the crude oil, naphtha and chemical raw materials provided by the Company to Shanghai Secco will be included in the annual caps for 2019 to 2021. It is expected that the connected transaction amount will increase by approximately RMB 25.4 billion;</li></ul> |
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<sup>6</sup> Assuming that the prices of crude oil for 2019-2021 is USD90/barrel, USD95/barrel and USD95/barrel, respectively.

- (iii) After taking into account the historical amounts, material uncertainties such as possible price fluctuation in raw materials and products such as crude oil, natural gas, refined oil products and petrochemical products in the next three years, the release of new capacity, the increase in the size of crude oil commercial reserves in future, commencement of new business mode, exchange rates fluctuations and in view of the importance of the revenues which will be generated by the Company through the provision of products and services to Sinopec Group under the Mutual Supply Agreement, the Company is of the view that flexibility should be built into the caps for such transactions, in order to accommodate the maximum in consideration of various possibilities.
- (2) Products and services provided by Sinopec Group to the Company
- The proposed annual caps for 2019 to 2021 have increased as compared to the annual cap for 2018. Sinopec Corp. mainly has considered the following factors:
- (i) The amount of crude oil purchased by the Company from Sinopec Group is expected to increase by approximately 6.3 million tonnes and the amount of connected transactions will increase by RMB 31.3 billion;
- (ii) China Sinopec Hainan Refining & Chemical Co., Ltd., the connected subsidiary of Sinopec Corp. (China Petrochemical Corporation holds 25% of its shares and Sinopec Corp. holds 75% of its shares) has adjusted its refined oil export model from processing to general trade. In addition, its new aromatics plant will be put into production. The connected transaction amount is expected to increase by approximately RMB 29.1 billion;
- (iii) Gaoqiao Petrochemical became a connected subsidiary of Sinopec Corp. in June 2016. All its refined oil and chemical products are sold by the Company. The relevant connected transactions amount will be included in the annual caps for 2019 to 2021. The connected transaction amount is expected to increase by approximately RMB70.1 billion;

- (iv) Shanghai Secco became a connected subsidiary of the Company in November 2017. All of its refined oil and chemical products are sold by the Company. The relevant connected transactions amount will be included in the annual caps for 2019 to 2021. The connected transaction amount is expected to increase by approximately RMB 6.3 billion;
  - (v) After taking into account the historical amounts for the past three years, material uncertainties such as possible price fluctuation in raw materials, the Company's business development, commodity market price fluctuations, upgrading in refined oil product quality, release of new capacity, the increase in the size of crude oil commercial reserves in future, commencement of new business mode, exchange rate fluctuations and other unforeseen factors, and in view of the necessity of purchasing products and services provided by Sinopec Group to the Company under the Mutual Supply Agreement for the Company's continued operation, the Company is of the view that flexibility should be built into the caps for such transactions, in order to accommodate the maximum in consideration of various possibilities.
- (3) The deposit services provided by Sinopec Financial Institutions to the Company
- The proposed annual caps for 2019 to 2021 have increased as compared to the annual cap for 2018. Sinopec Corp. has taken into account the business activities of the Company's planned expansion of domestic and overseas business, including the promotion of upstream natural gas business development, implementation of refining and chemical base construction, improvement of advanced production capacity concentration, increasing trade in crude oil and petrochemical products, the promotion of production and R&D of high value-added products in the chemical industry, the promotion of gas station services upgrading, and achieving new momentum through expanding new business such as new energy and new materials. As a result, the future achievable income will increase, which will lead to a corresponding increase in the company's internal settlement amount and various cash inflows. At the same time, the Company expects that the fluctuation of the international oil price will increase the fluctuation range of the internal settlement amount.

## **2. Land Use Rights Leasing Agreement**

Annual land rent payable by the Company to Sinopec Group	The proposed annual caps for 2019 to 2021 have increased as compared to the annual cap for 2018, mainly as a result of the increase of the relevant prevailing market rents. An independent property valuer, Beijing Zhongdi Huaxia Land and Real Estate Appraisal Co., Ltd., a professional property valuer incorporated in the PRC, had been appointed to assess the prevailing market rent. The independent valuer has made an independent and objective assessment of the value of the land leased by the Company, and has confirmed that the adjusted rent is lower than the prevailing market rent. The valuation date is 30 June 2018.
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## **3. Cultural, Educational, Hygiene and Auxiliary Services Agreement**

Cultural, educational, hygiene and auxiliary services provided by Sinopec Group to the Company	The proposed annual caps for 2019 to 2021 have decreased as compared to the annual cap for 2018, mainly because relevant Three Supplies and One Industry Assets belonging to Sinopec Group has been separated and handed over to the local governments according to the relevant requirements of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance. As a result, certain connected transactions under the previous Cultural, Educational, Hygiene and Community Service Agreement no longer constitute the continuing connected transactions between the Company and Sinopec Group.
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## **4. SPI Fund Document**

Annual premium payable by the Company	The proposed annual caps for 2019 to 2021 remain unchanged from the annual cap for 2018. Sinopec Corp. mainly considered the transaction figures of the past three years, the historical average growth rate of fixed assets and inventory size caused by the amount of fixed assets and the scale of business expansion as of 30 June 2018.
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## 5. Properties Leasing Agreement

Annual property rent paid payable by the Company to Sinopec Group	The proposed annual caps for 2019 to 2021 remain unchanged from the annual cap for 2018. Sinopec Corp. mainly considered the transaction figures of the past three years, the amount of the relevant properties leased by Sinopec Group in 2017 and during the first six months of 2018, and the possible extent of future rent increases in China and the potential new lease agreements between the Company and Sinopec group.
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## 6. REASONS AND BENEFITS FOR THE CONTINUING CONNECTED TRANSACTIONS

Sinopec Group operated with the Company as an integrated organisation prior to the reorganisation of China Petrochemical Corporation and the establishment of Sinopec Corp., and a number of internal transactions were conducted every year. After the reorganisation and the listing of the shares of Sinopec Corp. on both the Stock Exchange and the SSE, a number of transactions conducted or to be conducted between the Company and Sinopec Group that are necessary for businesses development of the Company constituted continuing connected transactions under the HK Listing Rules and/or the SH Listing Rules.

The Board is of the view that entering into such transactions on a continuing basis is essential to the continuation of the Company's business and will be beneficial to the Company as the Continuing Connected Transactions facilitate the business operation and growth of the Company and reduce unnecessary risks which might incur during the course of operation, which are mainly reflected in:

- 6.1 Sinopec Group has advantages in various aspects, with a good reputation and a gigantic scale. The Company has established a long-term cooperative relationship with Sinopec Group;
- 6.2 The engineering technology, production and financial services provided by Sinopec Group to the Company have competitive advantages in the domestic industry. Compared with other service providers, there are significant empirical, technological and cost advantages;
- 6.3 The petroleum industry has its unique technological and quality requirements, and the oil and gas engineering and technological services provided by Sinopec Group are of higher standards within the industry, which can satisfy the technological and quality standards of the projects invested in and operated by the Company. At the same time, high quality services can also reduce safety and environmental protection risks of the Company significantly;



6.4 The shared services provided by Sinopec Group to the Company can lower the cost through centralised processing and can help the Company to improve management refinement and operational efficiency.

As for financial services, Sinopec Financial Institutions focus on serving China Petrochemical Corporation and its subsidiaries, with the institutions' strong financial capabilities, providing efficient financial services for the Company's domestic and overseas business. The reasons and benefits of financial services are as follows:

- (1) Improving fund management efficiency, realising centralised funds management: In the daily business process, the Company trades with China Petrochemical Corporation and its associates. Sinopec Financial Institutions are platforms for internal settlement, financing and fund management of Sinopec Group, and the relevant associates usually open a settlement account in Sinopec Financial Institutions. Sinopec Financial Institutions provide deposits and other financial services to the Company to facilitate settlement within the members of the Company and between the Company and members of Sinopec Group (some of them are customers of the Company) and shorten the time required for transfer and turnover of funds. Compared with opening bank accounts by Sinopec Group and the Company separately in independent commercial banks, clearing and settlement between both sides would be more efficient. Sinopec Financial Institutions will enable the Company to lower the cost of funds by improving the efficiency of the internal settlement and help to realise optimisation of cost and operational efficiency. The Company's centralised deposit of funds in Sinopec Financial Institutions would enable the Company to have access to a centralized managed pool of domestic and offshore funds. The Company is also entitled to choose early termination of deposits in Sinopec Financial Institutions without any penalty. Meanwhile, the Company may, at its sole discretion, deposit its funds into Sinopec Financial Institutions or independent domestic or overseas commercial banks without any restrictions.

- (2) Familiar with the Company's business: Since Sinopec Financial Institutions mainly provide financial services to China Petrochemical Corporation and its subsidiaries, they have accumulated in-depth knowledge in industries such as oil and gas, refinery and petrochemical industries over the years. Sinopec Financial Institutions are familiar with the capital structure, business operation, capital requirements and cash flow pattern of the Company, enabling it to better forecast the capital requirements of the Company. Therefore, Sinopec Financial Institutions can provide flexible, convenient and low cost service to the Company at any time, while it will be difficult for independent commercial banks to provide equivalent services.
- (3) Offering better commercial terms: Sinopec Financial Institutions generally can offer Sinopec Corp. more favourable terms and interest rates as compared to other financial institutions or banks. Under normal circumstances, the deposit interest rate offered by Sinopec Financial Institutions will be no lower than that offered by commercial banks for the deposits of the same nature and the same maturity. And the loan interest rate will be no higher than that offered by commercial banks for the loans of the same nature and the same maturity.
- (4) Implementing internal control and risk management measures, guarantee the security of capital: The Company, Sinopec Finance and Sinopec Century Bright have taken various risk control measures for financial services so as to guarantee the security of capital and to ensure the Company's interests. Sinopec Financial Institutions have strict internal control system and risk management system established by Sinopec Group. Such regulations, internal control and risk control measures includes but not limited to the followings:
- (a) Sinopec Finance is a major domestic non-banking financial institution under the supervision of the CBIRC. The Beijing Bureau, being the dispatched agency of CBIRC conducts daily supervision on Sinopec Finance and conducts on-site and off-site inspections; meanwhile, Sinopec Century Bright holds the Money Lenders License and the Money Service Operators License issued by Hong Kong Government, and is supervised by the Hong Kong Government, Hong Kong Customs, the Companies Registry and other relevant regulatory authorities in Hong Kong;
- (b) In order to regulate the connected transactions between the Company and Sinopec Finance, Sinopec Corp. and Sinopec Finance

formulated the Risk Control System on Connected Transactions between China Petroleum & Chemical Corporation and Sinopec Finance Co., Ltd., which covers the relevant risk control system and the risk management plan to prevent financial risks and to ensure that the deposits of the Company in the Sinopec Finance can be utilised at the Company's discretion. Meanwhile, in order to regulate connected transactions between the Company and Sinopec Century Bright, Sinopec Group has issued a number of internal rules, including Internal Control Regulations, the Rules for Implementation of Overseas Capital Management Methods and the Provisional Methods for Overseas Fund Platform Management, to impose strict rules on Sinopec Century Bright for providing overseas financial services to each business under Sinopec Group. Sinopec Century Bright has also established the Rules for the Implementation of the Internal Control System. The formulation of such management systems has strengthened the control over internal risks and has ensured the safety of the deposits of the Company in Sinopec Century Bright;

- (c) According to the regulatory requirements, Sinopec Finance has established a complete corporate governance structure with board of directors and board of supervisors, which can facilitate the stable operation and effective supervision of Sinopec Finance. In accordance with the relevant regulatory requirements of the CBIRC, Sinopec Finance has established an internal control system which covers all business areas, dynamically updated annually according to business needs, and through measures such as audit inspections. Sinopec Finance has ensured an effective internal control and a strict implementation of rules and regulations. Sinopec Finance has established a relatively completed risk management organisation structure, and the risk controls have been implemented. All regulatory indicators are in line with the regulatory requirement. According to relevant regulations, Sinopec Century Bright carries out internal control assessment in each quarter of the year and carries out risk evaluations when necessary;
- (d) As the controlling shareholder of Sinopec Finance, China Petrochemical Corporation undertakes that in case of an emergency where the Sinopec Finance has difficulties making payments, China Petrochemical Corporation will increase the capital of the Sinopec Finance in accordance with the actual need for the purpose of assuring payments to be made. At the same time, as the sole

shareholder of Sinopec Century Bright, China Petrochemical Corporation entered into a keep-well agreement with Sinopec Century Bright, under which China Petrochemical Corporation undertakes that when Sinopec Century Bright has difficulty making payments, China Petrochemical Corporation will ensure that Sinopec Century Bright will fulfill its repayment obligation through various channels. In respect of liquidity, the credit rating of China Petrochemical Corporation is higher than many enterprises and even banks. Sinopec Finance as a major domestic non-bank financial institution was under the supervision of CBIRC, and has achieved the regulatory requirements as determined by regulatory indicators over the years, and Sinopec Century Bright was granted credit rating of A/A2 from Standard & Poor's and Moody's, respectively;

- (e) Sinopec Corp. holds 49% equity interest in Sinopec Finance and has nominated directors in Sinopec Finance to oversee its operations. Each of Sinopec Finance and Sinopec Century Bright shall provide sufficient information including various financial indicators (as well as annual and interim financial reports) quarterly to enable the Company to monitor the financial conditions of Sinopec Finance and Sinopec Century Bright continually;
- (f) Each of Sinopec Finance and Sinopec Century Bright shall monitor the maximum daily amount of deposits (including accrued interests) of the Company to ensure that the relevant amount do not exceed the applicable annual caps; and
- (g) During the annual audit period of Sinopec Corp. audited by auditor, the auditor will review and express opinions on the connected transactions between the Company, Sinopec Finance and Sinopec Century Bright, while Sinopec Corp. shall timely perform the information disclosure obligation according to the requirements of HK Listing Rules.

The aforesaid internal control and risk management measures will be able to mitigate the financial risks maybe exposed to the Company to most extent, and safeguard the interests of Sinopec Corp. and its Shareholders. The Directors are of the view that the above internal control and risk management measures are adequate and effective in monitoring the deposit transactions in all material respects.

In addition, the Board has considered the risks associated with the use of deposit services provided by Sinopec Financial Institutions mainly includes (i) risks commonly faced by the banking industry; and (ii) risks arisen from the fact that Sinopec Financial Institutions being the financial institutions controlled by Sinopec Group. After taking into account various factors as disclosed above, the Directors are of the view that the Company actually faces no greater risks commonly faced by the banking industry for the use of deposit services provided by Sinopec Financial Institutions. For the risks arisen from the fact that Sinopec Financial Institutions being the financial institutions controlled by Sinopec Group (e.g., the possible liquidation of Sinopec Group or diversion of fund by Sinopec Group, etc.), the Directors are of the views that such risks are either remote or can be minimised/avoided by control and risk management measures as disclosed above. As such, having regarded such disadvantages/risks, the Directors still consider that it is in the interests of the Company and its Shareholders as a whole to use those financial services.

The Continuing Connected Transactions of the Company are conducted in the ordinary and usual course of business of the Company. Such transactions will continue to be conducted on an arm's length basis and on terms that are fair and reasonable to the Company. Directors of the Company (including independent non-executive directors) believe that the Continuing Connection Transactions have been conducted on the basis of normal commercial terms or better terms, fair and reasonable, and are in the interests of the Company and Shareholders as a whole, and the proposed annual caps of the Continuing Connected Transactions is fair, reasonable, and are in the interests of the Company and Shareholders as a whole.

## **7. THE HK LISTING RULES AND THE SH LISTING RULES REQUIREMENTS**

Pursuant to the HK Listing Rules and the SH Listing Rules, China Petrochemical Corporation, holding approximately 71.32% of the total issued share capital of Sinopec Corp., and its associates will constitute connected persons of Sinopec Corp. As such, the continuing transactions between the Company and Sinopec Group constitute continuing connected transactions of Sinopec Corp. under Chapter 14A of the HK Listing Rules. Sinopec Corp. shall comply with the reporting, announcement and Independent Shareholders' approval (if necessary) requirements in respect of such continuing connected transactions. In addition, the deposit services to be provided by Sinopec Financial Institutions to the Company will also constitute disclosable transactions under chapter 14 of the HK Listing Rules.

## **Continuing Connected Transactions    HK Listing Rules Requirements**

### **1.    *Major Continuing Connected Transactions***

- |                                |   |
|--------------------------------|---|
| (1)    Mutual Supply Agreement | As the proposed annual caps of each of the transactions exceed 5% of the percentage ratios, it is therefore subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the HK Listing Rules. |
|--------------------------------|---|

### **2.    *Non-major Continuing Connected Transactions***

- |  |  |
|--|--|
| (2)    Land Use Rights Leasing Agreement                               | As the proposed annual caps of each of the transactions are less than 5% of the percentage ratios, but more than 0.1%, the relevant transactions are subject to the reporting and announcement requirements under Chapter 14A of the HK Listing Rules but will be exempt from independent shareholders' approval requirements. |
| (3)    Cultural, Educational, Hygiene and Auxiliary Services Agreement |  |
| (4)    SPI Fund Document   |  |

### **3.    *Exempted Continuing Connected Transactions***

- |  |   |
|--|---|
| (5)    Properties Leasing Agreement            | As Sinopec Corp. estimates that the annual fee payable by the Company to Sinopec Group for such transactions will be less than 0.1% of each of the applicable percentage ratios, the relevant transactions will be exempt from reporting, announcement and independent shareholders' approval requirements. |
| (6)    Intellectual Property License Agreement |   |

The transactions under (1) to (6) above (including the relevant proposed caps) will be subject to the announcement and independent shareholders' approval requirements in accordance with Chapter 10 of the SH Listing Rules.

## **8. APPROVAL BY THE BOARD AND INDEPENDENT SHAREHOLDERS**

On 24 August 2018, the third meeting of the seventh session of the Board was convened by way of onsite meeting, at which non-connected Directors approved the Renewal of Continuing Connected Transactions (including the relevant proposed caps. Connected Directors Mr. Dai Houliang, Mr. Li Yunpeng, Mr. Ma Yongsheng, Mr. Ling Yiqun, Mr. Liu Zhongyun and Mr. Li Yong are abstained from voting on the relevant resolutions. Save as disclosed above, none of the Directors has any material interest in the transactions abovementioned.

According to the requirements of the HK Listing Rules, an Independent Board Committee will be formed and will advise the Independent Shareholders in respect of the fairness and the reasonableness of the Renewal of Major Continuing Connected Transactions (including the relevant proposed caps), and whether such transactions are in the interests of Sinopec Corp. and its Shareholders as a whole. Furthermore, the Independent Board Committee will advise Shareholders on how to vote, taking into account the recommendations of the IFA. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no member of the Independent Board Committee has any material interest in the Continuing Connected Transactions.

ABCI, has been appointed as the IFA to advise the Independent Board Committee and the Independent Shareholders in respect of, among other things, the fairness and reasonableness of the Renewal of Major Continuing Connected Transactions (including the relevant proposed caps) and whether such transactions are in the interests of Sinopec Corp. and its Shareholders as a whole, and to advise the Independent Shareholders on how to vote. The IFA will also advise on the duration of the Land Use Rights Leasing Agreement, the Properties Leasing Agreement and the SPI Fund Document in accordance with 14A.52 of the HK Listing Rules.

Sinopec Corp. will convene the EGM for the Independent Shareholders to consider and approve (if think fit), among other things, the Renewal of Major Continuing Connected Transactions (including the relevant proposed caps), and, also in accordance with the requirements of the Shanghai Stock Exchange, the Renewal of Continuing Connected Transactions (including the relevant proposed caps). China Petrochemical Corporation and its associates will abstain from voting at the EGM in respect of the ordinary resolution to approve the above matters. A circular containing, among other things, (i) further details of the Continuing Connected Transactions, (ii) a letter from the Independent Board Committee and (iii) a letter from the IFA, ABCI, will be dispatched and/or notified to the Shareholders in due course.



## **9. GENERAL INFORMATION**

Sinopec Corp. is one of the largest integrated energy and chemical companies in China. Its principal operations include the exploration and production, pipeline transportation and sale of petroleum and natural gas; the sale, storage and transportation of petroleum refining products, petrochemical products, coal chemical products, synthetic fibre and other chemical products; the import and export, including an import and export agency business, of petroleum, natural gas, petroleum products, petrochemical and chemical products, and other commodities and technologies; and research, development and application of technologies and information.

Sinopec Group was established in July 1998, and it is an authorized investment organization with a current registered capital of RMB274.87 billion. Its controlling shareholder is the State. Upon reorganization in 2000, Sinopec Group transferred its principal petrochemical business to Sinopec Corp. The principal operations of Sinopec Group include: exploration, exploitation, storage and transportation (including pipeline transportation), sales and comprehensive utilization of oil and natural gas; oil refining; wholesale and retail of oil products; production, sales, storage, transportation of petrochemical and other chemical products; industrial investment and investment management; exploration and design, construction and installation of petroleum and petrochemical engineering; repairing and maintenance of petroleum and petrochemical equipment; manufacture of mechanical and electrical equipment; technology and information, research and development, application and consultation services of alternative energy products; import and export business.



## 10 · DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“ABCI” or “IFA”	ABCI Capital Limited, a corporation licensed under the Securities and Futures Ordinance to carry out Type 1 regulated activities (dealing in securities) and Type 6 regulated activities (advising on corporate finance), has been appointed as independent financial adviser to advise the Independent Board Committee and Independent Shareholders in respect of the fairness and reasonableness of the Renewal of Major Continuing Connected Transactions (including the relevant proposed caps) and whether such transactions are in the interests of Sinopec Corp. and its Shareholders as a whole, and to advise the Independent Shareholders on how to vote. The IFA will also advise on the duration of the Land Use Rights Leasing Agreement, the SPI Fund Document and the Properties Leasing Agreement with a term of more than three years;
“amended Continuing Connected Transactions Agreements”	collectively refer to the Mutual Supply Agreement, the Cultural, Educational, hygiene and Auxiliary Services Agreement (formerly named the Cultural, Educational, Hygiene and Community Services Agreement), the Properties Leasing Agreement and the Intellectual Property License Agreements amended by the Continuing Connected Transactions Fifth Supplemental Agreement dated 24 August 2018, and the Land Use Rights Leasing Agreement amended by the Land Use Rights Leasing Agreement Fourth Amendment Memo dated 24 August 2018;
“amended Mutual Supply Agreement”	the Mutual Supply Agreement amended by the Continuing Connected Transactions Fifth Supplemental Agreement dated 24 August 2018;
“associates”	has the meaning under the HK Listing Rules;
“Board”	the board of directors of Sinopec Corp.;

“China Petrochemical Corporation”	China Petrochemical Corporation, being the controlling shareholder of Sinopec Corp.;
“CBIRC”	China Banking and Insurance Regulatory Commission;
“Company”	Sinopec Corp. and its subsidiaries;
“Computer Software License Agreement”	the computer software license agreement dated 3 June 2000 (as amended) regarding the granting of license by Sinopec Group to the Company to use certain computer software of Sinopec Group;
“Continuing Connected Transactions”	the transactions under the Exempted Continuing Connected Transactions, the Non Major Continuing Connected Transactions and the Major Continuing Connected Transactions;
“Continuing Connected Transactions Third Supplemental Agreement”	the agreement dated 24 August 2012 entered into between Sinopec Corp. and China Petrochemical Corporation regarding the amendments of the terms of the continuing connected transactions;
“Continuing Connected Transactions Fourth Supplemental Agreement”	the agreement dated 26 August 2015 entered into between Sinopec Corp. and China Petrochemical Corporation regarding the amendments of the terms of the continuing connected transactions;
“Continuing Connected Transactions Fifth Supplemental Agreement”	the agreement dated 24 August 2018 entered into between Sinopec Corp. and China Petrochemical Corporation regarding the amendments of the terms of the Continuing Connected Transactions;
“Cultural, Educational, Hygiene and Community Services Agreement”	the cultural, educational, hygiene and community services agreement dated 3 June 2000 and the supplemental agreement dated 26 September 2000 (as amended) regarding the provision of, inter alia, certain cultural, educational, hygiene and community services. And the agreement was further revised as Cultural, Educational, Hygiene and Auxiliary Service Agreement pursuant to the Continuing Connected Transactions Fifth Supplemental Agreement dated 24 August 2018;

“Cultural, Educational, Hygiene and Auxiliary Service Agreement”	the amended Cultural, Educational, Hygiene and Community Services Agreement dated 24 August 2018;
“Directors”	the directors of Sinopec Corp.;
“EGM”	the first extraordinary general meeting of 2018 of Sinopec Corp. to be held for Independent Shareholders of Sinopec Corp. to consider and approve the Renewal of Continuing Connected Transactions (including the relevant proposed caps);
“Exempted Continuing Connected Transactions	the transactions contemplated under the Properties Leasing Agreement and the Intellectual Property License Agreements;
“HK Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors, namely Mr. Tang Min, Mr. Fan Gang, Mr. Cai Hongbin, and Mr. Ng, Kar Ling Johnny;
“Independent Shareholders”	the shareholders of Sinopec Corp. other than China Petrochemical Corporation and its associates;
“Intellectual Property License Agreements”	the Trademarks License Agreement, the Computer Software License Agreement and the Patents and Proprietary Technology License Agreement;
“Land Use Rights Leasing Agreement”	the land use rights leasing agreement dated 3 June 2000 (as amended) regarding the leasing of certain land use rights by Sinopec Group to the Company;
“Land Use Rights Leasing (Additional) Agreement”	the land use rights leasing agreement dated 22 August 2003 regarding the leasing of certain land use rights by Sinopec Group to the Company;
“Land Use Rights Leasing Agreement Amendment Memo”	the memo dated 22 August 2008 regarding the amendments to the Land Use Rights Leasing Agreement;

“Land Use Rights Leasing Agreement Second Amendment Memo”	the memo dated 21 August 2009 regarding the amendments to the Land Use Rights Leasing Agreement;
“Land Use Rights Leasing Agreement Third Amendment Memo”	the memo dated 24 August 2012 regarding the amendments to the Land Use Rights Leasing Agreement;
“Land Use Rights Leasing Agreement Fourth Amendment Memo”	the memo dated 24 August 2018 regarding the amendments to the Land Use Rights Leasing Agreement;
“Major Continuing Connected Transactions”	the transactions relating to the sales and supply of products and services and deposit service under the Mutual Supply Agreement, subject to the Independent Shareholders’ approval under the HK Listing Rules and SH Listing Rules;
“Ministry of Finance”	the Ministry of Finance of the PRC;
“Mutual Supply Agreement”	the mutual supply agreement dated 3 June 2000 and the Supplemental agreement dated 26 September 2000 (as amended) regarding the provision of a range of products and services from time to time (1) by Sinopec Group to the Company; and (2) by the Company to Sinopec Group;
“NDRC”	the National Development and Reform Commission ;
“Non-Major Continuing Connected Transactions	the continuing connected transactions contemplated under the SPI Fund Document, the Land Use Rights Leasing Agreement, the Cultural, Education, Hygiene and Auxiliary Services Agreement and the Properties Leasing Agreement;
“Patents and Proprietary Technology License Agreement”	the patents and proprietary technology license agreement dated 3 June 2000 (as amended) regarding the granting of license by Sinopec Group to the Company to use certain patents and proprietary technology of Sinopec Group;

“PRC” or “China”	the People’s Republic of China, for the purpose of this announcement, excluding the Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan;
“Properties Leasing Agreement”	the properties leasing agreement dated 3 June 2000 (as amended) regarding the leasing of certain properties by Sinopec Group to the Company;
“Renewal of Continuing Connected Transactions”	renewal of the Continuing Connected Transactions pursuant to the amended Continuing Connected Transactions Agreements;
“Renewal of Major Continuing Connected Transactions”	renewal of the Major Continuing Connected Transactions pursuant to the amended Continuing Connected Transactions Agreements;
“RMB”	the lawful currency of the PRC;
“SH Listing Rules”	the Share Listing Rules of Shanghai Stock Exchange;
“SSE”	the Shanghai Stock Exchange;
“Shareholders”	the shareholders of Sinopec Corp.;
“Sinopec Corp.”	China Petroleum & Chemical Corporation, a joint stock limited company incorporated in the PRC with limited liability;
“Sinopec Group”	China Petrochemical Corporation and its associates (other than the Company but, for the purpose of the Continuing Connected Transactions fifth Supplemental Agreement, except for Sinopec Corp’s subsidiaries in which China Petrochemical Corporation or its associates have a direct equity interest of at least 10%);

“SPI Fund Document”	<p>Safety Production Insurance Fund Document, a document jointly issued in 1997 by the Ministry of Finance of the PRC and the ministerial level enterprise of China Petrochemical Corporation and its associated company before the industry reorganisation in 1998 (Cai Gong Zi 1997 No. 268) relating to the payment of insurance premium by Sinopec Corp. to the China Petrochemical Corporation. Under the SPI Fund Document, Sinopec Corp. is required to pay twice a year an insurance premium. Each time Sinopec Corp. shall pay a maximum of 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 China Petrochemical Corporation received the premium from Sinopec Corp., China Petrochemical Corporation 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 would be 17% of the paid premium if Sinopec Corp. failed to pay the semi-annual premium on time. The Refund is used by Sinopec Corp. in the following manner: 60% shall be used in dealing with accidents and potential risks and safety measures; 20% shall be used in safety education and training and 20% shall be used in preventing major accidents and potential risks and as awards to units and individuals who have made a contribution to safety production;</p>
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Sinopec Century Bright”	Sinopec Century Bright Capital Investment Limited, a wholly-owned subsidiary of China Petrochemical Corporation;
“Sinopec Finance”	Sinopec Finance Co., Ltd, a subsidiary of China Petrochemical Corporation jointly established with Sinopec Corp.;
“Sinopec Financial Institutions”	Sinopec Finance and Sinopec Century Bright;

“Trademarks License Agreement”	the trademarks license agreement dated 3 June 2000 (as amended) regarding the granting of license by Sinopec Group to the Company to use certain trademarks of Sinopec Group; and
“Three Supplies and One Industry Assets”	community water supply, community power supply, community gas supply (heating supply) and related property management assets.

By Order of the Board  
**China Petroleum & Chemical Corporation**  
Huang Wensheng  
*Vice President and Secretary to the Board of Directors*

Beijing, the PRC,  
24 August 2018

*As of the date of this announcement, directors of the Company are: Dai Houliang<sup>#</sup>, Li Yunpeng<sup>\*</sup>, Ma Yongsheng<sup>#</sup>, Ling Yiqun<sup>#</sup>, Liu Zhongyun<sup>#</sup>, Li Yong<sup>\*</sup>, Tang Min<sup>+</sup>, Fan Gang<sup>+</sup>, Cai Hongbin<sup>+</sup>, Ng, Kar Ling Johnny<sup>+</sup>*

<sup>#</sup> *Executive Director*

<sup>\*</sup> *Non-executive Director*

<sup>+</sup> *Independent Non-executive Director*