

Sinopec Kantons Holdings Limited

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SINOPEC KANTONS HOLDINGS LIMITED

(中石化冠德控股有限公司)*

(a limited liability company incorporated in Bermuda)

(Stock Code: 934)

CONNECTED TRANSACTION: CONSTRUCTION AGREEMENT

The Directors announce that on 11 November 2004, Huade entered into the Construction Agreement with Zhong Yuan (as the main contractor) in respect of the Project for a consideration in an amount of RMB18.86 million (approximately HK\$17.79 million).

Huade is a sino-foreign equity joint venture whose 70% registered capital is held by the Group through KII and the remaining 30% registered capital is held by GPC. Zhong Yuan is an indirect wholly owned subsidiary of Sinopec Group Company, the ultimate controlling shareholder of the Company. Accordingly, Zhong Yuan is a connected person of the Group for the purpose of the Listing Rules and the Construction Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules.

Since each of the percentage ratios of the Company as at 31 December 2003 and as at 30 June 2004 is less than 2.5%, the transaction falls within Rule 14A.34 of the Listing Rules and is subject only to reporting and announcement requirements as set out thereunder.

Particulars of the Construction Agreement and certain other information are given in this announcement in accordance with the relevant requirements of the Listing Rules.

A. THE CONSTRUCTION AGREEMENT

Date : 11 November 2004
Parties : Huade
Zhong Yuan as main contractor

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- Contents of the Project : construction of onshore crude oil storage tanks; multi-purpose office building; installation of fire prevention facilities; and reconstruction and expansion of oil transmission station to be carried out in Dayawan Development Zone, Huizhou Municipality, Guangzhou Province.
- Scope of the services to be provided by Zhong Yuan : including:
- (i) managing, constructing, subcontracting, coordinating, supervising and testing the Project according to the technological standards lately promulgated by the State and Sinopec Group;
 - (ii) upon completion of the construction of the Project, coordinating the delivery procedures and preliminary testing of the Project in accordance with the rules prescribed by Sinopec Group; and
 - (iii) providing certain maintenance services at no extra fee (after the construction of the Project is satisfactorily delivered and tested). The warranty periods are stipulated under relevant PRC laws and regulations and vary with different parts and aspects of the Project.
- Consideration : the total contractual fee is RMB18,863,200.
- Basis of the Consideration : the total contractual fee is determined following commercial negotiations between the parties on an arm's length basis by reference to the estimated construction price for the Project.
- Payment : the Consideration is payable by different stages as follows:
- (i) the first installment which is equivalent to 30% of the Consideration (in the sum of RMB18,863,200) is to be paid within ten days after the signing of the Construction Agreement;
 - (ii) the second stage comprises a number of payments of project progress fees to be paid on a monthly basis prior to the 10th day of the following month, each installment to be paid based on the actual construction work completion progress, up to 60% (including the first installment payment) of the Consideration (in the sum of approximately RMB11,317,920); after a guarantee fee which is equivalent to 10% of the Consideration as described below has been retained from the total amount of the Consideration, the remaining balance will be paid in one lump sum within 20 days after the internal audit for the project settlement relating to the Project is completed and the construction completion information is delivered;

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- (iii) an amount which is equivalent to 10% of the Consideration will be retained from the total amount of the Consideration as a warranty fee and is to be refunded to Zhong Yuan upon the expiry of one-year warranty period after the Project is satisfactorily delivered and tested; subject to the (1) confirmation by both parties that they are satisfied with the quality of the Project and that the Project fulfills the production requirements of the Group and (2) confirmation and approval by the project construction supervisor and the quality control station.

Source of funding	:	internal resources of the Group
Condition	:	there is no condition precedent to the Construction Agreement. Relevant government approvals had already been obtained for the Project prior to the entering into of the Construction Agreement.
Completion	:	construction of the Project is expected to be completed and to be put into use within 270 days from the commencement date approved by Huade.

B. INFORMATION ON ZHONG YUAN

Zhong Yuan is an indirect wholly owned subsidiary of Sinopec Group Company, the ultimate controlling shareholder of the Company. The principal businesses of Zhong Yuan include contracting medium industrial, energy and transportation engineering construction projects (including as the main contractor for the construction, redevelopment and expansion projects of petrochemical, chemical and construction industries), supplying relevant facilities materials, contracting project design for petrochemical, chemical and construction industries and providing consultancy services.

C. REASONS FOR THE CONNECTED TRANSACTION

The Project involves construction of crude oil storage facilities which is subject to different rules, regulations and standards prescribed by the State and Sinopec Group. The Directors consider that the main contractor of the Project should have the relevant qualifications and experience in petrochemical construction projects. This can ensure compliance with these rules and to safeguard the quality of the Project.

Zhong Yuan has been carrying on the business as a main contractor for industrial, energy and transportation engineering construction projects in the PRC. The Directors consider that Zhong Yuan's expertise in contracting, managing, coordinating and sub-contracting petrochemical construction projects fulfils the qualifications as the main contractor for the Project.

Zhong Yuan had a good track record and relationship with Huade as they constructed part of the existing facilities of Huizhou Crude Oil Jetty Complex owned and operated by Huade in Huizhou, the PRC. The Group is satisfied with their work done and their costs charged. In addition, Zhong Yuan has its business and operations located in Guangzhou, the PRC. The management of the Group decided to enter into the Construction Agreement with Zhong Yuan due to its close geographic location to the site of the Project in Huizhou, the PRC. The Directors consider that the close proximity will allow Zhong Yuan to manage and supervise the Project effectively.

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The Directors (including the independent non-executive Directors) consider that the Construction Agreement has been entered into on normal commercial terms that are no less favourable than terms available to or from independent third parties and is fair and reasonable and in the interest of the Group and its shareholders as a whole. In particular, the Directors consider that the terms of the payment are on normal commercial terms comparable with quotations offered by other construction companies.

D. INFORMATION ON THE GROUP AND THE SINOPEC GROUP

The Group is principally engaged in the activities of trading of crude oil, refined oil, and petrochemical products, operation of crude oil jetty and its ancillary facilities and services and operation of petrol stations.

Sinopec Group Company is a State-authorised investment vehicle principally engaged in oil and petrochemical business. It is the ultimate controlling shareholder of the Company (by virtue of its holding of approximately 55.06% shareholding in the issued share capital of Sinopec Corp., which in turn holds approximately 72.34% shareholding in the issued share capital of the Company).

E. GENERAL

Huade is a sino-foreign equity joint venture whose 70% registered capital is held by the Group through KII and the remaining 30% registered capital is held by GPC (which is a wholly owned subsidiary of Sinopec Group Company). Huade's principal business is operation of crude oil jetty and its ancillary facilities in Huizhou, the PRC. Zhong Yuan is an indirect wholly owned subsidiary of Sinopec Group Company, the ultimate controlling shareholder of the Company. Accordingly, Zhong Yuan is a connected person of the Group for the purpose of the Listing Rules and the Construction Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules.

Since each of the percentage ratios of the Company as at 31 December 2003 and as at 30 June 2004 is less than 2.5%, the transaction falls within Rule 14A.34 of the Listing Rules and is subject only to reporting and announcement requirements as set out thereunder.

Particulars of the Construction Agreement and certain other information are given in this announcement in accordance with the relevant requirements of the Listing Rules.

F. DEFINITIONS

“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;
“Consideration”	the consideration payable by Huade to Zhong Yuan pursuant to the Construction Agreement;
“Construction Agreement”	the agreement dated 11 November 2004 entered into between Huade and Zhong Yuan in respect of the Project;
“Director(s)”	the director(s) of the Company, including the independent non-executive Director(s) of the Company;
“GPC”	中國石化集團廣州石油化工總廠 (Sinopec Guangzhou Petrochemical Complex), a State-owned enterprise established in the PRC and a wholly owned subsidiary of Sinopec Group Company;
“Group”	the Company and its subsidiaries;

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- “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 (Hua De Petrochemical Co. Ltd.), a sino-foreign equity joint venture company established in the PRC with limited liability whose 70% registered capital is held by the Group through KII and the remaining 30% registered capital is held by GPC;
- “KII” Kantons International Investment Limited (冠德國際投資有限公司*), a limited liability company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company;
- “Listing Rules” the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
- “PRC” the People’s Republic of China, but for the purposes of this announcement and for geographical reference only (unless otherwise indicated) excludes Taiwan, Macau and Hong Kong;
- “Project” construction of onshore crude oil storage tanks, multi-purpose office building; installation of fire prevention facilities; and reconstruction and expansion of oil transmission station to be carried out in Dayawan Development Zone, Huizhou Municipality, Guangzhou Province;
- “Sinopec Corp.” 中國石油化工股份有限公司 (China Petroleum & Chemical Corporation) (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 which holds approximately 72.34% shareholding in the issued share capital of the Company;
- “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;
- “Sinopec Group Company” 中國石油化工集團公司 (China Petrochemical Corporation), a State-owned enterprise established in the PRC which holds approximately 55.06% shareholding in the issued share capital of Sinopec Corp.;
- “State” the government of the PRC; and
- “Zhong Yuan” 廣州中元石油化工工程有限公司 (Guangzhou Zhong Yuan Petrochemical Engineering Co. Ltd.), a company incorporated in the PRC with limited liability and an indirect wholly owned subsidiary of Sinopec Group Company.

By the order of the board of directors of
Sinopec Kantons Holdings Limited
Yang Shu Shan
Chairman

Hong Kong, 11 November 2004

* For identification purposes only

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In this announcement, amounts in Renminbi have been converted into Hong Kong dollars at the rate of HK\$1 = RMB1.06.

As at the date of the announcement, the Board of Directors comprises of the following:

Executive Directors:

Mr. Yang Shu Shan (*Chairman*)
Mr. Pan Xin Rong (*Deputy Chairman*)
Mr. Zhu Jian Min
Mr. Zhou Feng
Mr. Ye Zhi Jun (*Managing Director*)
Mr. Ge Han Hua

Non-executive Director:

Mr. Yang Mo Fei

Independent non-executive Directors:

Mr. Wong Po Yan
Ms. Tam Wai Chu, Maria
Mr. Fong Chung, Mark

11 November 2004

Please also refer to the published version of this announcement in China Daily dated 12 November 2004.