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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this Circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Sinopec Kantons Holdings Limited (the “Company”), you should at once hand this Circular together with the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.

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**SINOPEC KANTONS HOLDINGS LIMITED**

**(中石化冠德控股有限公司) \***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 934)**

- (1) CONTINUING CONNECTED TRANSACTIONS AND/OR MAJOR TRANSACTION REGARDING RENEWAL OF THE NON-EXEMPT EXISTING CONTINUING CONNECTED TRANSACTIONS;**  
**(2) CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION REGARDING THE YULIN-JINAN PIPELINE COMPRESSION PROJECT;**  
**AND**  
**(3) NOTICE OF SPECIAL GENERAL MEETING**

**Independent Financial Adviser  
to the Independent Board Committee and the Independent Shareholders**



**SOMERLEY CAPITAL LIMITED**

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A letter from the Board is set out on pages 12 to 49 of this Circular.

A letter from the Independent Board Committee is set out on pages 50 to 51 of this Circular.

A letter from the Independent Financial Adviser containing the advice to the Independent Board Committee and the Independent Shareholders is set out on pages 52 to 86 of this Circular.

A notice convening the SGM to be held at Taishan Room, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Thursday, 22 December 2016 at 10:00 a.m. and at any adjournment thereof is set out on pages N-1 to N-5 of this Circular. Whether or not you are able to attend the SGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event, not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjourned meeting should you so wish.

\* For identification purposes only

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## DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (excluding Saturdays) on which commercial banks generally are open for business in Hong Kong
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“Century Bright”	Sinopec Century Bright Capital Investment Limited (中石化盛駿國際投資有限公司), a limited liability company incorporated in Hong Kong and a wholly owned subsidiary of Sinopec Group Company
“Company”	Sinopec Kantons Holdings Limited (中石化冠德控股有限公司*), an exempted company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Circular”	this circular
“Director(s)”	the director(s) of the Company, including the independent non-executive directors of the Company
“Euro”	Euro, the lawful currency of certain member states of the European Union
“Exempt Existing Continuing Connected Transactions”	collectively, the exempt continuing connected transactions of the lease of certain parcels of lands and buildings in relation to Yulin-Jinan Pipeline in accordance with the Existing Lands and Buildings Framework Master Lease Agreement and the provision of fuel oil jetty and storage services under Existing Sinopec Fuel Oil Sales Company Limited Framework Master Agreement, details of which are set out in section II of the Company’s announcement dated 11 November 2016

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## DEFINITIONS

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“Existing Century Bright Financial Services Framework Master Agreement”	the financial services agreement entered into between the Company and Century Bright on 29 October 2013 in respect of the continuing connected transactions between the Company and Century Bright for the three financial years ending 31 December 2016
“Existing Gas Storage Framework Master Lease Agreement”	the gas storage framework master lease agreement entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company dated 30 December 2014 in respect of the continuing connected transactions between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company for the three financial years ending 31 December 2017
“Existing Lands and Buildings Framework Master Lease Agreement”	the lands and buildings framework master lease agreement entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company dated 30 December 2014 in respect of the continuing connected transactions between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company for the three financial years ending 31 December 2017
“Existing Natural Gas Transmission Services Framework Master Agreement”	the natural gas transmission services framework master agreement entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company dated 30 December 2014 in respect of the continuing connected transactions between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company for the three financial years ending 31 December 2017
“Existing Services Outsourcing Framework Master Agreement”	the services outsourcing framework master agreement entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company dated 30 December 2014 in respect of the continuing connected transactions between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company for the three financial years ending 31 December 2017
“Existing Sinopec Finance Financial Services Framework Master Agreement”	the financial services agreement entered into between Sinopec Finance and Huade on 29 October 2013 in respect of the continuing connected transactions between Sinopec Finance and Huade for the three financial years ending 31 December 2016
“Existing Sinopec Fuel Oil Sales Company Limited Framework Master Agreement”	the agreement dated 29 October 2013 entered into between Huade and Sinopec Fuel Oil in respect of the continuing connected transactions between Huade and Sinopec Fuel Oil for the three financial years ending 31 December 2016

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## DEFINITIONS

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“Existing Sinopec Guangzhou Branch Framework Master Agreement”	the agreement dated 29 October 2013 entered into between Huade and Sinopec Guangzhou Branch in respect of the continuing connected transactions between Huade and Sinopec Guangzhou Branch for the three financial years ending 31 December 2016
“Existing Yu Ji Pipeline Financial Services Framework Master Agreement”	the financial services framework master agreement entered into between Yu Ji Pipeline Company and Sinopec Finance dated 30 December 2014 in respect of the continuing connected transactions between Yu Ji Pipeline Company and Sinopec Finance for the three financial years ending 31 December 2017
“Financial Services Framework Master Agreements”	collectively, the New Sinopec Finance Financial Services Framework Master Agreement, the New Century Bright Financial Services Framework Master Agreement and the New Yu Ji Pipeline Financial Services Framework Master Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huade”	惠州市大亞灣華德石化有限公司 (Huizhou Daya Bay Huade Petrochemical Company Limited*), a company established under the laws of the PRC with limited liability, and a wholly owned subsidiary of Kantons International Investment
“Huade Group”	Huade and its subsidiaries
“Huade Project Design Framework Master Agreement”	the framework agreement dated 11 November 2016 entered into between Huade and Sinopec Luoyang Construction Company in respect of the connected transaction as disclosed in section IV of the Company’s announcement dated 11 November 2016, whereby Huade may engage Sinopec Luoyang Construction Company to provide project design services for the relocation and risk management of certain oil storage tanks and ancillary facilities owned by Huade, upon the successful bid by Sinopec Luoyang Construction Company

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## DEFINITIONS

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“Huizhou Jetty”	the Huizhou Crude Oil Jetty Complex, including its oil tanker handling, crude oil unloading, storage and pipeline transmission facilities, which is located on Mabianzhou Island (馬鞭洲島) in the Daya Bay Economic and Technological Development Zone (大亞灣經濟技術開發區) in Huizhou (惠州), Guangdong Province, the PRC and which is owned and operated by the Group through Huade
“Independent Board Committee”	the independent board committee of the Company comprising Ms. Tam Wai Chu, Maria, Mr. Fong Chung, Mark and Dr. Wong Yau Kar, David, being all the independent non-executive Directors
“Independent Financial Adviser”	Somerley Capital Limited, a licensed corporation under the SFO licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity and the independent financial adviser appointed to advise the Independent Board Committee and Independent Shareholders in respect of the renewal of the Non-exempt Existing Continuing Connected Transactions for the two or three financial years ending 31 December 2019 (together with their caps) (as the case may be) and the connected transaction and discloseable transaction regarding the Yu Ji Compression Project Framework Master Agreement (together with its cap) and the transactions contemplated thereunder
“Independent Shareholders”	holder of shares in the Company other than SKI, Sinopec Group Company, Sinopec Corp., Unipet, Sinopec Finance, Century Bright, Sinopec Engineering and any of their respective associates
“Internal Labour Technical Services Framework Master Agreement”	the internal labour technical services framework master agreement dated 11 November 2016 entered into between Yu Ji Pipeline Company and Zhongyuan Natural Gas Technical Centre in respect of the continuing connected transactions as disclosed in section III of the Company’s announcement dated 11 November 2016 for the three financial years ending 31 December 2019
“Kantons International Investment”	Kantons International Investment Limited (冠德國際投資有限公司), a company incorporated under the laws of British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
“Latest Practicable Date”	29 November 2016, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained in this Circular

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## DEFINITIONS

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“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Century Bright Financial Services Framework Master Agreement”	the financial services agreement entered into between the Company and Century Bright on 11 November 2016 in respect of the continuing connected transaction, details of which are set out in section II of the section headed “Letter from the Board” of this Circular for the three financial years ending 31 December 2019
“New Continuing Connected Transactions”	collectively, the provision of technical services under the Internal Labour Technical Services Framework Master Agreement, the provision of substation power station maintenance services under the Substation Power Technical Services Framework Master Agreement and the entrusted management arrangement of the Six Oil Terminal Companies under the Oil Terminal Entrusted Management Framework Master Agreement
“New Framework Master Agreements”	collectively, the New Sinopec Guangzhou Branch Framework Master Agreement, the New Sinopec Finance Financial Services Framework Master Agreement, the New Natural Gas Transmission Services Framework Master Agreement, the New Gas Storage Framework Master Lease Agreement, the New Services Outsourcing Framework Master Agreement, the New Yu Ji Pipeline Financial Services Framework Master Agreement and the New Century Bright Financial Services Framework Master Agreement
“New Gas Storage Framework Master Lease Agreement”	the gas storage framework master lease agreement dated 11 November 2016 entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company in respect of the continuing connected transactions as disclosed in section II of the section headed “Letter from the Board” of this Circular for the two financial years ending 31 December 2019
“New Lands and Buildings Framework Master Lease Agreement”	the lands and buildings framework master lease agreement dated 11 November 2016 entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company in respect of the continuing connected transactions as disclosed in section II of the Company’s announcement dated 11 November 2016 for the two financial years ending 31 December 2019

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## DEFINITIONS

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“New Natural Gas Transmission Services Framework Master Agreement”	the natural gas transmission services framework master agreement dated 11 November 2016 entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company in respect of the continuing connected transactions as disclosed in section II of the section headed “Letter from the Board” of this Circular for the two financial years ending 31 December 2019
“New Services Outsourcing Framework Master Agreement”	the services outsourcing framework master agreement dated 11 November 2016 entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company in respect of the continuing connected transactions as disclosed in section II of the section headed “Letter from the Board” of this Circular for the two financial years ending 31 December 2019
“New Sinopec Finance Financial Services Framework Master Agreement”	the financial services agreement entered into between Sinopec Finance and Huade on 11 November 2016 in respect of the continuing connected transactions as disclosed in section II of the section headed “Letter from the Board” of this Circular for the three financial years ending 31 December 2019
“New Sinopec Fuel Oil Sales Company Limited Framework Master Agreement”	the agreement dated 11 November 2016 entered into between Huade and Sinopec Fuel Oil in respect of the continuing connected transactions as disclosed in section II of the Company’s announcement dated 11 November 2016 for the three financial years ending 31 December 2019
“New Sinopec Guangzhou Branch Framework Master Agreement”	the agreement dated 11 November 2016 entered into between Huade and Sinopec Guangzhou Branch in respect of the continuing connected transactions as disclosed in section II of the section headed “Letter from the Board” of this Circular for the three financial years ending 31 December 2019
“New Yu Ji Pipeline Financial Services Framework Master Agreement”	the financial services framework master agreement dated 11 November 2016 entered into between Yu Ji Pipeline Company and Sinopec Finance in respect of the continuing connected transactions as disclosed in section II of the section headed “Letter from the Board” of this Circular for the two financial years ending 31 December 2019



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## DEFINITIONS

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“Non-exempt Existing Continuing Connected Transactions”	collectively, the non-exempt continuing connected transactions, including the services and facilities in relation to the Huizhou Jetty, the deposit services and settlement and similar services, the intra group financial services in relation to Huade Group, the natural gas transmission services, the gas storage leasing, the services outsourcing in relation to the Yulin-Jinan Pipeline and the intra group financial services in relation to Yu Ji Pipeline Company in accordance with the Non-exempt Existing Framework Master Agreements, details of which are set out in section II of the section headed “Letter from the Board” of this Circular
“Non-exempt Existing Framework Master Agreements”	collectively, the Existing Sinopec Guangzhou Branch Framework Master Agreement, the Existing Sinopec Finance Financial Services Framework Master Agreement, the Existing Century Bright Financial Services Framework Master Agreement, the Existing Natural Gas Transmission Services Framework Master Agreement, the Existing Gas Storage Framework Master Lease Agreement, the Existing Services Outsourcing Framework Master Agreement and the Existing Yu Ji Pipeline Financial Services Framework Master Agreement
“Oil Terminal Entrusted Management Framework Master Agreement”	the oil terminal entrusted management agreement dated 11 November 2016 entered into between Sinomart and Sinopec Pipeline Storage Company in respect of the continuing connected transactions as disclosed in section III of the Company’s announcement dated 11 November 2016 for the three financial years ending 31 December 2019
“PBOC”	People’s Bank of China (中國人民銀行)
“PRC”	the People’s Republic of China, but for the purposes of this Circular and for geographical reference only (unless otherwise indicated) excludes Taiwan, Macau and Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

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## DEFINITIONS

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“SGM”	the special general meeting of the Company to be convened at Taishan Room, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Thursday, 22 December 2016 at 10:00 a.m. and at any adjournment thereof for the purposes of, among other things, considering, and if thought fit, passing ordinary resolutions regarding the renewal of the Non-exempt Existing Continuing Connected Transactions by the New Framework Master Agreements, the connected transaction and discloseable transaction regarding the Yu Ji Compression Project Framework Master Agreement and all matters contemplated thereunder
“Share(s)”	the ordinary share(s) of the Company with a nominal value of HK\$0.10 each
“Shareholder(s)”	the holder(s) of the Share(s)
“Sinomart”	Sinomart KTS Development Limited (經貿冠德發展有限公司), a company incorporated under the laws of Hong Kong with limited liability and a wholly owned subsidiary of the Company
“Sinopec Corp.”	China Petroleum & Chemical Corporation (中國石油化工股份有限公司) (stock code: 386), a joint-stock limited liability company incorporated in the PRC, the shares of which are listed on the stock exchanges of Hong Kong, Shanghai, New York and London
“Sinopec Engineering”	Sinopec Engineering (Group) Company Limited (中石化煉化工程(集團)股份有限公司) (stock code: 2386), a joint stock limited liability company incorporated under the laws of the PRC, the shares of which are listed on the main board of the Stock Exchange
“Sinopec Finance”	Sinopec Finance Company Limited (中國石化財務有限責任公司), a limited liability company organised in the PRC in July 1988
“Sinopec Fuel Oil”	中國石化燃料油銷售有限公司 (Sinopec Fuel Oil Sales Company Limited*), a company incorporated under the laws of the PRC with limited liability and a wholly owned subsidiary of Sinopec Corp.
“Sinopec Group”	Sinopec Group Company, its subsidiaries and its associated companies and affiliates, including the Group, or where the context so requires, any two or more members of such group and the words “member of the Sinopec Group” shall mean any one of them

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## DEFINITIONS

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“Sinopec Group Company”	China Petrochemical Corporation (中國石油化工集團公司, formerly known as 中國石油化工總公司), an enterprise established under the laws of the PRC, being the controlling shareholder of Sinopec Corp. (by virtue of its holding of approximately 70.86% in the issued share capital in Sinopec Corp.) and the ultimate controlling shareholder of the Company (by virtue of Sinopec Corp.’s indirect holding of approximately 60.33% in the issued share capital of the Company)
“Sinopec Guangzhou Branch”	China Petroleum & Chemical Corporation Guangzhou Branch (中國石油化工股份有限公司廣州分公司), a branch of Sinopec Corp.
“Sinopec Luoyang Construction Company”	Luoyang Petrochemical Engineering Corporation Limited (中石化洛陽工程有限公司), a company incorporated under the laws of the PRC with limited liability and a wholly owned subsidiary of Sinopec Engineering
“Sinopec Natural Gas Branch Company”	中國石油化工股份有限公司天然氣分公司 (Sinopec Natural Gas Branch Company*), a branch company of Sinopec Corp.
“Sinopec Petroleum Engineering”	中石化石油工程設計有限公司 (Sinopec Petroleum Engineering Corporation*), a company incorporated under the laws of the PRC with limited liability and a wholly-owned subsidiary of Sinopec Group Company
“Sinopec Pipeline Storage Company”	中國石化管道儲運有限公司 (Sinopec Pipeline Storage and Transportation Company*), a branch company of Sinopec Corp.
“Six Oil Terminal Companies”	six joint venture companies of which Sinomart has shareholdings as at the Latest Practicable Date, including 青島實華原油碼頭有限公司 (Qingdao Shihua Crude Oil Terminal Company Ltd.*), 日照實華原油碼頭有限公司 (Rizhao Shihua Crude Oil Terminal Company Ltd.*), 寧波實華原油碼頭有限公司 (Ningbo Shihua Crude Oil Terminal Company Ltd.*), 曹妃甸實華原油碼頭有限公司 (Tangshan Caofeidian Shihua Crude Oil Terminal Company Ltd.*), 天津港實華原油碼頭有限公司 (Tianjin Port Shihua Crude Oil Terminal Company Ltd.*) and 湛江港石化碼頭有限責任公司 (Zhanjiang Port Petrochemical Jetty Co*)
“SKI”	Sinopec Kantons International Limited, a company incorporated with limited liability in the British Virgin Islands, being the controlling shareholder of the Company
“State”	the government of the PRC

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## DEFINITIONS

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“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Substation Power Technical Services Framework Master Agreement”	the substation power technical services framework agreement dated 11 November 2016 entered into between Yu Ji Pipeline Company and Zhongyuan Electricity Supply Centre in respect of the continuing connected transactions as disclosed in section III of the Company’s announcement dated 11 November 2016 for the three financial years ending 31 December 2019
“Unipecc”	China International United Petroleum and Chemicals Co. Ltd. (中國國際石油化工聯合有限公司), a company established under the laws of the PRC with limited liability
“US\$”	United States dollars, the lawful currency of the United States of America
“Yu Ji Compression Project Framework Master Agreement”	the compression project framework master agreement dated 11 November 2016 between Yu Ji Pipeline Company and Sinopec Petroleum Engineering in respect of the connected and discloseable transactions as disclosed in section III of section headed “Letter from the Board” of this Circular
“Yu Ji Pipeline Company”	Sinopec Yu Ji Pipeline Company Limited (中石化榆濟管道有限責任公司), a limited liability company incorporated in the PRC on 27 October 2014 and an indirect wholly-owned subsidiary of the Company, owning the Yulin-Jinan Pipeline
“Yulin-Jinan Pipeline”	Yulin, Shaanxi Province to Jinan, Shandong Province Natural Gas Transmission Pipelines of about 944.93 km long, which pass through four provinces including Shaanxi Province, Shanxi Province, Henan Province and Shandong Province, the PRC, and the ancillary facilities
“Yulin-Jinan Pipeline Compression Project”	compression projects in relation to the Yulin-Jinan Pipeline contemplated under the Yu Ji Compression Project Framework Master Agreement
“Zhongyuan Electricity Supply Centre”	中國石油化工股份有限公司中原油田分公司供電服務中心 (Sinopec Zhongyuan Oilfield Company Electricity Supply Centre*), a wholly owned subsidiary of Sinopec Corp.
“Zhongyuan Natural Gas Technical Centre”	中國石化集團中原油油勘探局天然氣技術服務中心 (Sinopec Zhongyuan Oilfield Natural Gas Technical Centre*), a wholly owned subsidiary of Sinopec Group Company

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## DEFINITIONS

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“2013 SGM”	the special general meeting of the Company held on 13 December 2013
“2015 SGM”	the special general meeting of the Company held on 10 February 2015
“%”	per cent

*Translation of Euro, RMB or US\$ into HK\$ in this Circular is based on the respective approximate exchange rate of Euro1.00 to HK\$8.20, RMB1.00 to HK\$1.16 and US\$1.00 to HK\$7.76 for illustrative purposes only. Such translations do not constitute or should not be construed as representations that the relevant amounts have been, could have been, or could be converted at that rate or any other rate or at all.*

\* *The English translation of the names of companies established in the PRC referred to in this Circular is for reference only. The official names of those companies are in Chinese.*

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LETTER FROM THE BOARD

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**SINOPEC KANTONS HOLDINGS LIMITED**

**(中石化冠德控股有限公司) \***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 934)**

*Executive Directors:*

Mr. Chen Bo (*Chairman*)  
Mr. Xiang Xiwen (*Deputy Chairman*)  
Mr. Dai Liqi  
Mr. Li Jianxin  
Mr. Wang Guotao  
Mr. Ye Zhijun (*Managing Director*)

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Principal place of business in Hong Kong:*

34/F., Citicorp Centre  
18 Whitfield Road  
Causeway Bay  
Hong Kong

*Independent non-executive Directors:*

Ms. Tam Wai Chu, Maria  
Mr. Fong Chung, Mark  
Dr. Wong Yau Kar, David

2 December 2016

*To the Shareholders*

Dear Sir or Madam

**(1) CONTINUING CONNECTED TRANSACTIONS AND/OR MAJOR  
TRANSACTION REGARDING RENEWAL OF THE NON-EXEMPT  
EXISTING CONTINUING CONNECTED TRANSACTIONS;  
(2) CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION  
REGARDING THE YULIN-JINAN PIPELINE COMPRESSION PROJECT;  
AND  
(3) NOTICE OF SPECIAL GENERAL MEETING**

**I. INTRODUCTION**

Reference is made to the announcement of the Company dated 11 November 2016 in respect of, among other things, the renewal of the Non-exempt Existing Continuing Connected Transactions by the New Framework Master Agreements and the Exempt Existing Continuing Connected Transactions, which constitute continuing connected transactions and/or major transaction of the Company under the Listing Rules and the Yu Ji Compression Project Framework Master Agreement regarding the Yulin-Jinan Pipeline, which constitutes a connected transaction and discloseable transaction under the Listing Rules. The Company

\* For identification purposes only

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## LETTER FROM THE BOARD

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confirms that the agreement between the Group and Unipecc dated 29 October 2013 relating to provision of vessel chartering services which will be expired on 31 December 2016 is not renewed.

The purpose of this Circular is to provide you with further information regarding the New Framework Master Agreements and the Yu Ji Compression Project Framework Master Agreement.

### **II. CONTINUING CONNECTED TRANSACTIONS AND/OR MAJOR TRANSACTION REGARDING RENEWAL OF THE NON-EXEMPT EXISTING CONTINUING CONNECTED TRANSACTIONS**

References are made to the announcements of the Company dated 20 March 2009, 15 November 2010, 29 October 2013 and 30 December 2014, and the circulars of the Company dated 18 November 2010, 18 November 2013 and 19 January 2015, in relation to, among others, the Non-exempt Existing Continuing Connected Transactions.

#### **A. Non-exempt Existing Continuing Connected Transactions in relation to Huade**

Having considered that the Non-exempt Existing Continuing Connected Transactions in relation to Huade will expire on 31 December 2016, the Company has entered into the New Framework Master Agreements for renewal of the Non-exempt Existing Continuing Connected Transactions in relation to Huade and to replace the Non-exempt Existing Framework Master Agreements in relation to Huade.

##### **1. Crude Oil Jetty Services**

On 11 November 2016, Huade entered into the New Sinopec Guangzhou Branch Framework Master Agreement with Sinopec Guangzhou Branch in order to regulate, among others, the provision of crude oil jetty services between Huade and Sinopec Guangzhou Branch and to replace the Existing Sinopec Guangzhou Branch Framework Master Agreement. Conditional upon the Independent Shareholders' approval in the SGM, the New Sinopec Guangzhou Branch Framework Master Agreement will commence on 1 January 2017 for a term of three years up to 31 December 2019.

##### ***Relationship with the connected parties***

Sinopec Guangzhou Branch is a branch at Sinopec Corp., and Sinopec Corp. indirectly wholly owns SKI, the controlling shareholder of the Company.

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## LETTER FROM THE BOARD

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### *Nature of transactions*

The Group has provided under the Existing Sinopec Guangzhou Branch Framework Master Agreement and will continue to provide under the New Sinopec Guangzhou Branch Framework Master Agreement, the following services and facilities to Sinopec Guangzhou Branch through the Huizhou Jetty:

- (i) jetty and related services concerning the unloading of crude oil from oil tankers and dockage;
- (ii) crude oil storage and related services concerning the storage of crude oil in oil tank and oil tank handling; and
- (iii) the transmission of crude oil and related services concerning the transmission of crude oil from the Huizhou Jetty to Sinopec Guangzhou Branch's refinery complex in Guangzhou.

### *Pricing basis*

Pursuant to the New Sinopec Guangzhou Branch Framework Master Agreement, Huade will enter into crude oil jetty service agreements with Sinopec Guangzhou Branch, by which the parties will negotiate with reference to, among other factors, laws and regulations, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the agreements.

Pursuant to the New Sinopec Guangzhou Branch Framework Master Agreement, the service fees payable by Sinopec Guangzhou Branch to Huade will include:

- (i) in respect of jetty and related services concerning the unloading of crude oil from oil tankers and dockage, charged on the State-prescribed prices, being regulated and standardised by the Ministry of Transports of the PRC and on the basis of government approved prices, being approved by the Guangdong Price Bureau;
- (ii) in respect of crude oil storage and related services concerning the storage of crude oil in oil tank and oil tank handling, charged on the basis of government-approved prices, being approved by the Guangdong Price Bureau; and
- (iii) in respect of the transmission of crude oil and related services concerning the transmission of crude oil from the Huizhou Jetty to Sinopec Guangzhou Branch's refinery complex in Guangzhou, charged based on the State-prescribed prices, being regulated by the PRC's National Development and Reform Commission.



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## LETTER FROM THE BOARD

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If the State-prescribed prices or the government-approved prices (as the case may be) of any of the above services are abolished, the service fees payable shall be:

- (a) the fair market price for provision of the relevant services. In determining the fair market price, the Group generally makes reference to reports published by certain independent industry information providers, for example ICIS, which are updated from time to time and available to the public, and provide up to date information on market trend and prevailing market prices. The Group also takes into account the actual costs incurred by Huade upon provision of crude oil jetty services, the market price for the relevant or similar services by independent third party in Guangdong Province or nearby regions, and the service fee charged by Huizhou Jetty if Huizhou Jetty has provided the same or similar services provided that such price will not be lower than the market price for the relevant or similar services by independent third party in Guangdong Province or nearby regions, and the service fee charged by Huizhou Jetty if Huizhou Jetty has provided the same or similar services. The prices will be reported to the person in charge of the sales department of Huade for approval. As the process involves reference to industry reports and up to date market prices as mentioned above, the Company considers the method adopted above can ensure that the transactions will be conducted on normal commercial terms and not prejudicial to the interest of the Company; or
- (b) if no market price is available or agreed between the parties, the previous State-prescribed prices or government-approved prices (as the case may be) plus a margin not exceeding the rate of increase in the consumer price index for Guangdong Province during the immediately preceding calendar year. The consumer price index can be obtained from the Statistics Bureau of Guangdong Province of the PRC.

Pursuant to the relevant documents issued by the Guangdong Pricing Bureau, the Ministry of Transports of the PRC and the National Development and Reform Commission, the current State-prescribed/government-approved prices are:

- (1) RMB14.50 (approximately HK\$16.82) per tonne for jetty and related services concerning the unloading and storage of crude oil;
- (2) RMB3.30 (approximately HK\$3.83) per tonne for jetty and related services concerning the port charges; and

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- (3) RMB20.00 (approximately HK\$23.2) per tonne for the transmission of crude oil, such price was determined following the commercial negotiations between the parties with reference to the price range set out by the National Development and Reform Commission applicable for the distance of transmission from the Huizhou Jetty to Sinopec Guangzhou Branch's complex in Guangzhou and the diameter of the Huade's crude oil pipeline.

The Guangdong Pricing Bureau, the Ministry of Transport of the PRC and the National Development and Reform Commission will notify the Group from time to time if the above state-prescribed/ government-approved prices are revised. Huade and Sinopec Guangzhou Branch will then discuss and conclude the pricing terms based on the revised state-prescribed/ government-approved prices when entering into any subsequent crude oil jetty service agreements pursuant to the New Sinopec Guangzhou Branch Framework Master Agreement.

The Group will grant a credit period of 30 to 90 days from the date of billing to Sinopec Guangzhou Branch.

### *Historical amounts*

The aggregate amounts received by the Group in respect of these continuing connected transactions were approximately HK\$593,950,000 and HK\$578,100,000 for the two years ended 31 December 2015 respectively, and approximately HK\$265,420,000 for the six months ended 30 June 2016.

### *Annual caps*

As approved in the 2013 SGM, the annual caps for these transactions were HK\$850,000,000, HK\$850,000,000 and HK\$850,000,000 for the three financial years ending 31 December 2016 respectively. The Company estimates that the aggregate transaction amounts will be within the proposed annual caps of RMB700,000,000 (approximately HK\$812,000,000), RMB700,000,000 (approximately HK\$812,000,000) and RMB700,000,000 (approximately HK\$812,000,000) for the three financial years ending 31 December 2019 respectively.

In arriving at the aforesaid annual caps, the following factors were taken into account:

- (i) the historical figures of the transactions;
- (ii) the State-prescribed prices and the government-approved prices for these services;

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- (iii) the projected demand for jetty and related services and transmission of crude oil in 2017, which has been determined based on the revenue for such services in 2014 multiplied by the year-on-year growth rate for three years from 2014 to 2016, based on the assumptions that (a) Huade will be fully operational in 2017 after continued refinery equipment maintenance of Sinopec Guangzhou Branch in 2015 to 2016, and (b) the transaction volume of Huade would have continued to increase in 2015 to 2017 at a growth rate comparable to the year-on-year growth rate in 2014 in the absence of such continued refinery equipment maintenance;
- (iv) the projected demand for other related services (including crude oil storage over 10 days and tug boat services required by Sinopec Guangzhou Branch) in 2017, which has been determined based on (a) about 50% of the total other related services income which is contributed by Sinopec Guangzhou Branch for the year ended 31 December 2015; multiplied by (b) the compound annual growth rate of total historical amounts in 2013 to 2015, having taken into account the volatility in the historical revenue for other related services given the unpredictable number of days of crude oil storage required by the downstream clients; and (c) the Huizhou Jetty's daily storage capacity;
- (v) given the nature of mutual reliance of the supply and consumption of the services and facilities by Sinopec Guangzhou Branch in relation to the Huizhou Jetty, such demands in the volume and quantity of this business of the Group will remain stable as compared to the undisturbed period with proper business growth; and
- (vi) a buffer to allow flexibility for Huade to cope with the fluctuations in its business volume.

Having considered that the actual transaction amounts under the New Sinopec Guangzhou Branch Framework Master Agreement will be accounted for as revenue of the Group and the transactions will be carried out based on State-prescribed prices or government-approved prices (as the case may be), the Directors consider that the new annual caps arrived at based on the above assumptions are in the interest of the Company.

The payment terms of these transactions will be determined by the parties on a transaction-by-transaction basis, in accordance with market norms and on normal commercial terms, and with reference to prescriptions by and approvals of the PRC government.

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### *Reasons for the transactions*

The existing Huizhou Jetty and crude oil storage facilities of Huade are close to Sinopec Guangzhou Branch with a crude oil pipeline connected between Huade and Sinopec Guangzhou Branch, which is convenient for Huade to provide crude oil jetty unloading and storage service to Sinopec Guangzhou Branch. Sinopec Guangzhou Branch is also the only customer of Huade for crude oil unloading and pipeline transmission.

Currently, the business income of Huade is mostly attributable from Sinopec Guangzhou Branch. The provision of crude oil jetty unloading and storage service to Sinopec Guangzhou Branch creates economic benefits for Huade and is in the interests of the Company and the Shareholders as a whole.

## **2. New Sinopec Finance Financial Services Framework Master Agreement**

On 11 November 2016, Huade entered into the New Sinopec Finance Financial Services Framework Master Agreement with Sinopec Finance for the provision of intra group financial services by Sinopec Finance to Huade Group. Conditional upon the Independent Shareholders' approval in the SGM, the New Sinopec Finance Financial Services Framework Master Agreement will commence on 1 January 2017 for a term of three years up to 31 December 2019 to replace the Existing Sinopec Finance Financial Services Framework Master Agreement.

### *Relationship with the connected parties*

Sinopec Finance is owned as to 51% equity interest by Sinopec Group Company and 49% equity interest by Sinopec Corp.. Sinopec Group Company is the controlling shareholder of Sinopec Corp. and Sinopec Corp. in turn indirectly wholly owns SKI, the controlling shareholder of the Company.

### *Nature of the transactions*

The intra group financial services to be provided by Sinopec Finance to the Huade Group within the PRC include loan services, deposit services, conducting entrusted loans, conducting bill acceptance and discount services, and conducting transfer and relevant settlement services and planning of settlement scheme. Sinopec Finance has agreed to provide financial services other than those aforesaid services to the Huade Group, such as entrustment investments, financial and financing consulting, credit certification, insurance agency, exchange settlement, bond underwriting, foreign exchange business and related consultancy and agency financial services at Huade's request or instruction provided that Sinopec Finance has obtained the relevant approval from the CBRC.

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## LETTER FROM THE BOARD

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### *Pricing basis*

Sinopec Finance has undertaken to adhere to the principles below in providing the aforementioned financial services to the Huade Group within the PRC:

- (i) the interest rate for the Huade Group's deposits with Sinopec Finance shall be referenced to the deposit interest rate as announced by the PBOC from time to time, and shall be no lower than the interest rate for deposits offered by other independent commercial banks to the members of the Sinopec Group;
- (ii) the interest rate for loans granted to the Huade Group by Sinopec Finance shall be referenced to the base lending rate as announced by the PBOC from time to time; and in compliance with the laws and regulations, the interest rate may be reduced by a certain percentage and shall not be higher than the interest rate for loans offered by other independent commercial banks to the members of the Sinopec Group;
- (iii) the rate for discount services shall be referenced to the rediscount rate as announced by PBOC from time to time; and in accordance to the market situation, the rate shall not be higher than the discount rate offered by other independent commercial banks to the members of the Sinopec Group;
- (iv) the service fees for entrusted loans shall not be higher than the fee offered by other independent commercial banks to the members of the Sinopec Group;
- (v) the service charges for the transfer and relevant settlement services and planning of settlement scheme shall be free of charge. However, if any service charges relating to such transfer and relevant settlement services have been imposed by independent commercial banks on Sinopec Finance, Huade Group will then be charged the same by Sinopec Finance; and
- (vi) the rates or service fees for any other financial services at Huade's request or instruction such as entrustment investments, financial and financing consulting, credit certification, insurance agency, exchange settlement, bond underwriting, foreign exchange business and related consultancy and agency financial services shall be no less favourable than the rates or service fees offered by other independent commercial banks to the members of the Sinopec Group.

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Before entering into any of the abovementioned financial arrangements and any other financial services at Huade's request or instruction with Sinopec Finance, Huade will obtain quotes from three other independent commercial banks for similar services for similar duration. Such quotes, together with the offer from Sinopec Finance, will be reviewed by the Huade Group and the offer from Sinopec Finance will only be accepted if the interests received or fees charged will be no less favourable than those offered by independent commercial banks.

In respect of the service fees for entrusted loans, the Group will have a credit period of 30 to 90 days from the date of billing.

### *Capital risk control measures*

- (a) In accordance with the PRC laws and regulations, Sinopec Finance will ensure the safe and stable operation of fund management information system, which has undergone the security test in respect of connection to the online commercial banking and has reached the national security standards for commercial banks.
- (b) Sinopec Finance will ensure its compliance with the risk monitoring indicators for financial institutions issued by the CBRC and in accordance with the PRC laws and regulations. Sinopec Group Company has also made a commitment to CBRC for increasing the share capital of Sinopec Finance in case Sinopec Finance is in a financial strait.
- (c) In accordance with the PRC laws and regulations, Sinopec Finance will allow Huade to check the status of its deposits with Sinopec Finance each business day to enable Huade to monitor and ensure that the maximum outstanding balance at any time (including any interest accrued therefrom) for Huade Group's deposits with Sinopec Finance does not exceed the relevant upper limit.
- (d) If there is a breach of laws or regulations, Sinopec Finance should inform Huade immediately and to ascertain the procedure and plan to ratify and mitigate the situation.
- (e) The annual financial statements of Sinopec Finance will be provided to Huade upon request.

The Directors (including the independent non-executive Directors) consider that the above capital risk control measures are adequate to cover the risks involved in depositing funds with Sinopec Finance.

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### *Historical amounts*

The historical amounts of the maximum outstanding balance (including any interest accrued therefrom) for the deposits placed by the Huade Group with Sinopec Finance for the two years ended 31 December 2015 were approximately RMB70,560,000 (approximately HK\$ 81,850,000) and RMB43,300,000 (approximately HK\$50,230,000) respectively, and approximately RMB53,810,000 (approximately HK\$62,420,000) for the six months ended 30 June 2016.

### *Annual caps*

#### *Deposit services*

As approved in the 2013 SGM, the annual caps of these transactions were RMB500,000,000 (approximately HK\$580,000,000), RMB500,000,000 (approximately HK\$580,000,000) and RMB500,000,000 (approximately HK\$580,000,000) for the three financial years ending 31 December 2016 respectively.

The Company estimates that the maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits placed by the Huade Group with Sinopec Finance will be within the proposed annual caps of RMB500,000,000 (approximately HK\$580,000,000), RMB500,000,000 (approximately HK\$580,000,000) and RMB500,000,000 (approximately HK\$580,000,000) for the three financial years ending 31 December 2019 respectively. In arriving at the aforesaid caps, the Company has taken into account the historical amount of the transactions and the possible cash flow movement of Huade. Based on Huade's cash level as at 31 December 2015 of approximately RMB32.3 million (approximately HK\$37.47 million) and net cash inflow from operating activities of approximately RMB440.6 million (approximately HK\$511.10 million) in 2015 as set out in the management accounts of Huade for the year ended 31 December 2015, and given that the Group has the option to place all its cash on hand on any day as deposits with Sinopec Finance, the total cash available for placing with Sinopec Finance may reach over RMB470 million (approximately HK\$545.20 million) before accounting for cash flows from any investing and financing activities such as capital expenditures and dividend payouts.

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Save as disclosed above, the future business expansion, the expected increase in business volume, the expected increase in cash flow movement of the Huade Group and the following factors have been considered by Huade:

- (1) in order to strengthen the centralised management of funds and monitor the use of funds, the Sinopec Group will utilise the “funding pool” platform with the assistance of Sinopec Finance. Such platform amasses the funds of the Sinopec Group (including the Group) and enables loans to be granted within the Sinopec Group by capitalising on the leeway arising from the difference in the time for receipt and payment of funds of the members of the Sinopec Group, with an aim to support the development of the Sinopec Group and the Group;
- (2) Sinopec Finance is under the supervision of CBRC and it has been maintaining satisfactory operating results and financial position with good risk control and well-regulated management in the past three years. The safety standards of its settlement system reach the standards of domestic commercial banks. The collaboration between Huade Group and Sinopec Finance reduces finance costs, increases interest income of deposits, lowers settlement costs and controls risks;
- (3) there will be interest income from the deposits of the Huade Group with Sinopec Finance at a rate no less favourable than those offered by other independent commercial banks in the PRC;
- (4) in respect of the Huade Group’s funds settlement business at Sinopec Finance, settlement expenses will be undertaken by Sinopec Finance while the Huade Group has no obligations to pay for the settlement expenses to Sinopec Finance, save if other independent commercial banks charge Sinopec Finance for such fees, Sinopec Finance will charge Huade Group the same accordingly;
- (5) Sinopec Finance undertakes that the major shareholder shall not appropriate Huade Group’s funds; and
- (6) given the improvement of bill receivables management, the deposits placed by the Huade Group with Sinopec Finance are expected to increase for the three financial years ending 31 December 2019.

### *Loan services and conducting bill acceptance and discount services*

In view of the fact that the loan services provided by Sinopec Finance to the Huade Group are on normal commercial terms which are similar to or even more favourable than those offered by independent third parties for



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comparable services in the PRC, and that no security over the assets of the Group will be granted in respect of the loan services, the loan services are exempt under Rule 14A.90 of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements. As such, no cap has been set for such services. The Directors (including the independent non-executive Directors) consider that the loan services provided under the New Sinopec Finance Financial Services Framework Master Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### *Entrustment loans and other financial services*

Apart from the deposit services and the loan services, the other services which may be provided by Sinopec Finance to the Huade Group are entrustment loans and other financial services which will be on normal commercial terms and on terms similar to or even more favourable than those offered by independent third parties for comparable services in the PRC.

The Company expects that each of the percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the total fees payable by Huade to Sinopec Finance in respect of entrustment loans and other financial services will fall within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules. The Company will comply with the reporting, announcement and Independent Shareholders' approval requirements of the Listing Rules if the transaction amounts of the entrustment loans and other financial services to be provided by Sinopec Finance to the Huade Group under the New Sinopec Finance Financial Services Framework Master Agreement exceed the relevant threshold.

### *Reasons for the transactions*

1. The interest rates on loans and deposits to be offered by Sinopec Finance to the Huade Group will be no less favourable than those offered by other independent commercial banks in the PRC.
2. Sinopec Finance is regulated by the PBOC and the CBRC and provides its services in accordance with the rules and operational requirements of these regulatory authorities.
3. Given Sinopec Finance, being a member of the Sinopec Group, has a more thorough understanding of the business development and capital needs of the Huade Group, and many transactions from daily operations of the Huade Group are made with other members of the Sinopec Group, the centralised "funding pool" platform operated by Sinopec Finance is beneficial for the settlement operations for and between the

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members of the Sinopec Group, strengthening the Huade Group's capital management and control in order to mitigate and avert operational risks.

4. The "funding pool" platform will promote communication efficiency within the Sinopec Group and will reduce the time of capital in transit for the Huade Group, as compared with dealing with other independent commercial banks. It will also accelerate the turnover of cash flow and reduce transaction costs and expenses, thereby further enhancing the quality and efficiency of capital utilisation.
5. This also provides diversified financial services in broader areas for the Huade Group, which is in line with the interests of the Company and the Shareholders as a whole. The financial services provided by Sinopec Finance are in line with market norms and are on normal commercial terms, with reference to arrangements with other independent commercial banks in the PRC.
6. Pursuant to the relevant regulations of the PBOC and the CBRC, the customers of Sinopec Finance are limited to entities within Sinopec Group, thereby reducing the risks that Sinopec Finance may otherwise be exposed to if its customers include other entities unrelated to Sinopec Group.

### **B. Other Non-exempt Continuing Connected Transaction**

Having considered that the Existing Century Bright Financial Services Framework Master Agreement will expire on 31 December 2016, the Company has entered into the New Century Bright Financial Services Framework Master Agreement for renewal of the Existing Century Bright Financial Services Framework Master Agreement.

#### **1. New Century Bright Financial Services Framework Master Agreement**

On 11 November 2016, the Company and Century Bright entered into the New Century Bright Financial Services Framework Master Agreement, for the provision of deposit services and settlement and similar services to the Group, and to replace the Existing Century Bright Financial Services Framework Master Agreement. Conditional upon the Independent Shareholders' approval in the SGM, the New Century Bright Financial Services Framework Master Agreement will commence on 1 January 2017 for a term of three years up to 31 December 2019.

#### ***Relationship with the connected parties***

Century Bright is a wholly owned subsidiary of Sinopec Group Company, which indirectly controls SKI, the controlling shareholder of the Company.

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### *Nature of the transactions*

Century Bright will provide deposit services and settlement and similar services to the Company's subsidiaries outside the PRC.

### *Pricing basis*

In respect of deposit services, Century Bright will pay the Group interest accrued on the deposits calculated according to the deposit interest rate as announced by other independent commercial banks in Hong Kong (such as The Hongkong and Shanghai Banking Corporation Limited or Bank of China (Hong Kong) Limited) from time to time. Such interest rate shall be (i) equal to or higher than the interest rate offered by Century Bright to Sinopec Group Company, Sinopec Corp. and other members of Sinopec Group in similar deposit arrangements; and (ii) equal to or higher than the interest rate as announced by other independent commercial banks in Hong Kong (such as The Hongkong and Shanghai Banking Corporation Limited or Bank of China (Hong Kong) Limited) from time to time, whichever is higher.

In respect of settlement and similar services, the Group will pay Century Bright according to the settlement and similar services charges as announced by other independent commercial banks in Hong Kong (such as The Hongkong and Shanghai Banking Corporation Limited or Bank of China (Hong Kong) Limited) from time to time. Such settlement and similar services charges shall be (i) equal to or lower than the settlement and similar services charges offered by Century Bright to Sinopec Group Company, Sinopec Corp. and other members of Sinopec Group in similar settlement services arrangements; and (ii) equal to or lower than the settlement and similar services charges as announced by other independent commercial banks in Hong Kong (such as The Hongkong and Shanghai Banking Corporation Limited or Bank of China (Hong Kong) Limited) from time to time for settlement and similar services provided by Century Bright, whichever is lower. The Group will have a credit period of 30 to 90 days from the date of billing.

### *Historical amounts*

The historical amounts of the maximum outstanding balance (including any interest accrued therefrom) for the deposits placed by the Group with Century Bright for the two years ended 31 December 2015 were approximately HK\$488,330,000 and HK\$493,750,000 respectively and approximately HK\$493,750,000 for the six months ended 30 June 2016.

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### *Annual caps*

As approved in the 2013 SGM, the annual caps of these transactions were HK\$500,000,000, HK\$500,000,000 and HK\$500,000,000 for each of the three financial years ending 31 December 2016 respectively. The Company estimates that the maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits placed by the Group with Century Bright will be within the proposed annual caps of HK\$500,000,000, HK\$500,000,000 and HK\$500,000,000 for each of the three financial years ending 31 December 2019 respectively.

In arriving at the aforesaid annual caps, the Directors have taken into account the following factors, including the historical figures of the transactions, the anticipated Group's cash flow movements, the anticipated business volume of the Group, the financial control and treasury management of the Group, and the requirement to settle accounts receivables from the members units of Sinopec Group or any third party through the deposit accounts of the Group with Century Bright. The proposed annual caps are in line with the historical amounts of the maximum outstanding balance for the two years ended 31 December 2015 and six months ended 30 June 2016.

### *Reasons for the transactions*

1. The interest rate on deposits to be offered by Century Bright to the Group will be no less favourable than those offered by commercial banks in Hong Kong.
2. The "funding pool" platform promotes communication efficiency within the Sinopec Group and reduces the time of capital transit for the Group as compared with dealing with other independent commercial banks. It also accelerates the turnover of cash flow and reduces transaction costs and expenses, thereby further enhances the quality and efficiency of capital utilisation.
3. It provides diversified financial services in broader areas for the Group, which is in line with the interest of the Company and the Shareholders as a whole.

### **C. Non-exempt Continuing Connected Transactions in relation to Yu Ji Pipeline Company**

Having considered that the Non-exempt Existing Continuing Connected Transactions in relation to Yu Ji Pipeline Company will expire on 31 December 2017, the Company has entered into the New Framework Master Agreements for renewal of the Non-exempt Existing Continuing Connected Transactions in relation to Yu Ji Pipeline Company.

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### 1. New Natural Gas Transmission Services Framework Master Agreement

On 11 November 2016, Yu Ji Pipeline Company entered into the New Natural Gas Transmission Services Framework Master Agreement with Sinopec Natural Gas Branch Company in respect of the provision of natural gas transmission services by Yu Ji Pipeline Company to Sinopec Natural Gas Branch Company and to renew the Existing Natural Gas Transmission Services Framework Master Agreement. Conditional upon the Independent Shareholders' approval in the SGM, the New Natural Gas Transmission Services Framework Master Agreement will commence on 1 January 2018 for a term of two years up to 31 December 2019.

#### *Relationship with the connected parties*

Sinopec Natural Gas Branch Company is a branch company of Sinopec Corp., which in turn indirectly wholly owns SKI, the controlling shareholder of the Company.

#### *Nature of the transactions*

Yu Ji Pipeline Company will provide natural gas transmission services to Sinopec Natural Gas Branch Company by transmitting through the Yulin-Jinan Pipeline owned by Yu Ji Pipeline Company to the natural gas delivery point(s) designated by Sinopec Natural Gas Branch Company.

#### *Pricing basis*

Under the New Natural Gas Transmission Services Framework Master Agreement, the pipeline transmission fee was determined in accordance with the Reply of the National Development and Reform Commission regarding the Yulin Natural Gas Pipeline Transmission Fee (National Development and Reform Commission pricing [2010] No. 2780) (《國家發展改革委關於榆林天然氣管道運輸價格的批覆》(發改價格[2010]2780號)) which shall be adjusted subject to adjustment(s) as announced by the State or the relevant local government authorities.

The Group will grant a credit period of 30 to 90 days from the date of billing to Sinopec Natural Gas Branch Company.

#### *Historical amounts*

The historical amounts received by Yu Ji Pipeline Company in respect of these transactions under the Existing Natural Gas Transmission Services Framework Master Agreement were approximately RMB927,960,000 (approximately HK\$1,076,430,000) for the year ended 31 December 2015 and approximately RMB368,490,000 (approximately HK\$427,450,000) for the six months ended 30 June 2016.

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### *Annual caps*

As approved in the 2015 SGM, the annual caps of these transactions are RMB1,478,000,000 (approximately HK\$1,714,480,000) for the financial year ending 31 December 2016 and RMB1,550,000,000 (approximately HK\$1,798,000,000) for the financial year ending 31 December 2017. The Company estimates that the aggregate amounts to be received by the Group in respect of these transactions under the New Natural Gas Transmission Services Framework Master Agreement shall not exceed RMB1,800,000,000 (approximately HK\$2,088,000,000) and RMB1,800,000,000 (approximately HK\$2,088,000,000) for each of the two financial years ending 31 December 2019 respectively.

In arriving at the aforesaid annual caps, the following factors have been taken into account: (i) the historical figures of the transactions; (ii) State-prescribed prices or government-approved prices (as the case may be); and (iii) the natural gas transmission capacity after the completion of Yulin-Jinan Pipeline Compression Project.

Given the nature of these transactions, payment terms will be determined by the parties on a transaction-by-transaction basis, in accordance with market norms and on normal commercial terms, and with reference to the specifications and requirements, such as transmission volume and delivery point(s).

### *Reasons for the transactions*

1. Yulin-Jinan Pipeline, which is designed solely for natural gas transmission, is the core principal asset of Yu Ji Pipeline Company. Given Sinopec Natural Gas Branch Company is the only client of Yu Ji Pipeline Company, the provision of natural gas transmission services to Sinopec Natural Gas Branch Company is the only way to utilise the commercial value of Yulin-Jinan Pipeline.
2. Currently, the revenue from the core business of Yu Ji Pipeline Company is all generated from the provision of natural gas transmission services to Sinopec Natural Gas Branch Company and therefore the provision of such services to Sinopec Natural Gas Branch Company is in the interests of the Company and the Shareholders as a whole.

## **2. New Gas Storage Framework Master Lease Agreement**

On 11 November 2016, Yu Ji Pipeline Company entered into the New Gas Storage Framework Master Lease Agreement with Sinopec Natural Gas Branch Company, pursuant to which Sinopec Natural Gas Branch Company agreed to lease to Yu Ji Pipeline Company certain gas storage facilities. Conditional upon the Independent Shareholders' approval in the SGM, the New Gas Storage

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Framework Master Lease Agreement will commence on 1 January 2018 for a term of two years up to 31 December 2019 to renew the Existing Gas Storage Framework Master Lease Agreement.

### *Relationship with the connected parties*

Sinopec Natural Gas Branch Company is a branch company of Sinopec Corp., which in turn indirectly wholly owns SKI, the controlling shareholder of the Company.

### *Nature of the transactions*

Yu Ji Pipeline Company will lease certain gas storage facilities from Sinopec Natural Gas Branch Company in order to ensure normal natural gas pipeline transmission. Natural gas supply will vary according to the change in market demand. With an aim to transmit natural gas in a continuous and steady manner, it is essential to have certain gas storage facilities to supplement the natural gas pipeline transmission in order to adjust to the seasonal demand variation.

### *Pricing basis*

Under the New Gas Storage Framework Master Lease Agreement, the lease of the gas storage facilities from Sinopec Natural Gas Branch Company to Yu Ji Pipeline Company will continue to be conducted on arm's length negotiation between the parties and on normal commercial terms and the fees payable will be equal to the sum of the actual costs incurred and taxes, and will be adjusted subject to the State policy. The actual costs incurred in respect of the lease of the gas storage facilities include, among others, the electricity expenses of the gas storage facilities, the salary expenses and the maintenance fee.

The Group will have a credit period of 1 year from the date of billing.

### *Historical amounts*

The historical amounts paid by Yu Ji Pipeline Company in respect of these transactions under the Existing Gas Storage Framework Master Lease Agreement were approximately RMB81,620,000 (approximately HK\$94,680,000) for the year ended 31 December 2015 and approximately RMB51,470,000 (approximately HK\$59,710,000) for the six months ended 30 June 2016.

### *Annual caps*

The annual caps of these transactions are RMB97,000,000 (approximately HK\$112,520,000) for the financial year ending 31 December 2016 and RMB97,000,000 (approximately HK\$112,520,000) for the financial

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year ending 31 December 2017. The Company estimates that the aggregate amounts to be payable by Yu Ji Pipeline Company in respect of these transactions under the New Gas Storage Framework Master Lease Agreement shall not exceed RMB113,000,000 (approximately HK\$131,080,000) and RMB113,000,000 (approximately HK\$131,080,000) for the two financial years ending 31 December 2019 respectively.

In arriving at the aforesaid annual caps, the following factors have been taken into account: (i) the historical figures of the transactions; (ii) the natural gas storage capacity of the facilities; (iii) the expected increase in the volume of natural gas transmission business in respect of the Yulin-Jinan Pipeline and the expected demand for gas storage facilities of the Group; and (iv) the costs and applicable tax rate.

### *Reasons for the transactions*

1. Gas storage facilities are necessary for the continuous and steady operation of Yulin-Jinan Pipeline. The lease of the gas storage facilities from Sinopec Natural Gas Branch Company can maximise the transmission capability, increase the operational efficiency and improve the profitability of Yulin-Jinan Pipeline; and
2. Sinopec Natural Gas Branch Company does not aim at earning a profit in leasing the gas storage facilities to Yu Ji Pipeline Company, as the fees payable under the New Gas Storage Framework Master Lease Agreement are equal to the sum of the actual costs incurred and taxes. The entering into of the New Gas Storage Framework Master Lease Agreement is therefore in the interests of the Company and the Shareholders as a whole.

### **3. New Services Outsourcing Framework Master Agreement**

On 11 November 2016, Yu Ji Pipeline Company entered into the New Services Outsourcing Framework Master Agreement with Sinopec Natural Gas Branch Company to procure a range of services and products from Sinopec Natural Gas Branch Company and to renew the Existing Services Outsourcing Framework Master Lease Agreement. Conditional upon the Independent Shareholders' approval in the SGM, the New Services Outsourcing Framework Master Agreement will commence on 1 January 2018 for a term of two years up to 31 December 2019.

### *Relationship with the connected parties*

Sinopec Natural Gas Branch Company is a branch company of Sinopec Corp., which in turn indirectly wholly owns SKI, the controlling shareholder of the Company.



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### *Nature of the transactions*

Yu Ji Pipeline Company will procure a range of services, products and assistance from Sinopec Natural Gas Branch Company in relation to the Yulin-Jinan Pipeline, including:

- (i) operation of the Yulin-Jinan Pipeline;
- (ii) maintenance and relevant technical supporting services for the operation of Yulin-Jinan Pipeline;
- (iii) management and maintenance of gas storage and relevant facilities; and
- (iv) other services and products as required by Yu Ji Pipeline Company.

### *Pricing basis*

The provision of outsourcing services by Sinopec Natural Gas Branch Company to Yu Ji Pipeline Company under the New Services Outsourcing Framework Master Agreement will continue to be conducted on arm's length negotiation between the parties and on normal commercial terms and the fees payable will be equal to the sum of the actual costs incurred upon provision of services and products and taxes.

The actual costs incurred in respect of the outsourcing services include, among others, the salaries and social security insurance contribution of the employees of Sinopec Natural Gas Branch Company, the operational maintenance fee, the production safety fees, and the travelling expenses.

The Group will have a credit period of 1 year from the date of billing.

### *Historical amounts*

The historical amounts paid by Yu Ji Pipeline Company in respect of these transactions under the Existing Services Outsourcing Framework Master Agreement were approximately RMB41,780,000 (approximately HK\$48,460,000) for the year ended 31 December 2015 and approximately RMB43,470,000 (approximately HK\$50,430,000) for the six months ended 30 June 2016.

### *Annual caps*

The annual caps of these transactions are RMB380,000,000 (approximately HK\$440,800,000) for the financial year ending 31 December 2016 and RMB420,000,000 (approximately HK\$487,200,000) for the financial year ending 31 December 2017. The Company estimates that the

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## LETTER FROM THE BOARD

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aggregate amounts to be payable by Yu Ji Pipeline Company in respect of these transactions under the New Services Outsourcing Framework Master Agreement shall not exceed RMB170,000,000 (approximately HK\$197,200,000) and RMB170,000,000 (approximately HK\$197,200,000) for the two financial years ending 31 December 2019 respectively.

In arriving at the aforesaid annual caps, the following factors have been taken into account: (i) the historical figures of the transactions; (ii) the natural gas pipeline, maintenance costs; (iii) the salaries and social security insurance contribution of the employees for the operation of Yulin-Jinan Pipeline; and (iv) the applicable tax rate. Given (i) completion of the acquisition of Yu Ji Pipeline Company on 31 December 2015, (ii) the annual transmission capacity of Yulin-Jinan Pipeline increasing to 5 billion m<sup>3</sup> in 2018 and the corresponding increase in proposed annual caps for natural gas transmission services, and (iii) any unforeseen repair and maintenance works, the range of services and products procured from Sinopec Natural Gas Branch Company by Yu Ji Pipeline Company will be increased.

### *Reasons for the transactions*

1. The provision of outsourcing services including pipeline operation, maintenance and support in relation to Yulin-Jinan Pipeline by Sinopec Natural Gas Branch Company to Yu Ji Pipeline Company can utilise the advantages brought by the personnel and professional management of Sinopec Natural Gas Branch Company, so as to ensure the safe, steady and efficient operation of natural gas pipeline transmission, and to lower operating costs.
2. Sinopec Natural Gas Branch Company does not aim at earning a profit in providing the outsourcing services to Yu Ji Pipeline Company, as the fees payable under the New Services Outsourcing Framework Master Agreement are equal to the sum of the actual costs incurred and taxes. The entering into of the New Services Outsourcing Framework Master Agreement is therefore in the interests of the Company and the Shareholders as a whole.

### **4. New Yu Ji Pipeline Financial Services Framework Master Agreement**

On 11 November 2016, Yu Ji Pipeline Company entered into the New Yu Ji Pipeline Financial Services Framework Master Agreement with Sinopec Finance for the provision of intra group financial services by Sinopec Finance to Yu Ji Pipeline Company and to renew the Existing Yu Ji Pipeline Financial Services Framework Master Agreement. Conditional upon the Independent Shareholders' approval in the SGM, the New Yu Ji Pipeline Financial Services Framework Master Agreement will commence on 1 January 2018 for a term of two years up to 31 December 2019.

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### *Relationship with the connected parties*

Sinopec Finance is owned as to 51% equity interest by Sinopec Group Company and 49% equity interest by Sinopec Corp.. Sinopec Group Company is the controlling shareholder of Sinopec Corp. and Sinopec Corp. in turn indirectly wholly owns SKI, the controlling shareholder of the Company.

### *Nature of the transactions*

The intra group financial services to be provided by Sinopec Finance to Yu Ji Pipeline Company within the PRC include loan services, deposit services, conducting entrusted loans, conducting bill acceptance and discount services, and conducting transfer and relevant settlement services and planning of settlement scheme. Sinopec Finance has agreed to provide financial services other than those aforesaid services to Yu Ji Pipeline Company, such as entrustment investments, financial and financing consulting, credit certification, insurance agency, exchange settlement, bond underwriting, foreign exchange business and related consultancy and agency financial services, at its request or instruction provided that Sinopec Finance has obtained the relevant approval(s) from the CBRC.

### *Pricing basis*

Sinopec Finance has undertaken to adhere to the principles below in providing the aforementioned financial services to Yu Ji Pipeline Company within the PRC:

- (i) the interest rate for Yu Ji Pipeline Company's deposits with Sinopec Finance shall be referenced to the deposit interest rate as announced by the PBOC from time to time, and shall be no lower than the interest rate for deposits offered by other independent commercial banks to the members of the Sinopec Group;
- (ii) the interest rate for loans granted to Yu Ji Pipeline Company by Sinopec Finance shall be referenced to the base lending rate as announced by the PBOC from time to time; and in compliance with the laws and regulations, the interest rate may be reduced by a certain percentage and shall not be higher than the interest rate for loans offered by other independent commercial banks to the members of the Sinopec Group;
- (iii) the rate for discount services shall be referenced to the rediscount rate as announced by PBOC from time to time; and in accordance to the market situation, the rate shall not be higher than the discount rate offered by other independent commercial banks to the members of the Sinopec Group;

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## LETTER FROM THE BOARD

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- (iv) the service fees for entrusted loans shall not be higher than the fee offered by other independent commercial banks to the members of the Sinopec Group; and
- (v) the service charges for the transfer and relevant settlement services and planning of settlement scheme shall be free of charge. However, if any service charges relating to such transfer and relevant settlement services have been imposed by independent commercial banks on Sinopec Finance, Yu Ji Pipeline Company will then be charged the same by Sinopec Finance.

Before entering into any of the abovementioned financial arrangements with Sinopec Finance, Yu Ji Pipeline Company will obtain quotes from three other independent commercial banks for similar services for similar duration. Such quotes, together with the offer from Sinopec Finance, will be reviewed by Yu Ji Pipeline Company and the offer from Sinopec Finance will only be accepted if the interests received or fees charged will be no less favourable than those offered by independent commercial banks.

In respect of the service fees for entrusted loans, the Group will have a credit period of 30 to 90 days from the date of billing.

### *Capital risk control measures*

- (a) In accordance with the PRC laws and regulations, Sinopec Finance will ensure the safe and stable operation of fund management information system, which has undergone the security test in respect of connection to the online commercial banking and has reached the national security standards for commercial banks.
- (b) Sinopec Finance will ensure its compliance with the risk monitoring indicators for financial institutions issued by the CBRC and in accordance with the PRC laws and regulations. Sinopec Group Company has also made a commitment to CBRC for increasing the share capital of Sinopec Finance in case Sinopec Finance is in a financial strait.
- (c) In accordance with the PRC laws and regulations, Sinopec Finance will allow Yu Ji Pipeline Company to check the status of its deposits with Sinopec Finance each business day to enable Yu Ji Pipeline Company to monitor and ensure that the maximum outstanding balance at any time (including any interest accrued therefrom) for Yu Ji Pipeline Company's deposits with Sinopec Finance does not exceed the relevant upper limit.
- (d) If there is a breach of laws or regulations, Sinopec Finance should inform Yu Ji Pipeline Company immediately and ascertain the procedure and plan to ratify and mitigate the situation.

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- (e) The annual financial statements of Sinopec Finance will be provided to Yu Ji Pipeline Company upon request.

The Directors (including the independent non-executive Directors) consider that the above capital risk control measures are adequate to cover the risks involved in depositing funds with Sinopec Finance.

### *Historical amounts*

The historical amounts of the maximum outstanding balance (including any interest accrued therefrom) for the deposits placed by Yu Ji Pipeline Company with Sinopec Finance were approximately RMB543,410,000 (approximately HK\$630,360,000) for the year ended 31 December 2015 and approximately RMB528,570,000 (approximately HK\$613,140,000) for the six months ended 30 June 2016.

### *Annual caps*

#### *Deposit services*

As approved in the 2015 SGM, the annual caps of these transactions are RMB600,000,000 (approximately HK\$696,000,000) for the financial year ending 31 December 2016 and RMB800,000,000 (approximately HK\$928,000,000) for the financial year ending 31 December 2017. The Company estimates that the maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits placed by Yu Ji Pipeline Company with Sinopec Finance will be within the proposed annual caps of RMB800,000,000 (approximately HK\$928,000,000) and RMB800,000,000 (approximately HK\$928,000,000) for the two financial years ending 31 December 2019 respectively. The aforesaid annual caps for the two years ending 31 December 2018 and 31 December 2019 were determined based on the projected net cash inflows of approximately RMB792.9 million (approximately HK\$919.76 million) and approximately RMB774.8 million (approximately HK\$898.77 million) respectively as set out in the valuation report of Yu Ji Pipeline Company prepared by an independent qualified PRC valuer for the purpose of the acquisition of Yu Ji Pipeline Company by the Group in 2014. Following completion of the acquisition of Yu Ji Pipeline Company on 31 December 2015, the future business of the Group is expected to expand and the business volume and the cash flow movement of Yu Ji Pipeline Company are expected to increase. Save as disclosed above, in arriving at the aforesaid caps, the following factors have also been considered by Yu Ji Pipeline Company:

- (1) in order to strengthen the centralised management of funds and monitor the use of funds, the Sinopec Group will utilize the “funding pool” platform with the assistance of Sinopec Finance. Such platform amasses the funds of the Sinopec Group (including the Group) and enables loans to be granted within the Sinopec

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Group by capitalising on the leeway arising from the difference in the time for receipt and payment of funds of the members of the Sinopec Group, with an aim to support the development of the Sinopec Group and the Group;

- (2) Sinopec Finance is under the supervision of CBRC and it has been maintaining satisfactory operating results and financial position with good risk control and well regulated management in the past three years. The safety standards of its settlement system reach the standards of domestic commercial banks. The collaboration between Yu Ji Pipeline Company and Sinopec Finance reduces finance costs, increases interest income of deposits, lowers settlement costs and controls risks;
- (3) there will be interest income from the deposits of Yu Ji Pipeline Company with Sinopec Finance at a rate no less favourable than those offered by other independent commercial banks in the PRC;
- (4) in respect of Yu Ji Pipeline Company's funds settlement business at Sinopec Finance, settlement expenses will be undertaken by Sinopec Finance while Yu Ji Pipeline Company has no obligations to pay for the settlement expenses to Sinopec Finance, save if other independent commercial banks charge Sinopec Finance for such fees, Sinopec Finance will charge Yu Ji Pipeline Company the same accordingly;
- (5) Sinopec Finance undertakes that the major shareholder shall not appropriate Yu Ji Pipeline Company's funds; and
- (6) given the future development and needs of Yu Ji Pipeline Company, the Board plans to increase the deposits to be placed by Yu Ji Pipeline Company with Sinopec Finance for the two financial years ending 31 December 2019.

### *Loan services and conducting bill acceptance and discount services*

In view of the fact that the loan services provided by Sinopec Finance to Yu Ji Pipeline Company are on normal commercial terms which are similar to or even more favourable than those offered by independent third parties for comparable services in the PRC, and that no security over the assets of the Group will be granted in respect of the loan services, the loan services are exempt under Rule 14A.90 of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements. As such, no cap has been set for such services. The Directors (including the independent non-executive Directors) consider that the loan services provided under the Yu Ji Pipeline Financial Services Framework Master Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### *Entrustment loans and other financial services*

Apart from the deposit services and the loan services, the other services which may be provided by Sinopec Finance to Yu Ji Pipeline Company are entrustment loans and other financial services which will be on normal commercial terms and on terms similar to or even more favourable than those offered by independent third parties for comparable services in the PRC.

The Company expects that each of the percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the total fees payable by Yu Ji Pipeline Company to Sinopec Finance in respect of entrustment loans and other financial services will fall within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules. The Company will comply with the reporting, announcement and Independent Shareholders' approval requirements of the Listing Rules if the transaction amounts of the entrustment loans and other financial services to be provided by Sinopec Finance to Yu Ji Pipeline Company under the New Yu Ji Pipeline Financial Services Framework Master Agreement exceed the relevant threshold.

### *Reasons for the transactions*

1. The interest rates on loans and deposits to be offered by Sinopec Finance to Yu Ji Pipeline Company will be no less favourable than those offered by other independent commercial banks in the PRC.
2. Sinopec Finance is regulated by the PBOC and the CBRC and provides its services in accordance with the rules and operational requirements of these regulatory authorities.
3. Given Sinopec Finance, being a member of the Sinopec Group, has a more thorough understanding of the business development and capital needs of Yu Ji Pipeline Company, and many transactions from daily operations of Yu Ji Pipeline Company are made with other members of the Sinopec Group, the centralised "funding pool" platform operated by Sinopec Finance is beneficial for the settlement operations for and between the members of the Sinopec Group, strengthening Yu Ji Pipeline Company's capital management and control in order to mitigate and avert operational risks.
4. The "funding pool" platform will promote communication efficiency within the Sinopec Group and will reduce the time of capital in transit for Yu Ji Pipeline Company as compared with dealing with other independent commercial banks. It will also accelerate the turnover of cash flow and reduce transaction costs and expenses, thereby further enhancing the quality and efficiency of capital utilisation.

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5. This also provides diversified financial services in broader areas for Yu Ji Pipeline Company, which is in line with the interests of the Company and the Shareholders as a whole. The financial services provided by Sinopec Finance are in line with market norms and are on normal commercial terms, with reference to arrangements with other independent commercial banks in the PRC.
6. Pursuant to the relevant regulations of the PBOC and the CBRC, the customers of Sinopec Finance are limited to entities within Sinopec Group, thereby reducing the risks that Sinopec Finance may otherwise be exposed to if its customers include other entities unrelated to Sinopec Group.

### **III. CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION REGARDING THE YULIN-JINAN PIPELINE COMPRESSION PROJECT**

Reference is made to the announcement of the Company dated 30 December 2014 in respect of the acquisition of the entire interest in Yu Ji Pipeline Company, owning the Yulin-Jinan Pipeline. Yu Ji Pipeline Company intends to invite Sinopec Petroleum Engineering to participate in a bidding for Yulin-Jinan Pipeline Compression Project. It is expected that the bidding process will be completed by the end of 2016.

On 11 November 2016, Yu Ji Pipeline Company entered into the Yu Ji Compression Project Framework Master Agreement with Sinopec Petroleum Engineering for, among other things, the provision of equipment procurement, design and construction services by Sinopec Petroleum Engineering in respect of Yulin-Jinan Pipeline Compression Project. Subject to, among others, the successful bid by Sinopec Petroleum Engineering and the Independent Shareholders' approval in the SGM, Yu Ji Pipeline Company will formally engage Sinopec Petroleum Engineering to provide services for Yulin-Jinan Pipeline Compression Project.

#### *Relationship with the connected parties*

Sinopec Petroleum Engineering is a wholly owned subsidiary of Sinopec Group Company, which indirectly controls SKI, the controlling shareholder of the Company.

#### *Nature of transactions*

Sinopec Petroleum Engineering agreed, upon the successful bid, to provide equipment procurement, design and construction services in respect of Yulin-Jinan Pipeline Compression Project for the construction of Anyang compression station. The Yulin-Jinan Pipeline Compression Project is expected to commence in the beginning of 2017 and be completed in or around the end of 2018.



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### *Pricing basis*

The Company estimates that the maximum fees payable by Yu Ji Pipeline Company to Sinopec Petroleum Engineering under the Yu Ji Compression Project Framework Master Agreement will be RMB135,000,000 (approximately HK\$156,600,000), which will be determined with reference to the following pricing basis:

- (a) if tender process is required, the tender price; or
- (b) if there is no tender process, the price shall be agreed between the parties on an arm's length basis through negotiations with reference to the scope and the duration of the respective compression projects, after taking into account the actual costs of provision of services for the relevant projects, the prevailing market price for comparable services provided by the independent third parties in the vicinity and the market price of the comparable services provided to the independent third parties by Sinopec Petroleum Engineering.

Pursuant to the project development process and policies of the Group, a minimum of three construction companies qualified to undertake construction works in accordance with the relevant PRC laws and regulations are invited to bid for the Group's construction projects through a tender process. If fewer than three qualified construction companies participate in the tender, the tender will be withdrawn and a re-tender will be arranged. The qualified construction companies will submit the tender bids and upon all the tender bids are received from the qualified construction companies, an assessment committee of the Group comprising members, including senior staff from project engineering, finance and procurement departments will be formed to assess the tender bids. In selecting the construction company, the Group will take into account the background and reputation of the construction company, its qualifications and experience, its reliability, construction timetable, construction plan and resource allocation, its ability to conduct the transaction in accordance with the terms of the agreement and its understanding of the Group's needs in order to maximise the Group's interest in the transaction and at the same time reduce the Group's time and costs of transaction.

To facilitate the Group in determining the prevailing market price, the Group will consider the prices offered by independent service providers based on similar services and scope. In particular, where appropriate, the Group will compare the prices offered by different service providers each time and will also monitor the movement of market price from time to time by obtaining quotations from independent service providers. The prevailing market prices and benchmark price information will be obtained through the market or third party customers and/or service providers. The Group will consider at least one comparable transaction with an independent third party during the same period where applicable, and report to the senior management accordingly. In the absence of any comparable transaction, the Group will conduct market research on the open market where applicable.

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The price payable by Yu Ji Pipeline Company to Sinopec Petroleum Engineering will be the fair market price for the relevant services on normal commercial terms, or the terms offered to Yu Ji Pipeline Company shall be no less favourable than those entered into by Sinopec Petroleum Engineering and independent third parties for comparable services.

Pursuant to the Yu Ji Compression Project Framework Master Agreement, upon the successful bid, Yu Ji Pipeline Company will separately enter into compression project agreements with Sinopec Petroleum Engineering, by which the parties will negotiate with reference to, among other factors, laws and regulations, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the agreements.

The Group will have a credit period of 30 to 90 days from the date of billing.

### *Reasons for the transactions*

The construction of Anyang compression station is the most economical and optimal way to further enhance the natural gas transmission capacity of Yulin-Jinan Pipeline, which will as a result further improve the profitability and economic efficiency of Yulin-Jinan Pipeline.

Yu Ji Pipeline Company intends to invite Sinopec Petroleum Engineering to participate in the bidding for the Yulin-Jinan Pipeline Compression Project, which will facilitate the communication between the project owners and the compression project construction units and is also beneficial to the compression project management and coordination.

Sinopec Petroleum Engineering possesses extensive professional experiences in the compression facilities of natural gas. The invitation of Sinopec Petroleum Engineering to participate in the compression projects' bidding will help to meet the progress of the compression projects and ensure the projects will come into operation on time as well as safeguard the quality of the compression projects.

The entering into of the Yu Ji Compression Project Framework Master Agreement can provide the Group an option in relation to the Yulin-Jinan Pipeline Compression Project. Having considered the experience of Sinopec Petroleum Engineering in natural gas engineering, the entering into of the Yu Ji Compression Project Framework Master Agreement is in the interests of the Company and the Shareholders as a whole.

#### **IV. RISK FACTORS IN RELATION TO OUR RELIANCE ON CONTINUING CONNECTED TRANSACTION WITH SINOPEC GROUP**

**We rely on Sinopec Group, our parent shareholder, for the business operations in respect of Huade and Yu Ji Pipeline Company, and any termination of the agreements by the connected parties of Sinopec Group may significantly impact on the business and results of operations of the Group.**

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China's energy sector is dominated by state-owned firms operating oil and gas industry. Sinopec Group, China National Petroleum Corporation (中國石油天然氣集團公司) ("CNPC") and China National Offshore Oil Corporation (中國海洋石油有限公司) ("CNOOC") are the three major conglomerates in the PRC which have their own oil terminals. Each of such oil terminals is supported by oil pipelines that are connected to their respective affiliated oil refining customers. As such, these oil terminal companies usually have their own unique customers for the reason that oil transmission through road transport will significantly increase the costs of providing the services. In addition, due to either limited size or geographical restrictions, there are very limited service providers and/or customers for the oil jetty services and storage services provided by the Company. Sinopec Group has seized the market advantage of being one of the three major conglomerates in the PRC and has been engaged in the development of refineries and petrochemical complexes, the exploration, production and processing of crude oil and natural gas, as well as the trading and distribution and the import and export of crude oil, natural gas and petroleum and petrochemical products, together with and through other members of the Sinopec Group.

During the year ended 31 December 2014, the revenue generated under the Existing Sinopec Guangzhou Branch Framework Master Agreement was approximately HK\$593,950,000, representing approximately 3% of the Group's total revenue. During the year 2014, the major business of the Group was crude oil trading business with Unipet, and the acquisition of Yu Ji Pipeline Company was completed on 31 December 2015, which leads to restatements of 2014 accounts of the Group to include the results from Yu Ji Pipeline Company. The revenue in total generated under the Existing Sinopec Guangzhou Branch Framework Master Agreement and Existing Natural Gas Transmission Services Framework Master Agreement were approximately HK\$1,654,530,000 and HK\$692,870,000, representing approximately 81% and 80% of the Group's total revenue for the year ended 31 December 2015 and six months ended 30 June 2016, respectively. The transactions relating to the crude oil jetty services and natural gas transmission will be on-going and continue in the future.

Although there is a strong demand by Sinopec Group for the services provided by Group, such as jetty services provided by Huade, the Group intends to diversify the customer base in respect of its services to include other customers in the PRC, the Group will consider risk control actions to reduce the reliance on the Sinopec Group, save as disclosed above, where there can be no other customers or potential customers, by allowing, encouraging and inviting third party customers to give quotes or participate in tender processes (if any), as well as our sale personnel monitoring the market trend and exhausting potential third party contractors.

In the meantime, the Company has constantly developed overseas markets by setting up joint-venture companies in order to explore other opportunities to provide services such as storage services to customers that are independent of Sinopec Group. For the jetties the Company holds interests in through the Six Oil Terminal Companies, the Company has expanded its clientele that are independent of Sinopec Group to reduce the reliance on Sinopec Group. Given Sinopec Group undertook in writing to the Company on 14 May 1999 that, among others, (i) it will treat the Group equally with all other subsidiaries that are within the scope of Sinopec Group's management; and (ii) in respect of all transactions between any member of the Group and Sinopec Group, to treat the Group no less favourable

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than other subsidiaries which are within the scope of Sinopec Group's management, these potential customers are substantially smaller in size as compared to Sinopec Group, CNPC and CNOOC.

Having said that, there is no assurance that the Group will be able to attract other customers to use the services provided by the Group. In the event that there is a cessation or reduction in the utilisation by Sinopec Group of the services of the Group after the expiry of the New Framework Master Agreements or Sinopec Group fails to comply with its obligations under the New Framework Master Agreements during the term of the New Framework Master Agreements, the Group's business and financial condition may be materially and adversely affected, particularly if the Group fails to attract other customers for its services.

### **V. FURTHER INFORMATION ON RENEWAL OF THE EXEMPT EXISTING CONTINUING CONNECTED TRANSACTIONS, THE NEW CONTINUING CONNECTED TRANSACTIONS AND THE HUADE PROJECT DESIGN FRAMEWORK MASTER AGREEMENT**

Reference is made to the announcement of the Company dated 11 November 2016 in respect of, among others, the renewal of the Exempt Existing Continuing Connected Transactions, the New Continuing Connected Transactions and the Huade Project Design Framework Master Agreement. The Board would like to provide Shareholders with further information regarding the pricing basis and settlement term under each of the Exempt Existing Continuing Connected Transactions, the New Continuing Connected Transactions and the Huade Project Design Framework Master Agreement.

#### **New Lands and Buildings Framework Master Lease Agreement**

Under the New Lands and Buildings Framework Master Lease Agreement, the lease of lands and buildings from Sinopec Natural Gas Branch Company by Yu Ji Pipeline Company will be conducted on arm's length negotiation between the parties and on normal commercial terms and the fees payable are equal to the actual costs incurred in respect of the relevant lands and buildings (including the maintenance fee on the relevant lands and buildings), plus the taxes, and will be adjusted subject to the State policy.

The Group will have a credit period of 30 to 90 days from the date of billing.

#### **New Sinopec Fuel Oil Sales Company Limited Framework Master Agreement**

Pursuant to the New Sinopec Fuel Oil Sales Company Limited Framework Master Agreement, the service fees shall be charged on the basis of State-prescribed prices or government-approved prices. However, when (1) the applicable State-prescribed prices or government-approved prices are not available; or (2) such State-prescribed prices or government-approved prices are cancelled or eased, the service fees payable shall be:

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- (a) the fair market price for provision of the relevant services. In determining the fair market price, the Group generally makes reference to reports published by certain independent industry information providers, for example ICIS, which are updated from time to time and available to the public, and provide up to date information on market trend and prevailing market prices. The Group also takes into account the actual costs incurred by Huade upon provision of fuel oil jetty and storage services, the market price for the relevant or similar services by independent third party in Guangdong Province or nearby regions, and the service fee charged by Huizhou Jetty if Huizhou Jetty has provided the same or similar services provided that such price will not be lower than the market price for the relevant or similar services by independent third party in Guangdong Province or nearby regions, and the service fee charged by Huizhou Jetty if Huizhou Jetty has provided the same or similar services. The prices will be reported to the person in charge of the sales department of Huade for approval. As the process involves reference to industry reports and up to date market prices as mentioned above, the Company considers the method adopted above can ensure that the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company; or
- (b) if no market price is available or agreed between the parties, the previous State-prescribed prices or government approved prices (as the case may be) plus a margin not exceeding the rate of increase of the consumer price index for Guangdong Province during the immediately preceding calendar year. The consumer price index can be obtained from the Statistics Bureau of Guangdong Province of the PRC.

Currently, there are no State-prescribed prices or government-approved prices in respect of the service fees for the provision of fuel oil jetty and storage services. The Group will be notified if there are state-prescribed/ government-approved prices established. Huade and Sinopec Fuel Oil will then discuss and conclude the pricing terms based on the state-prescribed/ government-approved prices when entering into any subsequent agreements pursuant to the New Sinopec Fuel Oil Sales Company Limited Framework Master Agreement.

The Group will grant a credit period of 30 to 90 days from the date of billing to Sinopec Fuel Oil.

### **Internal Labour Technical Services Framework Master Agreement**

To facilitate the Group in determining the prevailing market price, the Group will consider the prices offered by independent service providers based on similar services and scope. In particular, where appropriate, the Group will compare the price or quotation provided by three different service providers each time and will also monitor the movement of market price from time to time by obtaining quotations from independent service providers and/or conducting market research on the open market where applicable. The prevailing market prices and benchmark price information will be obtained through the market or third party customers and/or service providers.

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The Group will have a credit term of 30 to 90 days from the date of billing.

### **Substation Power Technical Services Framework Master Agreement**

To facilitate the Group in determining the prevailing market price, the Group will consider the prices offered by independent service providers based on similar services and scope. In particular, where appropriate, the Group will compare the price or quotation provided by three different service providers each time and will also monitor the movement of market price from time to time by obtaining quotations from independent service providers and/or conducting market research on the open market where applicable. The prevailing market prices and benchmark price information will be obtained through the market or third party customers and/or service providers.

The Group will have a credit period of 30 to 90 days from the date of billing.

### **Oil Terminal Entrusted Management Framework Master Agreement**

The provision of entrusted management services by Sinopec Pipeline Storage Company to Sinomart under the Oil Terminal Entrusted Management Framework Master Agreement will be conducted on arm's length negotiation between the parties and on normal commercial terms and the fees payable are equal to the actual costs of entrusted management and taxes. The actual costs of entrusted management include, among others, the expenses of recruiting directors and senior management of the Six Oil Terminal Companies, the management fee in respect of the accounts of the Six Oil Terminal Companies, the costs in procuring the Six Oil Terminal Companies' financial budgets, financial statements, materials for economic analysis, production data, information on major investments, information on human resources, reports on HSE (health, safety and environment), half yearly and yearly reports on their performances, and board minutes or resolutions.

The Group will have a credit period of 30 to 90 days from the date of billing.

### **Huade Project Design Framework Master Agreement**

The Group will have a credit period of 30 to 90 days from the date of billing.

## **VI. LISTING RULES' IMPLICATIONS**

Under the Listing Rules, for so long as Sinopec Group Company remains a substantial shareholder of the Company for the purposes of the Listing Rules, and Sinopec Group Company holds not less than 30% of Sinopec Corp., Sinopec Finance, Century Bright and other relevant branches and members of Sinopec Group Company, the transactions contemplated under each of the New Framework Master Agreements constitute continuing connected transactions of the Company under the Listing Rules. The provision of equipment procurement, design and construction services by Sinopec Petroleum Engineering in respect of Yulin-Jinan Pipeline under the Yu Ji Compression Project Framework Master Agreement constitutes a connected transaction and discloseable transaction of the Company under the Listing Rules.

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With respect to the renewal of the Non-exempt Existing Continuing Connected Transactions, since the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the value of each of the caps of the New Framework Master Agreements as disclosed in section II above, are more than 5%, these transactions and agreements are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Sinopec Group Company and its associates shall abstain from voting at the SGM. The Company will also disclose the relevant details in the next published annual report and accounts of the Company in accordance with the relevant requirements as set out in Rule 14A.49 of the Listing Rules.

The applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the transaction under the Yu Ji Compression Project Framework Master Agreement as disclosed in section III above, are more than 5%, and therefore the Yu Ji Compression Project Framework Master Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements as set out under Chapter 14A of the Listing Rules. Sinopec Group Company and its associates shall abstain from voting at the SGM. The Company will also disclose the relevant details in the next published annual report and accounts of the Company in accordance with the relevant requirements as set out in Rule 14A.49 of the Listing Rules. Further, the maximum service fees of RMB135,000,000 (approximately HK\$156,600,000) under the Yu Ji Compression Project Framework Master Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules, as the applicable percentage ratios under Rule 14.07 of the Listing Rules are more than 5% but are less than 25%.

In addition, under each of the New Sinopec Finance Financial Services Framework Master Agreement and the New Yu Ji Pipeline Financial Services Framework Master Agreement, the loan services to be provided by Sinopec Finance to the Huade Group or Yu Ji Pipeline Company (as the case may be) constitute financial assistance to be provided by a connected person for the benefit of the Group. As such services are on normal commercial terms which are similar to or even more favourable than those offered by independent third parties for comparable services in the PRC, and no security over the assets of the Group will be granted in respect of such services, such services are exempt under Rule 14A.90 of the Listing Rules from all reporting, annual review, announcement and Independent Shareholders' approval requirements. Regarding the entrusted loan services and other services (apart from the deposit services and loan services) thereunder, the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the aggregate fees and charges payable by Huade or Yu Ji Pipeline Company (as the case may be) to Sinopec Finance will not be, on an annual basis, more than the de minimis threshold of 0.1% as stipulated under Rule 14A.76(1) of the Listing Rules during the term of the New Sinopec Finance Financial Services Framework Master Agreement and the New Yu Ji Pipeline Financial Services Framework Master Agreement. As such, the entrusted loan services and other services (apart from the deposit services and loan services) thereunder are exempt under Chapter 14A of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirement.

With respect to the deposit services under the New Century Bright Financial Services Framework Master Agreement, as the annual caps of the transactions will be aggregated with those under the New Sinopec Finance Financial Services Framework Master Agreement and

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## LETTER FROM THE BOARD

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the New Yu Ji Pipeline Financial Services Framework Master Agreement, the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) for such aggregated annual caps are more than 5% and therefore are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Regarding the settlement services thereunder, the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the aggregate fees and charges payable by the Group to Century Bright will not be, on an annual basis, more than the de minimis threshold of 0.1% as stipulated under Rule 14A.76(1) of the Listing Rules during the term of the New Century Bright Financial Services Framework Master Agreement. As such, the settlement and similar services thereunder are exempt under Chapter 14A of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements.

Further, as the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the aggregate annual caps of the transactions under the Financial Services Framework Master Agreements are more than 25%, the entering into of the three financial services framework master agreements, upon aggregation, constitutes a major transaction for the Company under Chapter 14 of the Listing Rules.

### **VII. THE DIRECTORS' VIEW**

The Directors (including than the independent non-executive Directors, the opinion of which after taking into account the advice of Independent Financial Adviser, is included in the section headed "Letter from the Independent Board Committee" in this Circular) are of the opinion that the New Framework Master Agreements for the renewal of the Non-exempt Existing Continuing Connected Transactions and the Yu Ji Compression Project Framework Master Agreement are on normal commercial terms and entered into and carried out in the ordinary and usual course of business of the Group on an arm's length basis, the terms of which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **VIII. INFORMATION ON THE COMPANY AND THE SINOPEC GROUP**

The Company was incorporated in Bermuda with limited liability and its shares are listed on the Stock Exchange. The principal activities of the Group include provision of natural gas pipeline transmission services, operation of crude oil and oil products terminals and their ancillary facilities, provision of logistics services including storage, logistics, transportation and terminal services and distribution of oil and oil products and international logistics agency services on global basis. Following the completion of the acquisition on 31 December 2015, Yu Ji Pipeline Company became an indirect wholly-owned subsidiary of the Company. Since then, the financial information of Yu Ji Pipeline Company has been consolidated into the consolidated financial statements of the Group.

Sinopec Group Company, the controlling shareholder of Sinopec Corp. and the ultimate controlling shareholder of the Company, is a State-authorised investment vehicle in oil and petrochemical business which integrates the upstream and downstream assets.



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## LETTER FROM THE BOARD

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Sinopec Corp. is an integrated energy and chemical company with upstream, midstream and downstream operations and is publicly listed on the stock exchanges of Hong Kong, Shanghai, New York and London. The principal operations of Sinopec Corp. and its subsidiaries include: (1) exploring for and developing, producing and trading crude oil and natural gas; (2) processing crude oil into refined oil products, producing refined oil products and trading, transporting, distributing and marketing refined oil products; and (3) producing, distributing and trading chemical products.

Sinopec Guangzhou Branch is a branch company of Sinopec Corp.. The core business of Sinopec Guangzhou Branch covers refining and petrochemical productions. Its marketing distribution network covers the whole South China area with some of the products exported to Southeast Asian countries.

Sinopec Finance was established in the PRC as a non-banking financial institution in 1988. Sinopec Finance is regulated by the PBOC and the CBRC and provides its services in accordance with the rules and operational requirements of these regulatory authorities. As at the Latest Practicable Date, Sinopec Corp. has 49% of the equity interest of Sinopec Finance and Sinopec Group Company has 51% of the equity interest of Sinopec Finance. The principal business of Sinopec Finance includes the provision of, among others, deposit services, loan services, entrusted loan services and entrusted investment services.

Century Bright is a limited liability company incorporated in Hong Kong. It is a wholly owned subsidiary of Sinopec Group Company. The principal activities of Century Bright include providing settlement and similar services and taking deposits from members of the Sinopec Group outside PRC, and conducting intra group loan transactions. Century Bright is a money lender registered under the Money Lender Ordinance (Chapter 162 of the laws of Hong Kong) in Hong Kong.

Sinopec Natural Gas Branch Company is a branch company of Sinopec Corp.. Sinopec Natural Gas Branch Company is principally engaged in construction and operation of natural gas transmission pipelines, liquefied natural gas receiving station, compressed natural gas refuelling station and gas storage, and the development of long distance pipeline market and liquefied projects as well as the sales of natural gas.

Sinopec Petroleum Engineering is a company established under the laws of the PRC with limited liability and a wholly owned subsidiary of Sinopec Group Company. Sinopec Petroleum Engineering is principally engaged in the development and construction of petroleum projects.

### **IX. GENERAL**

Sinopec Group Company is holding approximately 70.86% of the entire issued share capital of Sinopec Corp.. Sinopec Corp. is holding the entire issued share capital of Unipec (which holds the entire issued share capital of SKI) and the indirect controlling shareholder of the Company, indirectly holding approximately 60.33% of the entire issued share capital of the Company. Pursuant to the Listing Rules, the transactions contemplated under each of the Non-exempt Existing Continuing Connected Transactions constitute continuing connected transactions of the Company, the aggregate amounts of the provision of financial services

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## LETTER FROM THE BOARD

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under the Financial Services Framework Master Agreements constitute a major transaction of the Company and the provision of equipment procurement, design and construction services in respect of Yulin-Jinan Pipeline under the Yu Ji Compression Project Framework Master Agreement constitutes a connected transaction and discloseable transaction of the Company. The Non-exempt Existing Continuing Connected Transactions and the Yu Ji Compression Project Framework Master Agreement are subject to the Independent Shareholders' approval requirements under the Listing Rules. SKI, Sinopec Group Company, Sinopec Corp., Unipetec, Sinopec Finance, Century Bright, Sinopec Engineering and their associates will abstain from voting in the SGM to approve the renewal of the Non-exempt Existing Continuing Connected Transactions under the New Framework Master Agreements and the provision of equipment procurement, design and construction services in respect of Yulin-Jinan Pipeline under the Yu Ji Compression Project Framework Master Agreement.

The executive Directors, Mr. Chen Bo, Mr. Xiang Xiwen, Mr. Dai Liqi, Mr. Li Jianxin and Mr. Wang Guotao, abstained from voting on the relevant resolutions in the Board meeting to approve each of the transactions contemplated therein because of their other executive posts within the Sinopec Group.

The Company has established an Independent Board Committee comprising the three independent non-executive Directors of the Company, namely Ms. Tam Wai Chu, Maria, Mr. Fong Chung, Mark and Dr. Wong Yau Kar, David, to consider (1) the renewal of the Non-exempt Existing Continuing Connected Transactions for the two or three financial years ending 31 December 2019 (as the case may be) and (2) the connected transaction and discloseable transaction regarding the provision of equipment procurement, design and construction services in respect of Yulin-Jinan Pipeline under the Yu Ji Compression Project Framework Master Agreement, to recommend to the Independent Shareholders how to vote in the SGM, and to advise the Independent Shareholders on these transactions and agreements.

Somerley Capital Limited has been appointed as the Independent Financial Adviser for the purpose of advising the Independent Board Committee and the Independent Shareholders in relation to the renewal of the Non-exempt Existing Continuing Connected Transactions for the two or three financial years ending 31 December 2019 (together with their caps) (as the case may be), the connected transaction and discloseable transaction regarding the provision of equipment procurement, design and construction services in respect of Yulin-Jinan Pipeline under the Yu Ji Compression Project Framework Master Agreement (together with its cap), and the transactions contemplated thereunder. A letter from the Independent Financial Adviser is set out on pages 52 to 86 of this Circular.

### **X. SPECIAL GENERAL MEETING**

The SGM will be held on Thursday, 22 December 2016 at 10:00 a.m. or at any adjournment thereof at Taishan Room, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong during which ordinary resolutions shall be proposed to the Shareholders to approve the New Framework Master Agreements and the Yu Ji Compression Project Framework Master Agreement. SKI, Sinopec Group Company, Sinopec Corp., Unipetec, Sinopec Finance, Century Bright, Sinopec Engineering and their associates will abstain from voting in relation to the resolution to be proposed to approve the New

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## LETTER FROM THE BOARD

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Framework Master Agreements and the Yu Ji Compression Project Framework Master Agreement. The New Framework Master Agreements and the Yu Ji Compression Project Framework Master Agreement are therefore subject to the approval by the Independent Shareholders at the SGM on a vote taken by way of poll.

A form of proxy for use by the Shareholders at the SGM is enclosed. Shareholders are advised to read the notice and to complete the accompanying white form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event, not later than 48 hours before the time appointed for holding the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting if they so wish.

### **XI. RECOMMENDATION**

The Directors (including the independent non-executive Directors whose opinions and recommendation, after considering the advice from the Independent Financial Adviser, are set out in the section headed "Letter from the Independent Board Committee" in this Circular) consider that the New Framework Master Agreements and the Yu Ji Compression Project Framework Master Agreement, and include all matters relating thereto are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole so far as the Company and the Independent Shareholders are concerned.

Accordingly, the Directors (including the independent non-executive Directors whose opinions and recommendation, after considering the advice from the Independent Financial Adviser, are set out in the section headed "Letter from the Independent Board Committee" in this Circular) recommend the Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the New Framework Master Agreements and the Yu Ji Compression Project Framework Master Agreement, and include all matters relating thereto.

Your attention is drawn to the recommendation of the Independent Board Committee as set out on pages 50 to 51 of this Circular and the letter from the Independent Financial Adviser as set out on pages 52 to 86 of this Circular.

Your attention is drawn to the information set out elsewhere in this Circular and in the appendices to it.

By order of the Board of  
**Sinopec Kantons Holdings Limited**  
**Chen Bo**  
*Chairman*



**SINOPEC KANTONS HOLDINGS LIMITED**

**(中石化冠德控股有限公司) \***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 934)**

2 December 2016

*To the Independent Shareholders*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS AND/OR MAJOR  
TRANSACTION REGARDING RENEWAL OF THE NON-EXEMPT  
EXISTING CONTINUING CONNECTED TRANSACTIONS;  
AND  
(2) CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION  
REGARDING THE YULIN-JINAN PIPELINE COMPRESSION PROJECT**

Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

On 11 November 2016, the Board announced the New Framework Master Agreements and the Yu Ji Compression Project Framework Master Agreement. The Independent Board Committee was formed on 11 November 2016 to make a recommendation to the Independent Shareholders as to whether, in its view, the terms of (i) the New Framework Master Agreements and (ii) the Yu Ji Compression Project Framework Master Agreement are fair and reasonable and whether (i) the New Framework Master Agreements and (ii) the Yu Ji Compression Project Framework Master Agreement are in the interest of the Company and its Shareholders. Somerley Capital Limited has been appointed by the Company as Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders on the fairness and reasonableness of (i) the New Framework Master Agreements and (ii) the Yu Ji Compression Project Framework Master Agreement.

The terms and reasons for (i) the New Framework Master Agreements and (ii) the Yu Ji Compression Project Framework Master Agreement are described in the letter from the Board as set out in the Circular.

We also draw your attention to the letter from the Independent Financial Adviser in the Circular containing the advice of Somerley Capital Limited in respect of (i) the New Framework Master Agreements and (ii) the Yu Ji Compression Project Framework Master Agreement.

\* *For identification purposes only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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As your Independent Board Committee, we have discussed with the management of the Company the reasons for entering into (i) the New Framework Master Agreements and (ii) the Yu Ji Compression Project Framework Master Agreement and the basis upon which their terms have been determined. We have also considered the key factors taken into account by Somerley Capital Limited in arriving at its opinion regarding (i) the New Framework Master Agreements and (ii) the Yu Ji Compression Project Framework Master Agreement as set out in the letter from the Independent Financial Adviser as set out in the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, among other things, the advice of Somerley Capital Limited, the Independent Financial Adviser to the Company, considers that (i) the New Framework Master Agreements and (ii) the Yu Ji Compression Project Framework Master Agreement are on normal commercial terms and in the ordinary and usual course of business of the Company, and in the best interest of the Company and the Shareholders as a whole, and fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions in relation to (i) the New Framework Master Agreements and (ii) the Yu Ji Compression Project Framework Master Agreement as set out in the notice of the SGM at the end of the Circular.

Yours faithfully,

**Ms. Tam Wai Chu, Maria**  
*Independent Non-executive  
Director*

**Mr. Fong Chung, Mark**  
*Independent Non-executive  
Director*

**Dr. Wong Yau Kar, David**  
*Independent Non-executive  
Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



### SOMERLEY CAPITAL LIMITED

20th Floor  
China Building  
29 Queen's Road Central  
Hong Kong

2 December 2016

*To: The Independent Board Committee and the Independent Shareholders of  
Sinopec Kantons Holdings Limited*

Dear Sirs,

**(1) CONTINUING CONNECTED TRANSACTIONS AND/OR MAJOR  
TRANSACTION REGARDING RENEWAL OF THE NON-EXEMPT  
EXISTING CONTINUING CONNECTED TRANSACTIONS; AND  
(2) CONNECTED AND DISCLOSEABLE TRANSACTION REGARDING  
THE YULIN-JINAN PIPELINE COMPRESSION PROJECT**

### INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and Independent Shareholders in connection with (i) the continuing connected transactions and/or major transaction regarding renewal of the Non-exempt Existing Continuing Connected Transactions for the two or three financial years ending 31 December 2019 (together with their caps) (as the case may be); and (ii) the connected and discloseable transaction regarding the Yu Ji Compression Project Framework Master Agreement (together with its cap) and the transactions contemplated thereunder (collectively, the “**Transactions**”). Details of the Transactions are contained in the circular to the Shareholders dated 2 December 2016 (the “**Circular**”), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

Sinopec Group Company is holding approximately 70.86% of the entire issued share capital of Sinopec Corp.. Sinopec Corp. is holding the entire issued share capital of Unipecc (which holds the entire issued share capital of SKI) and the indirect controlling shareholder of the Company, indirectly holding approximately 60.33% of the entire issued share capital of the Company. Pursuant to the Listing Rules, the transactions contemplated under each of the Non-exempt Existing Continuing Connected Transactions constitute continuing connected transactions of the Company, the aggregate amounts of the provision of financial services under the New Sinopec Finance Financial Services Framework Master Agreement, the New Century Bright Financial Services Framework Master Agreement and the New Yu Ji Pipeline Financial Services Framework Master Agreement constitute a major transaction of the Company and the provision of equipment procurement, design and construction services in

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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respect of Yulin-Jinan Pipeline under the Yu Ji Compression Project Framework Master Agreement constitutes a connected transaction and discloseable transaction of the Company. The Non-exempt Existing Continuing Connected Transactions and the Yu Ji Compression Project Framework Master Agreement are subject to the Independent Shareholders' approval requirements under the Listing Rules. SKI, Sinopec Group Company, Sinopec Corp., Unipecc, Sinopec Finance, Century Bright, Sinopec Engineering and their associates will abstain from voting in the SGM to approve the renewal of the Non-exempt Existing Continuing Connected Transactions under the New Framework Master Agreements and the provision of equipment procurement, design and construction services in respect of Yulin-Jinan Pipeline under the Yu Ji Compression Project Framework Master Agreement.

The Company has established an Independent Board Committee comprising the three independent non-executive Directors of the Company, namely Ms. Tam Wai Chu, Maria, Mr. Fong Chung, Mark and Dr. Wong Yau Kar, David, to consider (1) the renewal of the Non-exempt Existing Continuing Connected Transactions; and (2) the transactions under the Yu Ji Compression Project Framework Master Agreement, to advise the Independent Shareholders on the terms of these transactions and agreements, and to recommend to the Independent Shareholders how to vote in the SGM. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are not associated with the Company, Sinopec Corp., their respective substantial shareholders or associates, and accordingly, are considered eligible to give independent advice on the Transactions. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any other fees or benefits from the Company, Sinopec Corp., their substantial shareholders or associates.

During the past two years, Somerley Capital Limited acted as the independent financial adviser and issued an opinion letter contained in the Company's circular dated 20 January 2015 regarding a major and connected transaction in relation to the acquisition of the entire interest in Yu Ji Pipeline Company, and certain continuing connected transactions. This past engagement was limited to providing independent advisory services to the Independent Board Committee and Independent Shareholders pursuant to the Listing Rules. Under this past engagement, Somerley Capital Limited received normal professional fees from the Company. Notwithstanding the past engagement, as at the Latest Practicable Date, there were no relationships or interests between Somerley Capital Limited on one hand and the Company, Sinopec Corp., and their respective substantial shareholders and/or associates on the other hand that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and Independent Shareholders in connection with the Transactions.

In formulating our opinion and recommendation, we have reviewed, among other things, the Non-exempt Existing Framework Master Agreements, the New Framework Master Agreements, the Yu Ji Compression Project Framework Master Agreement, the annual report of the Company for year ended 31 December 2015 (the "**2015 Annual Report**"), the interim report of the Company for the six months ended 30 June 2016 (the "**2016 Interim Report**"), the valuation report (the "**Valuation Report**") of Yu Ji Pipeline Company prepared by an

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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independent qualified PRC Valuer for the purpose of the proposed acquisition of Yu Ji Pipeline Company by the Group in 2014 and the information set out in the Circular. We have also discussed with the management of the Group regarding the businesses of and the commercial implications of the Transactions on the Group.

In addition, we have relied on the information and facts supplied, and the opinions and intention expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete and will remain true, accurate and complete up to the time of the SGM. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

#### 1. Information on the Group

The Company was incorporated in Bermuda with limited liability and its Shares are listed on the Stock Exchange. The principal activities of the Group include the provision of natural gas pipeline transmission services, operation of crude oil and oil products terminals and their ancillary facilities, provision of logistics services including storage, logistics, transportation and terminal services and distribution of oil and oil products and international logistics agency services on global basis.

#### 2. Information on the connected parties

Sinopec Group Company, the controlling shareholder of Sinopec Corp. and the ultimate controlling shareholder of the Company, is a State-authorised investment vehicle in oil and petrochemical business which integrates the upstream and downstream assets.

Sinopec Corp. is an integrated energy and chemical company with upstream, midstream and downstream operations and is publicly listed on the stock exchanges of Hong Kong, Shanghai, New York and London. The principal operations of Sinopec Corp. and its subsidiaries include: (1) exploring for and developing, producing and trading crude oil and natural gas; (2) processing crude oil into refined oil products, producing refined oil products and trading, transporting, distributing and marketing refined oil products; and (3) producing, distributing and trading chemical products.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Sinopec Guangzhou Branch is a branch company of Sinopec Corp.. The core business of Sinopec Guangzhou Branch covers refining and petrochemical productions. Its marketing distribution network covers the whole South China area with some of the products exported to Southeast Asian countries.

Sinopec Finance was established in the PRC as a non-banking financial institution in 1988. Sinopec Finance is regulated by the PBOC and the CBRC and provides its services in accordance with the rules and operational requirements of these regulatory authorities. As at the Latest Practicable Date, Sinopec Corp. has 49% of the equity interest of Sinopec Finance and Sinopec Group Company has 51% of the equity interest of Sinopec Finance. The principal business of Sinopec Finance includes the provision of, among others, deposit services, loan services, entrusted loan services and entrusted investment services.

Century Bright is a limited liability company incorporated in Hong Kong. It is a wholly owned subsidiary of Sinopec Group Company. The principal activities of Century Bright include providing settlement and similar services and taking deposits from members of the Sinopec Group outside PRC, and conducting intra group loan transactions. Century Bright is a money lender registered under the Money Lender Ordinance (Chapter 162 of the laws of Hong Kong) in Hong Kong.

Sinopec Natural Gas Branch Company is a branch company of Sinopec Corp.. Sinopec Natural Gas Branch Company is principally engaged in construction and operation of natural gas transmission pipelines, liquefied natural gas receiving station, compressed natural gas refuelling station and gas storage, and the development of long distance pipelines market and liquefied projects as well as the sales of natural gas.

Sinopec Petroleum Engineering is a company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of Sinopec Group Company. Sinopec Petroleum Engineering is principally engaged in the development and construction of petroleum projects.

### **3. Continuing connected transactions and/or major transaction regarding renewal of the Non-exempt Existing Continuing Connected Transactions**

#### **A. Non-exempt Existing Continuing Connected Transactions in relation to Huade**

Having considered that the Non-exempt Existing Continuing Connected Transactions in relation to Huade will expire on 31 December 2016, the Company entered into the New Framework Master Agreements for renewal of the Non-exempt Existing Continuing Connected Transactions in relation to Huade and to replace the Non-exempt Existing Framework Master Agreements in relation to Huade.

##### ***1. New Sinopec Guangzhou Branch Framework Master Agreement***

On 11 November 2016, Huade entered into the New Sinopec Guangzhou Branch Framework Master Agreement with Sinopec Guangzhou Branch in order to regulate, among others, the provision of crude oil jetty services between Huade

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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and Sinopec Guangzhou Branch and to replace the Existing Sinopec Guangzhou Branch Framework Master Agreement. Conditional upon the Independent Shareholders' approval in the SGM, the New Sinopec Guangzhou Branch Framework Master Agreement will commence on 1 January 2017 for a term of three years up to 31 December 2019.

The Group has provided under the Existing Sinopec Guangzhou Branch Framework Master Agreement and will continue to provide under the New Sinopec Guangzhou Branch Framework Master Agreement, the following services and facilities to Sinopec Guangzhou Branch through the Huizhou Jetty:

- (i) jetty and related services concerning the unloading of crude oil from oil tankers and dockage;
- (ii) crude oil storage and related services concerning the storage of crude oil in oil tank and oil tank handling; and
- (iii) the transmission of crude oil and related services concerning the transmission of crude oil from the Huizhou Jetty to Sinopec Guangzhou Branch's refinery complex in Guangzhou.

### *Reasons for the transactions*

As set out in the letter from the Board, the existing Huizhou Jetty and crude oil storage facilities of Huade are close to Sinopec Guangzhou Branch with a crude oil pipeline connected between Huade and Sinopec Guangzhou Branch, which is convenient for Huade to provide crude oil jetty unloading and storage service to Sinopec Guangzhou Branch. Sinopec Guangzhou Branch is also the only customer of Huade for crude oil unloading and pipeline transmission for the year ended 31 December 2015.

Having considered that the business income of Huade is mostly attributable from the crude oil jetty services provided to Sinopec Guangzhou Branch, we concur with the Directors' view that the entering into of the New Sinopec Guangzhou Branch Framework Master Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Independent Shareholders as a whole.

### *Pricing basis and payment terms*

Pursuant to the New Sinopec Guangzhou Branch Framework Master Agreement, the service fees payable by Sinopec Guangzhou Branch to Huade will include:

- (i) in respect of jetty and related services concerning the unloading of crude oil from oil tankers and dockage, charged on the State-prescribed prices, being regulated and standardised by the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Ministry of Transports of the PRC and on the basis of government-approved prices, being approved by the Guangdong Price Bureau;

- (ii) in respect of crude oil storage and related services concerning the storage of crude oil in oil tank and oil tank handling, charged on the basis of government-approved prices, being approved by the Guangdong Price Bureau; and
- (iii) in respect of the transmission of crude oil and related services concerning the transmission of crude oil from the Huizhou Jetty to Sinopec Guangzhou Branch's refinery complex in Guangzhou, charged based on the State-prescribed prices, being regulated by the PRC's National Development and Reform Commission.

If the State-prescribed prices or the government-approved prices (as the case may be) of any of the above services are abolished, the service fees payable shall be:

- (a) the fair market price for provision of the relevant services. In determining the fair market price, the Group will generally make reference to reports regarding the up to date information on market trend and prevailing market prices published by independent industry information providers then available. The Group also takes into account the actual costs incurred by Huade upon provision of crude oil jetty services, the market price for the relevant or similar services by independent third party in Guangdong Province or nearby regions, and the service fee charged by Huizhou Jetty if Huizhou Jetty has provided the same or similar services provided that such price will not be lower than the market price for the relevant or similar services by independent third party in Guangdong Province or nearby regions, and the service fee charged by Huizhou Jetty if Huizhou Jetty has provided the same or similar services; or
- (b) if no market price is available or agreed between the parties, the previous State-prescribed prices or government-approved prices (as the case may be) plus a margin not exceeding the rate of increase in the consumer price index for Guangdong Province during the immediately preceding calendar year. The consumer price index can be obtained from the Statistics Bureau of Guangdong Province of the PRC.

The payment terms of these transactions will be determined by the parties on a transaction-by-transaction basis, in accordance with market norms and on normal commercial terms, and with reference to prescriptions by and approvals of the PRC government. Pursuant to the New Sinopec Guangzhou Branch Framework Master Agreement, Huade will enter into

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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crude oil jetty service agreements with Sinopec Guangzhou Branch, by which the parties will negotiate the detailed terms and provisions with reference to, among other factors, laws and regulations, market conditions, normal commercial terms, trade customs and the principle of fairness.

We have reviewed the relevant documents issued by (i) the Guangdong Pricing Bureau and the Ministry of Transports of the PRC which respectively set out the State-prescribed prices for unloading and storage of crude oil and dockage and the government-approved prices for storage of crude oil; and (ii) the PRC's National Development and Reform Commission which sets out the State-prescribed prices for transmission of crude oil. We have also reviewed sample contract and invoices of historical transactions under the Existing Sinopec Guangzhou Branch Framework Master Agreement, and noted that (i) the prices charged under these sample contract and invoices were in accordance with the State-prescribed prices or government-approved prices (as the case may be); and (ii) the payment terms offered to Sinopec Guangzhou Branch under the sample contract were quarterly settlement with payment due within 20 days from the date of billing, which is no more favourable than the payment terms offered to the Group's other customers as disclosed in the 2015 Annual Report and 2016 Interim Report, where the payment terms for all of the Group's trade receivables were due within 30 to 90 days from the date of billing.

In the event that the State-prescribed prices or the government-approved prices (as the case may be) of any of the above services are abolished, the service fees payable shall be either (i) the fair market price or (ii) the previous State-prescribed prices or government-approved prices (as the case may be) plus a margin not exceeding the rate of increase of the consumer price index for Guangdong Province if no market price is available. Given (i) such fair market price will not be lower than the market price for the relevant or similar services by independent third party in Guangdong Province or nearby regions, or the service fee charged by Huizhou Jetty if Huizhou Jetty has provided the same or similar services, and (ii) the State-prescribed or government approved prices remain the same for at least more than 10 years, we consider that basis of the fair market price and State prescribed or government approved price plus a margin of not exceeding the consumer price index of the region is fair and reasonable.

Given (i) Sinopec Group is one of the three major conglomerates in the PRC engaged in the integration of both upstream, midstream and downstream of oil and gas businesses that require the services of Huade; and (ii) each of such conglomerates, as advised by the management of the Group, selects the location of its refinery complex in close proximity to its own provider of jetty and oil transmission services with oil pipelines constructed between them that the businesses of the refinery complex and the jetty are dependent upon each other, we are of the view that Sinopec Guangzhou Branch being the only customer of Huade in respect of the jetty and crude

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oil unloading and pipeline transmission services is basically in line with the market practice and business model of these major conglomerates, which is acceptable.

Having considered the above and also the terms under the New Sinopec Guangzhou Branch Framework Master Agreement are generally in line with the existing agreement and the pricing is based on either (i) the State-prescribed or government approved prices or (ii) in the event that the State-prescribed or government approved prices are abolished, the fair market price provided that such fair market price will not be lower than the market price for the relevant or similar services by independent third party in Guangdong Province or nearby regions, or the service fee charged by Huizhou Jetty if Huizhou Jetty has provided the same or similar services, or previous State-prescribed or government approved prices plus a margin of not exceeding the rate of increase of the consumer price index if no market price is available, we are of the view that the terms under the New Sinopec Guangzhou Branch Framework Master Agreement are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned.

### *Annual caps*

The historical transaction amounts for the two years ended 31 December 2015 and for the six months ended 30 June 2016 and existing annual caps for the three years ending 31 December 2016 under the Existing Sinopec Guangzhou Branch Framework Master Agreement, as well as the proposed annual caps in respect of these transactions under the New Sinopec Guangzhou Branch Framework Master Agreement for each of the three years ending 31 December 2019 respectively are set out in the table below.

**Table 1: Historical transaction amounts and existing/proposed annual caps for crude oil jetty services provided by Huade to Sinopec Guangzhou Branch**

	For the year ended		For the six months	For the year ending		
	31 December	31 December	ended	31 December		
	2014	2015	30 June	2017	2018	2019
Historical transaction amounts ( <i>HK\$ million</i> )	594	578	265	–	–	–
Existing annual caps ( <i>HK\$ million</i> )/ <b>Proposed annual caps (<i>RMB million</i>)</b>	850	850	850	<b>700</b>	<b>700</b>	<b>700</b>

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As advised by the management of the Group, the proposed annual caps under the New Sinopec Guangzhou Branch Framework Master Agreement for the three years ending 31 December 2019 has been arrived at with reference to: (i) the historical business volumes of Huade; and (ii) the State-prescribed prices and the government approved prices for these services.

### *Breakdown of Huade's revenue*

The Group's historical segment revenue of crude oil jetty services could be categorised into (i) jetty and related service income; (ii) transmission service income of crude oil; and (iii) other related service income, are set out as follows:

**Table 2: Breakdown of the Group's historical segment revenue of crude oil jetty services**

	<b>For the year ended 31 December</b>			<b>For the six months ended 30 June</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(in million RMB)</i>			
Jetty and related services <sup>(Note 1)</sup>	207.5	225.5	215.9	99.7
Transmission of crude oil <sup>(Note 1)</sup>	234.0	252.6	241.2	113.8
Other related services <sup>(Note 2)</sup>	11.1	21.2	56.8	28.6
<b>Segment revenue <sup>(Note 3)</sup></b>	<b>452.6</b>	<b>499.4</b>	<b>513.9</b>	<b>242.1</b>

*Notes:*

- (1) The revenue is derived from the historical business volumes of Huade and the relevant regulated prices (as set out in Table 3 and 4 below).
- (2) As advised by the management of the Group, other related services include, amongst others, daily charges for crude oil storage over 10 days (i.e. RMB0.90/tonne per day), channel usage fee and tug boat service charges etc.
- (3) Such amounts were determined based on (i) the segment revenue of "crude oil jetty services" in Hong Kong Dollars as disclosed in the annual/interim report for the respective year/period; adjusted by (ii) the spot exchange rate of HK\$/RMB as published by Bloomberg for the respective year/period end date.

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(i) *Jetty services and crude oil transmission services*

The business volumes of Huade for the three years ended 31 December 2015 and six months ended 30 June 2016 as disclosed in the respective annual/interim report are as follows:

**Table 3: Historical business volume of Huade**

	For the year ended 31 December			For the six months ended 30 June
	2013	2014	2015	2016
	<i>(in million tonnes)</i>			
Crude oil unloaded from				
oil tankers	11.66	12.67	12.13	5.60
Crude oil transmitted	11.70	12.63	12.06	5.69

The State prescribed prices or government-approved prices pursuant to the relevant documents issued by the Guangdong Pricing Bureau, the Ministry of Transports of the PRC and the National Development and Reform Commission are set out as follows:

**Table 4: State-prescribed prices and government approved prices for crude oil jetty, storage and transmission services**

	<i>RMB/ tonne</i>
Jetty and related services	
– Unloading and storage of crude oil	14.50
– Port charges	3.30
Transmission of crude oil	20.00 <sup>(Note)</sup>

*Note:* As advised by the management of the Group, such price was determined following commercial negotiations between the parties with reference to the price range set out by the National Development and Reform Commission applicable for (i) the distance of transmission from the Huizhou Jetty to Sinopec Guangzhou Branch's complex in Guangzhou and (ii) the diameter of the Huade's crude oil pipeline.

As disclosed in the 2015 Annual Report and 2016 Interim Report, the business volumes of Huade (set out in Table 3 above) has declined in 2015 and 2016 as a result of continued refinery equipment maintenance of Sinopec Guangzhou Branch. As advised by the management of the Group, upon completion of such maintenance, the business volume of Huade from 2017 onwards is expected to resume to a level comparable to the undisturbed period with proper business growth. Reference has been made to the revenue

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for the year ended 31 December 2014 as well as the year-on-year growth rate in 2014. Given such, the revenue in 2014 for jetty and related services and transmission of crude oil of RMB225.5 million and RMB252.6 million respectively (as set out in Table 2 above) and the respective year-on-year growth rates of 8.7% and 7.9% for three years have been adopted to arrive at the projected demand for determining the proposed annual cap for 2017. The annual caps for 2018-2019 are proposed to be the same as 2017.

*(ii) Other related services*

Other related services include channel usage fees and crude oil storage over 10 days which is charged at a prescribed rate of RMB0.90 per tonne and tug boat services. We have discussed with the management of the Group and having considered: (i) about 50% of the other related services income is contributed by channel usage fees paid by third party customers for the year ended 31 December 2015; (ii) the volatility in the historical revenue for other related services (as set out in Table 2 above) which is largely due to the unpredictable number of days of crude oil storage required by the downstream clients; and (iii) the Huizhou Jetty's daily storage capacity could reach 1.11 million cubic meters, 50% of the amount of RMB56.8 million for the year ended 31 December 2015 multiplied by the compound annual growth rate of 126.67% for the historical amounts from 2013 to 2015 has been used to arrive at the amount adopted as the projected demand for other related services in determining the proposed annual caps for 2017. The annual caps for 2018-2019 are proposed to be the same as 2017.

In addition, as advised by the management of the Group, a buffer of 5% was used in determining the proposed annual caps for 2017-2019, which is considered reasonable and will allow flexibility for Huade to cope with the fluctuations in its business volume as shown in Table 3 above.

Having considered (i) the actual transaction amounts under the New Sinopec Guangzhou Branch Framework Master Agreement will be accounted for as revenue of the Group; (ii) the basis of determining the projected demand in accordance with the historical figures and growth rates; (iii) the prices used in the calculation of the proposed annual caps are State-prescribed prices or government-approved prices (as the case may be); and (iv) the buffer of 5% to allow flexibility for the smooth operation of Huade, we consider the basis for determining the proposed annual caps under the New Sinopec Guangzhou Branch Framework Master Agreement for the three years ending 31 December 2019 to be fair and reasonable.

### ***2. New Sinopec Finance Financial Services Framework Master Agreement***

On 11 November 2016, Huade entered into the New Sinopec Finance Financial Services Framework Master Agreement with Sinopec Finance for the provision of intra group financial services by Sinopec Finance to Huade Group. Conditional upon the Independent Shareholders' approval in the SGM, the New



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Sinopec Finance Financial Services Framework Master Agreement will commence on 1 January 2017 for a term of three years up to 31 December 2019 to replace the Existing Sinopec Finance Financial Services Framework Master Agreement.

The intra group financial services to be provided by Sinopec Finance to the Huade Group within the PRC include loan services, deposit services, conducting entrusted loans, conducting bill acceptance and discount services, and conducting transfer and relevant settlement services and planning of settlement scheme. Sinopec Finance has agreed to provide financial services other than those aforesaid services to the Huade Group at Huade's request or instruction provided that Sinopec Finance has obtained the relevant approval from the CBRC. The services under the New Sinopec Finance Financial Services Framework Master Agreement are exempt under Chapter 14A of the Listing Rules from Independent Shareholders' approval requirement except for deposit services.

### *Reasons for the transactions*

The following factors have been considered by Huade before entering into the Existing Sinopec Finance Financial Services Framework Master Agreement:

- (1) in order to strengthen the centralised management of funds and monitor the use of funds, the Sinopec Group will utilise the "funding pool" platform with the assistance of Sinopec Finance. Such platform amasses the funds of the Sinopec Group (including the Group) and enables loans to be granted within the Sinopec Group by capitalising on the leeway arising from the difference in the time for receipt and payment of funds of the members of the Sinopec Group, with an aim to support the development of the Sinopec Group and the Group;
- (2) Sinopec Finance is under the supervision of CBRC and it has been maintaining satisfactory operating results and financial position with good risks control and well-regulated management in the past three years. The safety standards of its settlement system reach the standards of domestic commercial banks. The collaboration between Huade Group and Sinopec Finance reduces finance costs, increases interest income of deposits, lowers settlement costs and controls risks;
- (3) there will be interest income from the deposits of the Huade Group with Sinopec Finance at a rate no less favourable than those offered by other independent commercial banks in the PRC;
- (4) in respect of the Huade Group's funds settlement business at Sinopec Finance, settlement expenses will be undertaken by Sinopec Finance while the Huade Group has no obligations to pay for the settlement expenses to Sinopec Finance, save if other

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independent commercial banks charge Sinopec Finance for such fees, Sinopec Finance will charge Huade Group the same accordingly;

- (5) Sinopec Finance undertakes that the major shareholder shall not appropriate Huade Group's funds; and
- (6) given the improvement of bill receivables management, the deposits to be placed by the Huade Group with Sinopec Finance will increase for the three financial years ending 31 December 2019.

The following is the capital risk control measures adopted by Sinopec Finance:

- (1) in accordance with the PRC laws and regulations, Sinopec Finance will ensure the safe and stable operation of fund management information system, which has undergone the security test in respect of connection to the online commercial banking and has reached the national security standards for commercial banks;
- (2) Sinopec Finance will ensure its compliance with the risk monitoring indicators for financial institutions issued by the CBRC and in accordance with the PRC laws and regulations. Sinopec Group Company has also made a commitment to CBRC for increasing the share capital of Sinopec Finance in case Sinopec Finance is in a financial strait;
- (3) in accordance with the PRC laws and regulations, Sinopec Finance will allow Huade to check the status of its deposits with Sinopec Finance each business day to enable Huade to monitor and ensure that the maximum outstanding balance at any time (including any interest accrued therefrom) for Huade Group's deposits with Sinopec Finance does not exceed the relevant upper limit;
- (4) if there is a breach of laws or regulations, Sinopec Finance should inform Huade immediately and to ascertain the procedure and plan to ratify and mitigate the situation; and
- (5) the annual financial statements of Sinopec Finance will be provided to Huade upon request.

Sinopec Finance is regulated by PBOC and CBRC which provides its services in accordance with and in satisfactory of the rules and operational requirements as stipulated by the regulatory authorities that the safety standards of its settlement system reach the standards of domestic commercial banks. Having discussed with the management of the Group in respect of the services provided by Sinopec Finance, we understand that

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Sinopec Finance has been providing stable and high quality financial services to the members of the Group. As advised by the management of the Group, Sinopec Finance, as an intra-group service provider, is more familiar with the Group's operation to facilitate efficient financial services to the benefit of the Group. In addition, the integrated financial services offered by Sinopec Finance enable the Group to better utilize the platform of Sinopec Finance for efficiently manage the Group's financial resources in order to achieve cost savings and optimize the funding position of the Group.

In addition, the placement of deposits with Sinopec Finance when considered in the context of the other financial services (including the loan services, entrusted loans, bill acceptance and discount services, transfer and settlement services etc.) that are available to the Group can greatly facilitate deployment of surplus funds within the Group. The arrangement under the New Sinopec Finance Financial Services Framework Master Agreement (together with Yu Ji Pipeline Financial Services Framework Master Agreement) would also allow for certain degree of concentration of the Group's deposited funds (limited by the proposed annual caps), which would expedite the monitoring of the use and application of funds within the Group, and would provide the Group with higher bargaining power (than when the deposited sum was split among other financial institutions) with regards to the terms and interest rates of the deposit services as well as other financial services under the agreements. We note that the Group's fund settlement expenses will be undertaken by Sinopec Finance while the Group has no obligations to pay for it to Sinopec Finance unless Sinopec Finance is charged by other independent commercial banks which the Group will be charged the same. Sinopec Finance has undertaken that the major shareholder shall not appropriate the Group's funds. Having considered the aforementioned factors, given that the Group has the right but not obligation to place deposits with Sinopec Finance, we concur with the Directors' view that placing deposit with financial institutions by entering into the New Sinopec Finance Financial Services Framework Master Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Independent Shareholders as a whole.

### *Pricing basis for deposit services*

Sinopec Finance has undertaken that in providing the deposit services to the Huade Group within the PRC, the interest rate for the Huade Group's deposits with Sinopec Finance shall be referenced to the deposit interest rate as announced by the PBOC from time to time, and shall be no lower than the interest rate for deposits offered by other independent commercial banks to the members of the Sinopec Group.

Pursuant to the latest interest rates announced by the PBOC in October 2015, the interest rate was 0.35% for savings deposits. As advised by the management of the Group, the interest income and the average month-end outstanding deposit balance of Huade under the Existing Sinopec Finance

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Financial Services Framework Master Agreement for the year ended 31 December 2015 were RMB54.9 thousand and RMB27.4 million respectively, which translated into the effective deposit rate of only 0.20%. Having discussed with the management of the Group, the effective deposit rate is lower than the PBOC rate was mainly due to the fact that Huade is required to maintain certain amount of fund in the current account with Sinopec Finance (which offers no interest) as working capital for Huade's daily operation. As regards the saving deposits placed by Huade with Sinopec Finance, we have reviewed the quarterly invoices for interests received from Sinopec Finance in 2015 and the first half of 2016, and noted that the deposit rates offered by Sinopec Finance were 0.35% per annum, which is consistent with the deposit interest rate announced by the PBOC. Having considered the historical transactions have been carried out in accordance with the terms of existing agreements and the terms under the New Sinopec Finance Financial Services Framework Master Agreement are generally in line with the existing agreement, we consider that the terms of deposit services under the New Sinopec Finance Financial Services Framework Master Agreement are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned.

### *Annual caps for deposit services*

The historical amounts of the maximum outstanding balance (including any interest accrued therefrom) for the deposits placed by the Huade Group with Sinopec Finance for the two years ended 31 December 2015 and for the six months ended 30 June 2016 and the existing annual caps under the Existing Sinopec Finance Financial Services Framework Master Agreement, as well as the proposed annual caps in respect of these transactions under the New Sinopec Finance Financial Services Framework Master Agreement for each of the three years ending 31 December 2019 respectively are set out in the table below.

**Table 5: Historical transaction amounts and existing/proposed annual caps for deposits placed by Huade with Sinopec Finance**

	For the year ended		For the	For the year ending		
	31 December		six	31 December		
	2014	2015	months	2017	2018	2019
			ended			
			30 June			
	2014	2015	2016			
Historical transaction amounts ( <i>RMB million</i> )	71	43	54	–	–	–
Existing annual caps/ <b>Proposed annual caps</b> ( <i>RMB million</i> )	500	500	500	<b>500</b>	<b>500</b>	<b>500</b>

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As advised by the management of the Group, the basis of determining the proposed annual caps, representing the maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits to be placed by the Huade Group with Sinopec Finance, was mainly attributable to the historical cash level and cash flow movement of Huade. Based on Huade's cash level as at 31 December 2015 of RMB32.3 million and net cash inflow from operating activities of RMB440.6 million in 2015 as set out in the management accounts of Huade for the year ended 31 December 2015, the total cash available for placing with Sinopec Finance may reach over RMB470 million before accounting for cash flows from any investing and financing activities such as capital expenditures and dividend payouts. In addition, a buffer of 6% was used in determining the proposed annual caps, which is considered reasonable and will allow flexibility for Huade to cope with (i) the expected increase of business volume of Huade (as discussed in the above section headed "1. New Sinopec Guangzhou Branch Framework Master Agreement") which may result in possible additional cash flow being available for placing with Sinopec Finance; and (ii) the interests to be accrued from the deposits. Having discussed with the management of the Group the above bases and assumptions, we consider that the proposed annual caps for deposit services under the New Sinopec Finance Financial Services Framework Master Agreement for the three years ending 31 December 2019 to be fair and reasonable.

### **B. Other Non-exempt Continuing Connected Transactions**

Having considered that the Existing Century Bright Financial Services Framework Master Agreement will expire on 31 December 2016, the Company entered into the New Century Bright Financial Services Framework Master Agreement for renewal of the Existing Century Bright Financial Services Framework Master Agreement.

#### ***1. New Century Bright Financial Services Framework Master Agreement***

On 11 November 2016, the Company and Century Bright entered into the New Century Bright Financial Services Framework Master Agreement, for the provision of deposit services and settlement and similar services to the Group, and to replace the Existing Century Bright Financial Services Framework Master Agreement. Conditional upon the Independent Shareholders' approval in the SGM, the New Century Bright Financial Services Framework Master Agreement will commence on 1 January 2017 for a term of three years up to 31 December 2019.

Century Bright will provide deposit services and settlement and similar services to the Company's subsidiaries outside the PRC.

#### ***Reasons for the transactions***

As set out in the letter from the Board, the Directors are of the view that the Group would be benefited from entering into the New Century Bright Financial Services Framework Master Agreement for the reasons that:

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(i) the interest rate on deposits to be offered by Century Bright to the Group will be no less favourable than those offered by commercial banks in Hong Kong; (ii) it reduces the time of capital transit for the Group, and also accelerates the turnover of cash flow and reduces transaction costs and expenses, thereby further enhances the quality and efficiency of capital utilisation; and (iii) it provides diversified financial services in broader areas for the Group.

Century Bright is a money lender registered under the Money Lender Ordinance (Chapter 162 of the laws of Hong Kong) in Hong Kong. As advised by the management of the Group, similar to Sinopec Finance, Century Bright, as an intra-group service provider, is more familiar with the Group's operation to facilitate efficient financial services to the benefit of the Group. In addition, the integrated financial services offered by Century Bright enable the Group to better utilize the platform of Century Bright for efficiently manage the Group's financial resources in order to achieve cost savings and optimize the funding position of the Group. The placement of deposits with Century Bright when considered in the context of the other financial services (including settlement and similar services) that are available to the Group can greatly facilitate deployment of surplus funds within the Group. The arrangement under the New Century Bright Financial Services Framework Master Agreement would also allow for certain degree of concentration of the Group's deposited funds (limited by the proposed annual caps), which would expedite the monitoring of the use and application of funds within the Group, and would provide the Group with higher bargaining power (than when the deposited sum was split among other financial institutions) with regards to the terms and interest rates of the deposit services as well as other financial services under the agreements.

Having considered the above, given that the Group has the right but not obligation to place deposits with Century Bright, we concur with the Directors' view that placing deposit with financial institutions by entering into the New Century Bright Financial Services Framework Master Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Independent Shareholders as a whole.

### *Pricing basis for deposit services*

In respect of deposit services, Century Bright will pay the Group interest accrued on the deposits calculated according to the deposit interest rate as announced by other independent commercial banks in Hong Kong (such as The Hongkong and Shanghai Banking Corporation Limited or Bank of China (Hong Kong) Limited) from time to time. Such interest rate shall be (i) equal to or higher than the interest rate offered by Century Bright to Sinopec Group Company, Sinopec Corp. and other members of Sinopec Group in similar deposit arrangements; and (ii) equal to or higher than the interest rate as announced by other independent commercial banks in Hong

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Kong (such as The Hongkong and Shanghai Banking Corporation Limited or Bank of China (Hong Kong) Limited) from time to time, whichever is higher.

Pursuant to the latest depository interest rates announced by independent commercial banks in Hong Kong (such as The Hongkong and Shanghai Banking Corporation Limited or Bank of China (Hong Kong) Limited), the interest rates mostly ranged from 0.01% (for saving deposits) up to 2.60% (for 3-month RMB fixed deposits). As advised by the management of the Group, the interest income and average outstanding deposit balance of the Company under the Existing Century Bright Financial Services Framework Master Agreement for the year ended 31 December 2015 were HK\$13.0 million and HK\$488.2 million respectively, which translated into an effective deposit rate of 2.65% per annum, which is higher than the interest rates announced by independent commercial banks in Hong Kong. On this basis, and also considering the terms under the New Century Bright Financial Services Framework Master Agreement are generally in line with the existing agreement, we consider that the terms of the deposit services under the New Century Bright Financial Services Framework Master Agreement are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned.

### *Annual caps for deposit services*

The historical amounts of the maximum outstanding balance (including any interest accrued therefrom) for the deposits placed by the Group with Century Bright for the two years ended 31 December 2015 and for the six months ended 30 June 2016 and the existing annual caps for the three years ending 31 December 2016 under the Existing Century Bright Financial Services Framework Master Agreement, as well as the proposed annual caps in respect of these transactions under the New Century Bright Financial Services Framework Master Agreement for each of the three years ending 31 December 2019 respectively are set out in the table below.

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**Table 6: Historical transaction amounts and existing/proposed annual caps for deposits placed by the Company with Century Bright**

	For the year ended		For the	For the year ending		
	31 December		six	31 December		
	2014	2015	months	2017	2018	2019
			ended			
			30 June			
			2016			
Historical transaction amounts ( <i>HK\$ million</i> )	488	494	494	-	-	-
Existing annual caps/ <b>Proposed annual caps</b> ( <i>HK\$ million</i> )	500	500	500	<b>500</b>	<b>500</b>	<b>500</b>

As set out in the letter from the Board, in arriving at the aforesaid annual caps, the Directors have taken into account the following factors, including the historical figures of the transactions, the anticipated Group's cash flow movements, the anticipated business volume of the Group, the financial control and treasury management of the Group, and the requirement to settle accounts receivables from the members units of Sinopec Group or any third party through the deposit accounts of the Group with Century Bright.

We have discussed with the management of the Group and understand that the historical amounts of the maximum outstanding balance have consistently been between HK\$488 million and HK\$494 million for the two years ended 31 December 2015 and six months ended 30 June 2016, which is comparable to the respective existing annual caps. On this basis, we are of the view that the proposed annual caps for deposit services under the New Century Bright Financial Services Framework Master Agreement for the three years ending 31 December 2019 are fair and reasonable.

**C. Non-exempt Continuing Connected Transactions in relation to Yu Ji Pipeline Company**

Following the completion of the acquisition on 31 December 2015, Yu Ji Pipeline Company became an indirect wholly-owned subsidiary of the Company. Since then, the financial information of Yu Ji Pipeline Company has been consolidated into the consolidated financial statements of the Group.

Having considered that the Non-exempt Existing Continuing Connected Transactions in relation to Yu Ji Pipeline Company will expire on 31 December 2017, the Company entered into the New Framework Master Agreements for renewal of the Non-exempt Existing Continuing Connected Transactions in relation to Yu Ji Pipeline Company.



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### *1. New Natural Gas Transmission Services Framework Master Agreement*

On 11 November 2016, Yu Ji Pipeline Company entered into the New Natural Gas Transmission Services Framework Master Agreement with Sinopec Natural Gas Branch Company in respect of the provision of natural gas transmission services by Yu Ji Pipeline Company to Sinopec Natural Gas Branch Company and to renew the Existing Natural Gas Transmission Services Framework Master Agreement. Conditional upon the Independent Shareholders' approval in the SGM, the New Natural Gas Transmission Services Framework Master Agreement will commence on 1 January 2018 for a term of two years up to 31 December 2019.

Yu Ji Pipeline Company will provide natural gas transmission services to Sinopec Natural Gas Branch Company by transmitting through the Yulin-Jinan Pipeline owned by Yu Ji Pipeline Company to the natural gas delivery point(s) designated by Sinopec Natural Gas Branch Company.

#### *Reasons for the transactions*

As set out in the letter from the Board, Yulin-Jinan Pipeline, which is designed solely for natural gas transmission, is the core principal asset of Yu Ji Pipeline Company. Given Sinopec Natural Gas Branch Company is the only client of Yu Ji Pipeline Company, the provision of natural gas transmission services to Sinopec Natural Gas Branch Company is the only way to utilise the commercial value of the Yulin-Jinan Pipeline.

Having considered that the revenue from the core business of Yu Ji Pipeline Company is all generated from the provision of natural gas transmission services to Sinopec Natural Gas Branch Company, we concur with the Directors' view that the entering into of the New Natural Gas Transmission Services Framework Master Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Independent Shareholders as a whole.

#### *Pricing basis and payment terms*

Under the New Natural Gas Transmission Services Framework Master Agreement, the pipeline transmission fee was determined in accordance with the Reply of the National Development and Reform Commission regarding the Yulin Natural Gas Pipeline Transmission Fee (National Development and Reform Commission pricing [2010] No. 2780) (the "NDRC Approval") which shall be adjusted subject to adjustment(s) as announced by the State or the relevant local government authorities.

Given the nature of these transactions, payment terms will be determined by the parties on a transaction-by-transaction basis, in accordance with market norms and on normal commercial terms, and with reference to

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the specifications and requirements, such as volume and delivery point(s). As advised by the management of the Group, Sinopec Natural Gas Branch Company is the sole customer of Yu Ji Pipeline Company.

We have reviewed sample invoices and the relevant sales report which sets out the unit price and volume of historical transactions under the Existing Natural Gas Transmission Services Framework Master Agreement in 2016, and noted that the prices charged under these sample invoices were in accordance with the State-prescribed prices set out under the NDRC Approval. The payment terms for all of the Group's trade receivables which, as advised by the management of the Group, included the receivables from Sinopec Natural Gas Branch Company under the Existing Natural Gas Transmission Services Framework Master Agreement, were due within 30 to 90 days from the date of billing as at 30 June 2016 as disclosed in the 2016 Interim Report which is in line with the Group's practices in past years.

Given (i) Sinopec Group is one of the three major conglomerates in the PRC engaged in the integration of both upstream, midstream and downstream of oil and gas businesses that require the services of Yu Ji Pipeline Company; and (ii) the Yulin-Jinan Pipeline is connected between the natural gas delivery points of the Sinopec Natural Gas Branch Company that Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company are dependent upon each other in respect of the transmission of natural gas, we are of the view that Sinopec Natural Gas Branch Company being the only customer of Yu Ji Pipeline Company in respect of the natural gas transmission is acceptable.

Having considered the above and also the terms under the New Natural Gas Transmission Services Framework Master Agreement are generally in line with the existing agreement, we are of the view that the terms under the New Natural Gas Transmission Services Framework Master Agreement are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned.

### *Annual caps*

The historical transaction amounts for the year ended 31 December 2015 and for the six months ended 30 June 2016 and the existing annual caps for the two years ending 31 December 2017 under the Existing Natural Gas Transmission Services Framework Master Agreement, as well as the proposed annual caps in respect of these transactions under the New Natural Gas Transmission Services Framework Master Agreement for each of the two years ending 31 December 2019 respectively are set out in the table below.

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**Table 7: Historical transaction amounts and existing/proposed annual caps for natural gas transmission services provided to Sinopec Natural Gas Branch Company**

	For the year ended 31 December 2015	For the six months ended 30 June 2016	For the year ending 31 December		
			2017	2018	2019
Historical transaction amounts ( <i>RMB million</i> )	928	368	–	–	–
Existing annual caps/ <b>Proposed annual caps</b> ( <i>RMB million</i> )	–	1,478	1,550	<b>1,800</b>	<b>1,800</b>

As set out in the letter from the Board, in arriving at the aforesaid annual caps, the following factors have been taken into account: (i) the historical figures of the transactions; (ii) State-prescribed prices or government-approved prices (as the case may be); and (iii) the natural gas transmission capacity of Yulin-Jinan Pipeline.

As advised by the management of the Group, the historical figures of the transactions for the three years ended 31 December 2015 and six months ended 30 June 2016 are as follows:

**Table 8: Historical transaction figures for natural gas transmission services provided to Sinopec Natural Gas Branch Company**

	For the year ended 31 December		For the six months ended 30 June
	2014	2015	2016
Transmission volume ( <i>in million m<sup>3</sup></i> )	3,226	2,985	1,312
Transaction amount ( <i>in RMB million</i> )	1,145	928	368
Average transmission price ( <i>in RMB/m<sup>3</sup></i> )	0.35	0.31	0.28

We have reviewed the NDRC Approval, pursuant to which the natural gas transmission prices for transmission from Yulin to Shaanxi, Shanxi, Henan and Shandong shall be RMB0.05, RMB0.19, RMB0.35 and RMB0.46 per m<sup>3</sup> respectively. As advised by the management of the Group, the changes in the average transmission price over the review period as set out in Table 8 above was mainly attributable to the fluctuating demand of

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natural gas transmission to different provinces, for which the transmission price vary as set out in the NDRC Approval. On such basis, the weighted average transmission price of RMB0.324 over the review period covered in Table 8 above was used in determining the proposed annual caps for the two years ending 31 December 2019.

As advised by the management of the Group, upon the expected completion of the Yu Ji Compression Project Framework Master Agreement in or around the end of 2018, the annual natural gas transmission capacity of the Yulin-Jinan Pipeline will be increased to 5 billion m<sup>3</sup>, which has been adopted as the projected transmission volume in determining the proposed annual caps for 2018-2019.

In addition, as advised by the management of the Group, a buffer of 11% was used in determining the proposed annual caps for 2018-2019, which is considered reasonable and will allow flexibility for Yu Ji Pipeline Company to cope with the fluctuations in demand of natural gas transmission volume to different provinces which would impact the overall average price charged as discussed above.

As set out in the letter from the Board, despite natural gas supply varies according to the change in market demand, Yu Ji Pipeline Company leases certain gas storage facilities from Sinopec Natural Gas Branch Company in order to ensure normal natural gas pipeline transmission with an aim to transmit natural gas in a continuous and steady manner. Although the demand for storage facilities by Yu Ji Pipeline Company is expected to increase, to a certain degree, due to an increase in the natural gas transmission volume in 2018 and onwards upon completion of the Yulin-Jinan Pipeline Compression Project, the unit price of gas transmission tariff across different provinces ranging from RMB0.05 to RMB0.46 per m<sup>3</sup> against the actual costs and taxes of the storage facilities would result in the increase in the transaction amounts or annual caps under the New Natural Gas Transmission Services Framework Master Agreement and the New Gas Storage Framework Master Lease Agreement as discussed in the section headed “2. New Gas Storage Framework Master Lease Agreement – Annual caps” to be different. Having considered that the expected transaction amounts under the New Natural Gas Transmission Services Framework Agreement will be accounted for as revenue of the Group while that under the New Gas Storage Framework Master Lease Agreement will be accounted for as its cost of sales, the Directors consider, and we also concur, that a larger annual cap for natural gas transmission which is priced based on State-prescribed prices is in the interest of the Company.

Having considered (i) the price used in the calculation of the proposed annual caps is based on the State-prescribed prices under the NDRC Approval and with reference to the historical average price; (ii) the projected volume represents the natural gas transmission capacity of the Yulin-Jinan Pipeline upon completion of the Yu Ji Compression Project Framework

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Master Agreement which is expected to be 2017; and (iii) the buffer of 11% to allow flexibility for the smooth operation of Yu Ji Pipeline Company, we consider the basis for determining the proposed annual caps under the New Natural Gas Transmission Services Framework Master Agreement for the two years ending 31 December 2019 to be fair and reasonable.

### ***2. New Gas Storage Framework Master Lease Agreement***

On 11 November 2016, Yu Ji Pipeline Company entered into the New Gas Storage Framework Master Lease Agreement with Sinopec Natural Gas Branch Company, pursuant to which Sinopec Natural Gas Branch Company agreed to lease to Yu Ji Pipeline Company certain gas storage facilities. Conditional upon the Independent Shareholders' approval in the SGM, the New Gas Storage Framework Master Lease Agreement will commence on 1 January 2018 for a term of two years up to 31 December 2019 to renew the Existing Gas Storage Framework Master Lease Agreement.

As set out in the letter from the Board, Yu Ji Pipeline Company will lease certain gas storage facilities from Sinopec Natural Gas Branch Company in order to ensure normal natural gas pipeline transmission. Natural gas supply will vary according to the change in market demand. With an aim to transmit natural gas in a continuous and steady manner, it is essential to have certain gas storage facilities to supplement the natural gas pipeline transmission in order to adjust to the seasonal demand variation.

#### ***Reasons for the transactions***

As set out in the letter from the Board, gas storage facilities are necessary for the continuous and steady operation of Yulin-Jinan Pipeline. The lease of gas storage facilities from Sinopec Natural Gas Branch Company can maximise the transmission capability, increase the operational efficiency and improve the profitability of Yulin-Jinan Pipeline. Sinopec Natural Gas Branch Company does not aim at earning a profit in leasing the gas storage facilities to Yu Ji Pipeline Company, as the fees payable under the New Gas Storage Framework Master Lease Agreement are equal to the sum of the actual costs incurred and taxes. On this basis, we concur with the Directors' view that the entering into of the New Gas Storage Framework Master Lease Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Independent Shareholders as a whole.

#### ***Pricing basis and payment terms***

Under the New Gas Storage Framework Master Lease Agreement, the lease of the gas storage facilities from Sinopec Natural Gas Branch Company to Yu Ji Pipeline Company will continue to be conducted on arm's length negotiation between the parties and on normal commercial terms and the fees payable will be equal to the sum of the actual costs incurred and taxes, and

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will be adjusted subject to the State policy. The actual costs incurred in respect of the lease of the gas storage facilities include, among others, the electricity expenses of the gas storage facilities, the salary expenses and the maintenance fee.

We have reviewed sample invoice and the relevant sales report which sets out the costs and taxes incurred by Sinopec Natural Gas Branch Company of historical transaction under the Existing Gas Storage Framework Master Lease Agreement in 2016, and noted that the price charged under the sample invoice were based on the actual costs and taxes. The payment terms for all of the Group's trade payables which, as advised by the management of the Group, included the payables to Sinopec Natural Gas Branch Company under the Existing Gas Storage Framework Master Lease Agreement, were repayable within 1 year from the invoice date as at 30 June 2016 as disclosed in the 2016 Interim Report which is in line with the Group's practices in past years.

Having considered the above and also the terms under the New Gas Storage Framework Master Agreement are generally in line with the existing agreement, we are of the view that the terms under the New Gas Storage Framework Master Lease Agreement are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned.

### *Annual caps*

The historical transaction amounts for the year ended 31 December 2015 and for the six months ended 30 June 2016 and the existing annual caps for the two years ending 31 December 2017 under the Existing Gas Storage Framework Master Lease Agreement, as well as the proposed annual caps in respect of these transactions under the New Gas Storage Framework Master Lease Agreement for each of the two years ending 31 December 2019 respectively are set out in the table below.

**Table 9: Historical transaction amounts and the existing/proposed annual caps for the lease of gas storage facilities from Sinopec Natural Gas Branch Company**

	For the year ended 31 December 2015	For the six months ended 30 June 2016	For the year ending 31 December		
			2017	2018	2019
Historical transaction amounts ( <i>RMB million</i> )	82	51	–	–	–
Existing annual caps/ <b>Proposed annual caps</b> ( <i>RMB million</i> )	–	97	97	113	113

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As set out in the letter from the Board, in arriving at the aforesaid annual caps, the following factors have been taken into account: (i) the historical figures of the transactions; (ii) the natural gas storage capacity of the facilities; (iii) the expected increase in the volume of natural gas transmission business in respect of the Yulin-Jinan Pipeline and the expected demand for gas storage facilities of the Group; and (iv) the costs and applicable tax rate.

As advised by the management of the Group, the proposed annual caps for the two years ending 31 December 2018 and 2019 have been determined based on (i) the estimated transaction amount of RMB97 million for the full year of 2016; and (ii) the expected increase in transmission capacity of the Yulin-Jinan Pipeline by 17% upon completion of the Yulin-Jinan Pipeline Compression Project in 2018. On this basis, together the historical transaction amount for the lease of gas storage facilities for the six months ended 30 June 2016, we consider the proposed annual caps for the two years ending 31 December 2019 under the New Gas Storage Framework Master Lease Agreement to be fair and reasonable.

### ***3. New Services Outsourcing Framework Master Agreement***

On 11 November 2016, Yu Ji Pipeline Company entered into the New Services Outsourcing Framework Master Agreement with Sinopec Natural Gas Branch Company to procure a range of services and products from Sinopec Natural Gas Branch Company and to renew the Existing Services Outsourcing Framework Master Lease Agreement. Conditional upon the Independent Shareholders' approval in the SGM, the New Services Outsourcing Framework Master Agreement will commence on 1 January 2018 for a term of two years up to 31 December 2019.

Yu Ji Pipeline Company will procure a range of services, products and assistance from Sinopec Natural Gas Branch Company in relation to the Yulin-Jinan Pipeline, including:

- (i) operation of the Yulin-Jinan Pipeline;
- (ii) maintenance and relevant technical supporting services for the operation of Yulin-Jinan Pipeline;
- (iii) management and maintenance of gas storage and relevant facilities; and
- (iv) other services and products as required by Yu Ji Pipeline Company.

#### ***Reasons for the transactions***

As set out in the letter from the Board, the provision of outsourcing services including pipeline operation, maintenance and support in relation to Yulin-Jinan Pipeline by Sinopec Natural Gas Branch Company to Yu Ji

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Pipeline Company can utilise the advantages brought by the personnel and professional management of Sinopec Natural Gas Branch Company, so as to ensure the safe, steady and efficient operation of natural gas pipeline transmission, and to lower operating costs. Sinopec Natural Gas Branch Company does not aim at earning a profit in providing the outsourcing services to Yu Ji Pipeline Company, as the fees payable under the New Services Outsourcing Framework Master Agreement are equal to the sum of the actual costs incurred and taxes.

As stated in the letter from the Board, Sinopec Corp. is an integrated energy and chemical company with upstream, midstream and downstream operations and is publicly listed on the stock exchanges of Hong Kong, Shanghai, New York and London. As advised by the management of the Group, Sinopec Corp. also owns and operates natural gas pipelines in the PRC including Sichuan-East China Pipeline, Jinan Qingdao gas pipeline, An-Ji Pipeline and Zhong-Ji Pipeline. Therefore, Sinopec Corp., through Sinopec Natural Gas Branch Company, has a group of expertise in the operation of natural gas pipelines including maintenance and relevant technical supporting services and management and maintenance of gas storage and relevant facilities. The Directors consider that outsourcing the service to Sinopec Natural Gas Branch Company would not only utilise its expertise but also enable the Company to enjoy the service at a lower cost as compared to setting up its own new team to operate the gas pipeline. Having considered the recruitment issue and service outsourced from Sinopec Natural Gas Branch Company which is priced at cost and taxes, the Directors consider, and we also concur, that the entering into of the New Services Outsourcing Framework Master Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Independent Shareholders as a whole.

### *Pricing basis and payment terms*

The provision of outsourcing services by Sinopec Natural Gas Branch Company to Yu Ji Pipeline Company under the New Services Outsourcing Framework Master Agreement will continue to be conducted on arm's length negotiation between the parties and on normal commercial terms and the fees payable will be equal to the sum of the actual costs of provision of services and products incurred, and taxes. The actual costs incurred in respect of the outsourcing services include, among others, the salaries and social security insurance contribution of the employees of Sinopec Natural Gas Branch Company, the operational maintenance fee, the production safety fees, and the travelling expenses.

We have reviewed sample invoices and the relevant quarterly sales report which sets out the costs and taxes incurred by Sinopec Natural Gas Branch Company of historical transactions under the Existing Services Outsourcing Framework Master Agreement in 2016, and noted that the price charged under the sample invoice were based on the actual costs and taxes.



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The payment terms for all of the Group's trade payables which, as advised by the management of the Group, included the payables to Sinopec Natural Gas Branch Company under the Existing Services Outsourcing Framework Master Agreement, were repayable within 1 year from the invoice date as at 30 June 2016 as disclosed in the 2016 Interim Report which is in line with the Group's practices in past years.

Having considered the above and also the terms under the New Services Outsourcing Framework Master Agreement are generally in line with the existing agreement, we are of the view that the terms under the New Services Outsourcing Framework Master Agreement are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned.

### *Annual caps*

The historical transaction amounts for the year ended 31 December 2015 and for the six months ended 30 June 2016 and the existing annual caps for the two years ending 31 December 2017 under the Existing Services Outsourcing Framework Master Agreement, as well as the proposed annual caps in respect of these transactions under the New Services Outsourcing Framework Master Agreement for each of the two years ending 31 December 2019 respectively are set out in the table below.

**Table 10: Historical transaction amounts and existing/proposed annual caps for the outsourcing services provided by Sinopec Natural Gas Branch Company**

	For the year ended 31 December 2015	For the six months ended 30 June 2016	For the year ending 31 December		
			2017	2018	2019
Historical transaction amounts ( <i>RMB million</i> )	42	43	–	–	–
Existing annual caps/ <b>Proposed annual caps</b> ( <i>RMB million</i> )	–	380	420	<b>170</b>	<b>170</b>

As set out in the letter from the Board, in arriving at the aforesaid annual caps, the following factors have been taken into account: (i) the historical figures of the transactions; (ii) natural gas pipelines' maintenance costs; (iii) the salaries and social security insurance contribution of the employees for the operation of Yulin-Jinan Pipeline; and (iv) the applicable tax rate.

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We have discussed with the management of the Group as regards the annual caps for the outsourcing services in 2018 and 2019 which have been arrived after taking into account (i) the historical transaction amount for the six months ended 30 June 2016; and (ii) the additional costs as regards the repair and maintenance of the Yulin-Jinan Pipeline. In July this year, torrential rain in northern China has caused severe flooding in major provinces which has also adversely affected the operating conditions of certain sections of the Yulin-Jinan Pipeline. The Yu Ji Pipeline Company was then required to carry out an immediate repair and maintenance work on the pipeline due to safety reasons. As advised by the management of the Group, should there be any unforeseen natural disaster including the possible heavy rainfall and flooding in the future affecting the Yulin-Jinan Pipeline, Yu Ji Pipeline Company will be subject to substantial costs for repair and maintenance services to be provided by Sinopec Natural Gas Branch Company under the New Services Outsourcing Framework Master Agreement. The proposed annual caps for 2018-2019 has therefore also accounted for flexibility to cope with repair and maintenance costs for the natural gas pipeline that may be required for such unforeseen circumstances.

In addition, the historical transaction amounts under the Existing Services Outsourcing Framework Master Agreement for the six months ended 30 June 2016 was RMB43 million, representing 11.7% of the natural gas transmission income of Yu Ji Pipeline Company in the corresponding period as set out in Table 7. Given (i) completion of the acquisition of Yu Ji Pipeline Company took place on 31 December 2015 and (ii) the annual transmission capacity of Yulin-Jinan Pipeline will increase to 5 billion m<sup>3</sup> in 2018, the management of the Group considers that the aforementioned ratio in the first half of 2016 (i.e. 11.7%) and the proposed annual caps for the natural gas transmission services in 2018 and 2019 (i.e. RMB1,800 million) would be relevant for use in determining the annual caps for the outsourcing services in 2018 and 2019. We are advised by the management of the Group that it would be prudent to adopt a slightly lower ratio as it is expected that the turnover of the Yu Ji Pipeline Company in the second half of 2016 will be higher than the first half and 9.5% has been used in arriving at the annual caps for the outsourcing services in 2018 and 2019. On the basis set out above, we consider the proposed annual caps for the two years ending 31 December 2019 under the New Services Outsourcing Framework Master Agreement to be fair and reasonable.

#### ***4. New Yu Ji Pipeline Financial Services Framework Master Agreement***

On 11 November 2016, Yu Ji Pipeline Company entered into the New Yu Ji Pipeline Financial Services Framework Master Agreement with Sinopec Finance for the provision of intra group financial services by Sinopec Finance to Yu Ji Pipeline Company and to renew the Existing Yu Ji Pipeline Financial Services Framework Master Agreement. Conditional upon the Independent Shareholders'

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approval in the SGM, the New Yu Ji Pipeline Financial Services Framework Master Agreement will commence on 1 January 2018 for a term of two years up to 31 December 2019.

The intra group financial services to be provided by Sinopec Finance to Yu Ji Pipeline Company within the PRC include loan services, deposit services, conducting entrusted loans, conducting bill acceptance and discount services, and conducting transfer and relevant settlement services and planning of settlement scheme. Sinopec Finance has agreed to provide financial services other than those aforesaid services to Yu Ji Pipeline Company at its request or instruction provided that Sinopec Finance has obtained the relevant approval(s) from the CBRC. The services under the Yu Ji Pipeline Financial Services Framework Master Agreement are exempt under Chapter 14A of the Listing Rules from Independent Shareholders' approval requirement except for deposit services.

### *Reasons for the transactions*

Shareholders are advised to refer to “2. New Sinopec Finance Financial Services Framework Master Agreement – Reasons for the transactions” for the factors considered by Yu Ji Pipeline Company before entering into the New Yu Ji Pipeline Financial Services Framework Master Agreement, which are the same as those considered by Huade, and capital risk control measures of Sinopec Finance.

Having considered the reasons for entering into the New Yu Ji Pipeline Financial Services Framework Master Agreement and the capital risk control measures adopted by Sinopec Finance, we concur with the Directors' view that placing deposit with financial institutions by entering into the New Yu Ji Pipeline Financial Services Framework Master Agreement is in the ordinary and usual course of business of the Group and in the interest of the Company and the Independent Shareholders as a whole.

### *Pricing basis for deposit services*

Sinopec Finance has undertaken that in providing the deposit services to Yu Ji Pipeline Company within the PRC, the interest rate for Yu Ji Pipeline Company's deposits with Sinopec Finance shall be referenced to the deposit interest rate as announced by the PBOC from time to time, and shall be no lower than the interest rate for deposits offered by other independent commercial banks to the members of the Sinopec Group.

Pursuant to the latest interest rates announced by the PBOC in October 2015, the interest rate was 0.35% for savings deposits, 1.15% for agreement deposit and ranged from 1.10% to 2.75% for fixed deposits of various durations. As advised by the management of the Group, the interest income and the average outstanding deposit balance of Yu Ji Pipeline Company under the Existing Yu Ji Pipeline Financial Services Framework Master Agreement for the six months ended 30 June 2016 were RMB2.6 million and

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RMB505.8 million respectively, which translated into an effective deposit rate amounted to 1.03% per annum. As advised by the management of the Group, the cash of Yu Ji Pipeline Company has been deposited in different types of accounts with Sinopec Finance for earning interest and as working capital for its daily operations. We have reviewed the quarterly invoices for interests received from Sinopec Finance in the first half of 2016, and noted that the deposit rates offered by Sinopec Finance were 0.35% for saving deposits and 1.265% for agreement deposits, which is generally in line with the deposit interest rates announced by the PBOC, and the aforesaid effective deposit rate of 1.03% per annum is therefore also considered to be reasonable. Having considered the historical transactions have been carried out in accordance with the terms of existing agreements and the terms under the New Yu Ji Pipeline Financial Services Master Agreement are generally in line with the existing agreement, we consider that the terms of the deposit services under the New Yu Ji Pipeline Financial Services Framework Master Agreement to be on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### *Annual caps for deposit services*

The historical transaction amounts for the year ended 31 December 2015 and for the six months ended 30 June 2016 and the existing annual caps for the two years ending 31 December 2017 under the Existing Yu Ji Pipeline Financial Services Framework Master Agreement, as well as the proposed annual caps in respect of these transactions under the New Yu Ji Pipeline Financial Services Framework Master Agreement for each of the two years ending 31 December 2019 respectively are set out in the table below.

**Table 11: Historical transaction amounts and existing/proposed annual caps for deposits placed by Yu Ji Pipeline Company with Sinopec Finance**

	For the year ended 31 December 2015	For the six months ended 30 June 2016	For the year ending 31 December		
			2017	2018	2019
Historical transaction amounts ( <i>RMB million</i> )	543	529	–	–	–
Existing annual caps/ <b>Proposed annual caps</b> ( <i>RMB million</i> )	–	600	800	<b>800</b>	<b>800</b>

In assessing the proposed annual caps, we have reviewed the projections used in the Valuation Report. As advised by the management of the Group, the proposed annual caps for the two years ending 31 December

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2018 and 2019 have been determined based on the projected net cash inflows of RMB792.9 million and RMB774.8 million respectively as set out in the Valuation Report. Having discussed with the management the bases and assumptions for the projection, we consider the use of the projected net cash inflows as set out in the Valuation Report for the two years ending 31 December 2019 to determine the annual caps to be fair and reasonable.

#### **4. Connected transaction and discloseable transaction regarding the Yulin-Jinan Pipeline Compression Project**

Reference is made to the announcement of the Company dated 30 December 2014 in respect of the acquisition of the entire interest in Yu Ji Pipeline Company, owning the Yulin-Jinan Pipeline. Yu Ji Pipeline Company intends to invite Sinopec Petroleum Engineering to participate in a bidding for the Yulin-Jinan Pipeline Compression Project. It is expected that the bidding process will be completed by the end of 2016.

On 11 November 2016, Yu Ji Pipeline Company entered into the Yu Ji Compression Project Framework Master Agreement with Sinopec Petroleum Engineering for, among other things, the provision of equipment procurement, design and construction services by Sinopec Petroleum Engineering in respect of Yulin-Jinan Pipeline Compression Project. Subject to, among others, the successful bid by Sinopec Petroleum Engineering and the Independent Shareholders' approval in the SGM, Yu Ji Pipeline Company will formally engage Sinopec Petroleum Engineering to provide services for the Yulin-Jinan Pipeline Compression Project.

The Yulin-Jinan Pipeline Compression Project is expected to commence in the beginning of 2017 and be completed in or around the end of 2018. As advised by the management of the Company, upon completion of the Yu Ji Compression Project Framework Master Agreement, the annual natural gas transmission capacity of the Yulin-Jinan Pipeline is expected to increase to 5 billion m<sup>3</sup>.

#### ***Reasons for the transactions***

As set out in the letter from the Board, the construction of Anyang compression station is the most economical and optimal way to further enhance the natural gas transmission capacity of Yulin-Jinan Pipeline, which will as a result further improve the profitability and economic efficiency of Yulin-Jinan Pipeline.

Yu Ji Pipeline Company intends to invite Sinopec Petroleum Engineering to participate in the bidding for the Yulin-Jinan Pipeline Compression Project, which will facilitate the communication between the project owners and the compression project construction units and is also beneficial to the compression project management and coordination.

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Sinopec Petroleum Engineering possesses extensive professional experiences in the compression facilities of natural gas. The invitation of Sinopec Petroleum Engineering to participate in the compression projects' bidding will help to meet the progress of the compression projects and ensure the projects will come into operation on time as well as safeguard the quality of the compression projects.

The entering into of the Yu Ji Compression Project Framework Master Agreement offers an option for the Group in relation to the selection of contractor for its Yulin-Jinan Pipeline Compression Project. Having considered the experience of Sinopec Petroleum Engineering in natural gas engineering, we concur with the Directors' view that the entering into of the Yu Ji Compression Project Framework Master Agreement is in the interests of the Company and the Independent Shareholders as a whole.

### *Pricing basis*

As set out in the letter from the Board, the Company estimates that the maximum fees payable by Yu Ji Pipeline Company to Sinopec Petroleum Engineering under the Yu Ji Compression Project Framework Master Agreement will be RMB 135 million (approximately HK\$ 157 million), which will be determined with reference to the following pricing basis:

- (a) if tender process is required, the tender price; or
- (b) if there is no tender process, the price shall be agreed between the parties on an arm's length basis through negotiations with reference to the scope and the duration of the respective compression project, after taking into account the actual costs of provision of services for the relevant projects, the prevailing market price for comparable services provided by the independent third parties in the vicinity and the market price of the comparable services provided to the independent third parties by Sinopec Petroleum Engineering.

The price payable by Yu Ji Pipeline Company to Sinopec Petroleum Engineering will be the fair market price for the relevant services on normal commercial terms, or the terms offered to Yu Ji Pipeline Company shall be no less favourable than those entered into by Sinopec Petroleum Engineering and independent third parties for comparable services. Pursuant to the Yu Ji Compression Project Framework Master Agreement, upon the successful bid, Yu Ji Pipeline Company will separately enter into compression project agreements with Sinopec Petroleum Engineering, by which the parties will negotiate with reference to, among other factors, laws and regulations, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the agreements. We have reviewed the Group's project development process and policies (i.e. tender process) set out in the section headed "III. Connected

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transaction and discloseable transaction regarding the Yulin-Jinan Pipeline Compression Project – Pricing basis” in the letter from the Board and a sample construction project master agreement entered into between a member of the Group and Sinopec Engineering in 2013 and noted that the Group’s tender process is generally in line with the market practice and the pricing terms under the Yu Ji Compression Project Framework Master Agreement are generally coherent with such master agreement in 2013.

In assessing the estimated maximum fees payable of RMB135 million, we have reviewed the approved budget of the entire compression project under the Yulin-Jinan Pipeline by Sinopec Corp. in 2014, pursuant to which the total estimated investment cost amounted to RMB742.7 million, being the approved maximum fees payable for the entire compression projects which shall not be exceeded. Pursuant to the audited account of Yu Ji Pipeline Company for the year ended 31 December 2015, the capital expenditures which have already been invested in relation to the compression projects amounted to RMB530.9 million, comprising (1) fixed assets of RMB293.3 million, (2) construction in progress of RMB122.5 million, and (3) prepaid equipment expenses of RMB115.1 million. Given such, the remaining approved budget for the compression projects would amount to RMB211.8 million, theoretically being the maximum contract sum that may be awarded under the Yu Ji Compression Project Framework Master Agreement.

Having considered that (i) the maximum fees payable of RMB135 million under the Yu Ji Compression Project Framework Master Agreement is within the remaining approved budget of RMB211.8 million; (ii) the pricing terms of the Yu Ji Compression Project Framework Master Agreement are generally in line with the construction project master agreement entered into between a member of the Group and Sinopec Engineering; (iii) successful bidding is required for the contract to be awarded to Sinopec Petroleum Engineering; and (iv) upon the successful bid, separate compression project agreements will be entered into with Sinopec Petroleum Engineering based on the fair market price for the relevant services on normal commercial terms, we consider that the terms of the Yu Ji Compression Project Framework Master Agreement to be fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### OPINION

Having taken into account the above principal factors and reasons, we consider that the terms of (i) the continuing connected transactions and/or major transaction regarding renewal of the Non-exempt Existing Continuing Connected Transactions (including the proposed annual caps); and (ii) the connected and discloseable transaction regarding the Yu Ji Compression Project Framework Master Agreement (together with its cap) and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Transactions.

Yours faithfully,

for and on behalf of

**SOMERLEY CAPITAL LIMITED**

**Kenneth Chow**

**Jenny Leung**

*Managing Director – Corporate Finance*

*Director*

*Mr. Kenneth Chow and Ms. Jenny Leung are licensed persons and responsible officers of Somerley Capital Limited registered with the SFC to carry out type 6 (advising on corporate finance) regulated activities under the SFO and have participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.*



**FINANCIAL INFORMATION OF THE GROUP**

Financial information of the Group for each of the three years ended 31 December 2013, 2014 and 2015 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.sinopec.com.hk>):

- annual report of the Company for the year ended 31 December 2015 dated 22 March 2016 published on 1 April 2016 (pages 40-114);
- annual report of the Company for the year ended 31 December 2014 dated 27 March 2015 published on 8 April 2015 (pages 33-108); and
- annual report of the Company for the year ended 31 December 2013 dated 31 March 2014 published on 7 April 2014 (pages 36-116).

**FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

Looking forward to the remaining months of 2016 and the first half year of 2017, the Group will continue to be engaged in the provision of natural gas pipeline transmission services, the operation of crude oil and oil products terminals and their ancillary facilities, provision of logistics services including storage, logistics, transportation and terminal services and the distribution of oil and oil products and international logistics agency services on global basis. It is expected that China's crude oil import volume will continue to maintain stable growth. However, the competition in the Chinese domestic natural gas market will still exist, which creates both opportunities and challenges to the Group. The management will closely monitor the markets, actively adopt effective contingency measures to overcome the obstacles and difficulties in pursuit of improvement.

**INDEBTEDNESS**

As at the close of business on 31 October 2016, being the Latest Practicable Date for the purpose of this indebtedness statement prior to the printing of this Circular, the Group had outstanding borrowings of approximately HK\$5,815 million, comprising unguaranteed and unsecured borrowings of approximately HK\$2,335 million from a fellow subsidiary and unguaranteed and unsecured entrusted loans of approximately HK\$3,480 million from an intermediate holding company.

As at 31 October 2016, the Group has unutilised, unguaranteed and unsecured loan facilities amounting to approximately HK\$1,547 million provided by a fellow subsidiary.

As at 31 October 2016, the Group provided a guarantee of US\$30 million (equivalent to approximately HK\$233 million) and pledged its 50% equity interest in Fujairah Oil Terminal FZC ("FOT"), a joint venture of the Group against certain bank loans of FOT.

As at 31 October 2016, the Group provided a guarantee of Euro13 million (equivalent to approximately HK\$107 million) against a bank loan of Vesta Terminals B.V., a joint venture of the Group.

Save as aforesaid above and apart from intra-group liabilities and normal trade payables in the ordinary course of business, at the close of business on 31 October 2016, the Group did not have any outstanding mortgages, charges, debentures or other loan capital or bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances or acceptance credits or hire purchase commitments, or any guarantees or any contingent liabilities.

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the Group since 31 October 2016.

### **WORKING CAPITAL**

Taking into account the financial resources available to the Group, including the internally generated funds and the available financing facilities, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next twelve months from the date of this Circular.

### **MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

### **FINANCIAL EFFECT OF THE RENEWAL OF THE NON-EXEMPT EXISTING CONTINUING CONNECTED TRANSACTIONS UNDER THE FINANCIAL SERVICES FRAMEWORK MASTER AGREEMENTS ON THE COMPANY**

Taking into account the interest income which could be derived from the deposit services as contemplated under the Financial Services Framework Master Agreements, the Company expects to have positive effect on its earnings as well as earning per share for the Shareholders. The interest income derived will therefore increase the Group's assets and will not affect the Group's liabilities. Save for the aforesaid, there would be no material effect on the Group's assets and liabilities as a result of the transactions contemplated under the Financial Services Framework Master Agreements.

**1. RESPONSIBILITY STATEMENT**

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

**2. DIRECTORS' INTERESTS****Directors' Interests and Short Positions**

As at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are deemed or taken to have under such provisions of the SFO), or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange or which are required or pursuant to section 352 of the SFO, to be entered in the register referred to therein. As at the Latest Practicable Date, Mr. Chen Bo, Mr. Xiang Xiwen, Mr. Dai Liqi, Mr. Li Jianxin, Mr. Wang Guotao and Mr. Ye Zhijun, being the executive Directors, are also directors of SKI.

Save as disclosed above and in paragraph 3 below, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**Directors' Interests in Any Asset Acquired, Disposed or Leased**

As at the Latest Practicable Date, none of the Directors has any material interest, directly or indirectly, in any asset which, since 31 December 2015, being the date to which the latest audited consolidated financial statements of the Group have been made up, had been acquired or disposed of by or leased to any member of the Group or was proposed to be acquired or disposed of by or leased to any member of the Group.

**Directors' Service Contracts**

As at the Latest Practicable Date, none of the Directors has or is proposed to have a service contract with the Group which does not expire or which is not determinable by the Group within one (1) year without payment of compensation other than statutory compensation.

### Directors' Interest in Contracts and Arrangements

There was no contract or arrangement subsisting as at the date of this Circular in which any Director was materially interested and which was significant in relation to any business of the Group.

### 3. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

So far as the Directors are aware, as at the Latest Practicable Date, Shareholders holding five (5) per cent or more or a short position of one (1) per cent or more of the Company's relevant share capital as recorded in the register of interests in shares and short position maintained by the Company and their reported interests pursuant to provisions of section 336 of the SFO are as follows:

<b>Name of interested party</b>	<b>Capacity and nature of interest</b>	<b>Number of Shares</b>	<b>Percentage of Shareholding (%)</b>
SKI ( <i>Note 1</i> )	Beneficial owner	1,500,000,000	60.33

*Note 1:* The entire share capital of SKI is held by Unipec. Unipec is a wholly-owned subsidiary of Sinopec Corp., which is a subsidiary of Sinopec Group Company.

### 4. LITIGATION

As at the Latest Practicable Date, save as disclosed in the Company's announcement dated 15 November 2016 in respect of two request for arbitration notices received by Sinomart and PT West Point Terminal (Sinomart's 95% owned subsidiary) from the International Court of Arbitration of the International Chamber of Commerce, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

### 5. EXPERT AND CONSENT

The following are the qualifications of the expert that has given opinion or advice, which is contained in this Circular:

<b>Name</b>	<b>Qualification</b>
Somerley Capital Limited	Independent financial adviser, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

Somerley Capital Limited has given and has not withdrawn its written consent to the issue of this Circular with the inclusion therein of its letter and references to its name, in the form and context in which they appear.

As at the Latest Practicable Date, Somerley Capital Limited had no direct or indirect interest in the share capital of any member of the Group nor does it have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor does it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Group were made up acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

## **6. COMPETING INTEREST**

Mr. Chen Bo, Mr. Xiang Xiwen, Mr. Dai Liqi, Mr. Li Jianxin, Mr. Wang Guotao and Mr. Ye Zhijun, being executive Directors of the Company, are also directors of SKI, an immediate controlling shareholder of the Company.

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest, directly or indirectly, in a business which competes or may compete with the business of the Group.

## **7. MATERIAL CONTRACTS**

The following contracts (not being contracts entered into in the ordinary course of business) having been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date are or may be material:

- (a) the New Sinopec Finance Financial Services Framework Master Agreement;
- (b) the New Century Bright Financial Services Framework Master Agreement;
- (c) the New Yu Ji Pipeline Financial Services Framework Master Agreement;
- (d) the Yu Ji Compression Project Framework Master Agreement;
- (e) the Huade Project Design Framework Master Agreement;
- (f) the acquisition agreement dated 30 December 2014 entered into between Sinopec Corp. and Sinomart in respect of the acquisition of the entire equity interest in Yu Ji Pipeline Company by Sinomart; and
- (g) the Existing Yu Ji Pipeline Financial Services Framework Master Agreement.

## **8. MISCELLANEOUS**

- (a) The joint secretaries of the Company are Mr. Li Wen Ping and Mr. Lai Yang Chau, Eugene (practicing solicitor).

- (b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company in Hong Kong is at 34/F., Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong.
- (c) The Hong Kong Branch Share Registrar and Transfer Office of the Company is Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The English text of this Circular prevails over its Chinese translation in the case of discrepancy.

## **9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of the Company at 34/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong during normal business hours from the date of this Circular up to and including the date of the SGM:

- (a) each of the material contracts as referred to in the paragraph headed "Material Contracts" in this Appendix;
- (b) the New Sinopec Guangzhou Branch Framework Master Agreement;
- (c) the New Natural Gas Transmission Services Framework Master Agreement;
- (d) the New Gas Storage Framework Master Lease Agreement;
- (e) the New Services Outsourcing Framework Master Agreement;
- (f) the memorandum of association and Bye-laws of the Company;
- (g) the Company's annual reports, which include the audited consolidated financial statements of the Group for the three years ended 31 December 2015;
- (h) the letter of independent board committee as set out on pages 50 to 51 in this Circular;
- (i) the letter of advice prepared by Somerley Capital Limited as set out on pages 52 to 86 in this Circular;
- (j) letter of consent from Somerley Capital Limited referred to under "Expert and Consent" in this Appendix; and
- (k) this Circular.

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## NOTICE OF SPECIAL GENERAL MEETING

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### SINOPEC KANTONS HOLDINGS LIMITED

(中石化冠德控股有限公司) \*

(incorporated in Bermuda with limited liability)

(Stock Code: 934)

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “SGM”) of the shareholders (the “Shareholders”) of Sinopec Kantons Holdings Limited (the “Company”) will be held at Taishan Room, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Thursday, 22 December 2016 at 10:00 a.m. and at any adjournment thereof for the purposes of considering and, if thought fit, passing (with or without amendments) each of the following resolutions as an ordinary resolution:

Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the circular of the Company dated 2 December 2016.

#### ORDINARY RESOLUTIONS

1. “**THAT**

- (i) the entering into of the New Sinopec Guangzhou Branch Framework Master Agreement be and is hereby approved;
- (ii) the proposed annual caps for the New Sinopec Guangzhou Branch Framework Master Agreement for the three financial years ending 31 December 2019 be and are hereby approved; and
- (iii) any one Director (or where execution under the common seal of the Company is required, any two Directors or any one Director and any one secretary of the Company) be and is/are hereby authorised to do further acts and things, entering all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps as he/she may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the New Sinopec Guangzhou Branch Framework Master Agreement.”

2. “**THAT**

- (i) the entering into of the New Sinopec Finance Financial Services Framework Master Agreement be and is hereby approved;

\* For identification purposes only

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## NOTICE OF SPECIAL GENERAL MEETING

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- (ii) the proposed annual caps for the New Sinopec Finance Financial Services Framework Master Agreement for the three financial years ending 31 December 2019 be and are hereby approved; and
- (iii) any one Director (or where execution under the common seal of the Company is required, any two Directors or any one Director and any one secretary of the Company) be and is/are hereby authorised to do further acts and things, entering all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps as he/she may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the New Sinopec Finance Financial Services Framework Master Agreement.”

3. **“THAT**

- (i) the entering into of the New Century Bright Financial Services Framework Master Agreement be and is hereby approved;
- (ii) the proposed annual caps for the New Century Bright Financial Services Framework Master Agreement for the three financial years ending 31 December 2019 be and are hereby approved; and
- (iii) any one Director (or where execution under the common seal of the Company is required, any two Directors or any one Director and any one secretary of the Company) be and is/are hereby authorised to do further acts and things, entering all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps as he/she may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the New Century Bright Financial Services Framework Master Agreement.”

4. **“THAT**

- (i) the entering into of the New Natural Gas Transmission Services Framework Master Agreement be and is hereby approved;
- (ii) the proposed annual caps for the New Natural Gas Transmission Services Framework Master Agreement for the two financial years ending 31 December 2019 be and are hereby approved; and
- (iii) any one Director (or where execution under the common seal of the Company is required, any two Directors or any one Director and any one secretary of the Company) be and is/are hereby authorised to do further acts and things, entering all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps as he/she may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the New Natural Gas Transmission Services Framework Master Agreement.”



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## NOTICE OF SPECIAL GENERAL MEETING

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5. **“THAT**

- (i) the entering into of the New Gas Storage Framework Master Lease Agreement be and is hereby approved;
- (ii) the proposed annual caps for the New Gas Storage Framework Master Lease Agreement for the two financial years ending 31 December 2019 be and are hereby approved; and
- (iii) any one Director (or where execution under the common seal of the Company is required, any two Directors or any one Director and any one secretary of the Company) be and is/are hereby authorised to do further acts and things, entering all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps as he/she may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the New Gas Storage Framework Master Lease Agreement.”

6. **“THAT**

- (i) the entering into of the New Services Outsourcing Framework Master Agreement be and is hereby approved;
- (ii) the proposed annual caps for the New Services Outsourcing Framework Master Agreement for the two financial years ending 31 December 2019 be and are hereby approved; and
- (iii) any one Director (or where execution under the common seal of the Company is required, any two Directors or any one Director and any one secretary of the Company) be and is/are hereby authorised to do further acts and things, entering all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps as he/she may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the New Services Outsourcing Framework Master Agreement.”

7. **“THAT**

- (i) the entering into of the New Yu Ji Pipeline Financial Services Framework Master Agreement be and is hereby approved;
- (ii) the proposed annual caps for the New Yu Ji Pipeline Financial Services Framework Master Agreement for the two financial years ending 31 December 2019 be and are hereby approved; and
- (iii) any one Director (or where execution under the common seal of the Company is required, any two Directors or any one Director and any one secretary of the Company) be and is/are hereby authorised to do further acts

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## NOTICE OF SPECIAL GENERAL MEETING

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and things, entering all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps as he/she may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the New Yu Ji Pipeline Financial Services Framework Master Agreement.”

8. **“THAT**

- (i) the entering into of the Yu Ji Compression Project Framework Master Agreement be and is hereby approved; and
- (ii) any one Director (or where execution under the common seal of the Company is required, any two Directors or any one Director and any one secretary of the Company) be and is/are hereby authorised to do further acts and things, entering all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps as he/she may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the Yu Ji Compression Project Framework Master Agreement.”

By order of the Board of  
**Sinopec Kantons Holdings Limited**  
**Chen Bo**  
*Chairman*

Hong Kong, 2 December 2016

*Principal office in Hong Kong:*  
34/F, Citicorp Centre  
18 Whitfield Road  
Causeway Bay  
Hong Kong

*Notes:*

1. The resolutions proposed at the SGM are subject to the approval by the Independent Shareholders and will be voted by way of poll.
2. Any Shareholder entitled to attend and vote at the SGM (or at any adjournment thereof) convened by the above notice is entitled to appoint one or more proxy(ies) to attend and vote instead of him/her in accordance with the provisions of the Bye-laws of the Company. A proxy need not be a Shareholder.
3. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, at the office of the Company’s branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, as soon as possible, and in any event not later than forty-eight (48) hours before the time appointed for the holding of the meeting (or at any adjournment thereof).

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## NOTICE OF SPECIAL GENERAL MEETING

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4. The Register of Members of the Company will be closed from 16 December 2016 to 22 December 2016 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify to attend the meeting, all share transfer accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on 15 December 2016.

As at the date of this notice, the Board of Directors comprises the following:

***Executive Directors:***

Mr. Chen Bo (*Chairman*)  
Mr. Xiang Xiwen (*Deputy Chairman*)  
Mr. Dai Liqi  
Mr. Li Jianxin  
Mr. Wang Guotao  
Mr. Ye Zhijun (*Managing Director*)

***Independent Non-Executive Directors:***

Ms. Tam Wai Chu, Maria  
Mr. Fong Chung, Mark  
Dr. Wong Yau Kar, David