
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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.



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 DISCLOSEABLE TRANSACTIONS 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**



A letter from the Board is set out on pages 14 to 58 of this Circular.

A letter from the Independent Board Committee is set out on pages 59 to 60 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 61 to 88 of this Circular.

A notice convening the SGM to be held at Salon Rooms II-III, 5/F., Harbour Grand Hong Kong, 23 Oil Street, North Point, Hong Kong on Friday, 29 November 2019 at 10:00 a.m. and at any adjournment thereof is set out on pages N-1 to N-4 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 54, 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 purpose only*

11 November 2019

CONTENTS

	Page
DEFINITIONS	1
LETTER FROM THE BOARD	14
I. INTRODUCTION	14
II. CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS REGARDING RENEWAL OF THE NON-EXEMPT EXISTING CONTINUING CONNECTED TRANSACTIONS.....	15
III. CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION REGARDING THE YULIN-JINAN PIPELINE COMPRESSION PROJECT.....	48
IV. RISK FACTORS IN RELATION TO OUR RELIANCE ON CONTINUING CONNECTED TRANSACTIONS WITH THE SINOPEC GROUP	51
V. INFORMATION ON RENEWAL OF THE EXEMPT EXISTING CONTINUING CONNECTED TRANSACTIONS AND THE NEW EXEMPT CONTINUING CONNECTED TRANSACTIONS	53
VI. LISTING RULES' IMPLICATIONS.....	53
VII. THE DIRECTORS' VIEWS	56
VIII. GENERAL INFORMATION	56
IX. SPECIAL GENERAL MEETING	57
X. RECOMMENDATION	58
XI. ADDITIONAL INFORMATION	58
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	59
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	61
APPENDIX – GENERAL INFORMATION	A-1
NOTICE OF SPECIAL GENERAL MEETING	N-1

DEFINITIONS

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

“11 November 2016 Announcement”	the announcement of the Company dated 11 November 2016 in relation to, among others, the Exempt Existing Continuing Connected Transactions, the Non-exempt Existing Continuing Connected Transactions and the Previous Yu Ji Compression Project Framework Master Agreement
“18 May 2017 Announcement”	the announcement of the Company dated 18 May 2017 in relation to the Existing Lease Framework Agreement
“2 December 2016 Circular”	the circular of the Company dated 2 December 2016 in relation to, among others, the Non-exempt Existing Continuing Connected Transactions and the Previous Yu Ji Compression Project Framework Master Agreement
“21 October 2019 Announcement”	the announcement of the Company dated 21 October 2019 in relation to, among others, the New Non-exempt Framework Master Agreements, the New Exempt Framework Master Agreements, the New Exempt Continuing Connected Transactions Agreements and the New Yu Ji Compression Project Framework Master Agreement
“30 August 2018 Announcement”	the announcement of the Company dated 30 August 2018 in relation to the Existing Changcheng Natural Gas Transmission Services Framework Master Agreement and the Existing Natural Gas Pipeline Technical Services Framework Master Agreement
“30%-controlled company”	has the meaning ascribed to it in the Listing Rules
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“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

DEFINITIONS

“China Shipping & Sinopec Shenzhen”	中石化中海深圳船舶燃料有限公司 (China Shipping & Sinopec Shenzhen Marine Bunker Co., Ltd.*), a limited liability company established in the PRC and owned as to 50% by each of China Shipping & Sinopec Suppliers and Sinopec Fuel Oil
“China Shipping & Sinopec Suppliers”	中國石化中海船舶燃料供應有限公司 (China Shipping & Sinopec Suppliers Co., Ltd.*), a limited liability company established in the PRC and owned by Sinopec Corp and China Shipping Corp.
“China Shipping Corp.”	China Shipping (Group) Company (中國海運(集團)總公司), which was merged with China Ocean Shipping (Group) Company (COSCO) and is now known as China COSCO SHIPPING Corporation Limited (中國遠洋海運集團有限公司), a PRC state-owned enterprise with limited liability
“Circular”	this Circular
“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(s)”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Exempt Existing Continuing Connected Transactions”	the continuing connected transactions contemplated under the Existing Lands and Buildings Framework Master Lease Agreement, the Existing Sinopec Fuel Oil Sales Company Limited Framework Master Agreement, the Existing Internal Labour Technical Services Framework Master Agreement, the Existing Substation Power Technical Services Framework Master Agreement, the Existing Oil Terminal Entrusted Management Framework Master Agreement, the Existing Lease Framework Agreement, the Existing Changcheng Natural Gas Transmission Services Framework Master Agreement and the Existing Natural Gas Pipeline Technical Services Framework Master Agreement

DEFINITIONS

“Existing Century Bright Financial Services Framework Master Agreement”	the agreement dated 11 November 2016 entered into between the Company and Century Bright, details of which are disclosed in the 11 November 2016 Announcement
“Existing Changcheng Natural Gas Transmission Services Framework Master Agreement”	the agreement dated 30 August 2018 entered into between Yu Ji Pipeline Company and Sinopec Changcheng Gas, details of which are disclosed in the 30 August 2018 Announcement
“Existing Internal Labour Technical Services Framework Master Agreement”	the agreement dated 11 November 2016 entered into between Yu Ji Pipeline Company and Zhongyuan Natural Gas Technical Centre, details of which are disclosed in the 11 November 2016 Announcement
“Existing Lands and Buildings Framework Master Lease Agreement”	the agreement dated 11 November 2016 entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company, details of which are disclosed in the 11 November 2016 Announcement
“Existing Lease Framework Agreement”	the agreement dated 18 May 2017 entered into between Yu Ji Pipeline Company and Shandong Natural Gas Pipeline Company, details of which are disclosed in the 18 May 2017 Announcement
“Existing Natural Gas Transmission Services Framework Master Agreement”	the agreement dated 11 November 2016 entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company, details of which are disclosed in the 11 November 2016 Announcement
“Existing Natural Gas Pipeline Technical Services Framework Master Agreement”	the agreement dated 30 August 2018 entered into between Yu Ji Pipeline Company and Sinopec Pipeline Services Company, details of which are disclosed in the 30 August 2018 Announcement
“Existing Oil Terminal Entrusted Management Framework Master Agreement”	the agreement dated 11 November 2016 entered into between Sinomart and Sinopec Pipeline Storage Company, details of which are disclosed in the 11 November 2016 Announcement
“Existing Services Outsourcing Framework Master Agreement”	the agreement dated 11 November 2016 entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company, details of which are disclosed in the 11 November 2016 Announcement
“Existing Sinopec Finance Financial Services Framework Master Agreement”	the agreement dated 11 November 2016 entered into between Haude and Sinopec Finance, details of which are disclosed in the 11 November 2016 Announcement

DEFINITIONS

“Existing Sinopec Fuel Oil Sales Company Limited Framework Master Agreement”	the agreement dated 11 November 2016 entered into between Huade and Sinopec Fuel Oil, details of which are disclosed in the 11 November 2016 Announcement
“Existing Sinopec Guangzhou Branch Framework Master Agreement”	the agreement dated 11 November 2016 entered into between Huade and Sinopec Guangzhou Branch, details of which are disclosed in the 11 November 2016 Announcement
“Existing Substation Power Technical Services Framework Master Agreement”	the agreement dated 11 November 2016 entered into between Yu Ji Pipeline Company and Zhongyuan Electricity Supply Centre, details of which are disclosed in the 11 November 2016 Announcement
“Existing Yu Ji Pipeline Financial Services Framework Master Agreement”	the agreement dated 11 November 2016 entered into between Yu Ji Pipeline Company and Sinopec Finance, details of which are disclosed in the 11 November 2016 Announcement
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“holding company”	has the meaning ascribed to it in the Listing Rules
“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. Huade is a wholly-owned subsidiary of Kantons International Investment, which is a wholly-owned subsidiary of the Company
“Huade Group”	Huade and its subsidiaries from time to time
“Huizhou Jetty”	the Huizhou Crude Oil Jetty Complex, including its oil tanker handling, crude oil unloading, storage and pipeline transmission facilities, which are 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

DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company comprising Ms. Tam Wai Chu, Maria, Mr. Fong Chung, Mark, Dr. Wong Yau Kar, David and Ms. Wong Pui Sze, Priscilla, 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 activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders
“Independent Shareholders”	Shareholders other than SKI and, if any, any other Shareholders who have a material interest and are required to abstain from voting on the relevant resolutions at the SGM pursuant to the Listing Rules
“Kantons International Investment”	Kantons International Investment Limited (冠德國際投資有限公司), a company incorporated under the laws of the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Latest Practicable Date”	7 November 2019, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained in this Circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Century Bright Financial Services Framework Master Agreement”	the agreement dated 21 October 2019 entered into between the Company and Century Bright, details of which are disclosed in Section II of this Circular
“New Comprehensive Outsourcing Framework Master Agreement”	the agreement dated 21 October 2019 entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company, details of which are disclosed in Section II of this Circular
“New Crude Oil Jetty and Storage Services Framework Master Agreement”	the agreement dated 21 October 2019 entered into between Huade and Sinopec Guangzhou Branch, Sinopec Petroleum Reserve Company and Sinopec Pipeline Storage and Transportation Branch Company, details of which are disclosed in Section II of this Circular

DEFINITIONS

“New Exempt Continuing Connected Transactions”	the transactions contemplated under the New Labour Technical Services Framework Master Agreement, the New Natural Gas Pipeline & Station Construction Works Framework Master Agreement and the New Oil Product Purchase Framework Master Agreement
“New Exempt Continuing Connected Transactions Agreements”	collectively, the New Labour Technical Services Framework Master Agreement, the New Natural Gas Pipeline & Station Construction Works Framework Master Agreement and the New Oil Product Purchase Framework Master Agreement
“New Exempt Framework Master Agreements”	collectively, the New Lands and Buildings Framework Master Lease Agreement, the New Internal Labour Technical Services Framework Master Agreement, the New Power Technical Services Framework Master Agreement, the New Lease Framework Agreement, the New Natural Gas Pipeline Construction & Related Technical Services Framework Master Agreement, the New Oil Terminal Entrusted Management Framework Master Agreement and the New Sinopec Fuel Oil Sales Company Limited Framework Master Agreement
“New Internal Labour Technical Services Framework Master Agreement”	the agreement dated 21 October 2019 entered into between Yu Ji Pipeline Company and Zhongyuan Natural Gas Technical Centre, details of which are disclosed in Section II of the 21 October 2019 Announcement
“New Labour Technical Services Framework Master Agreement”	the agreement dated 21 October 2019 entered into between Yu Ji Pipeline Company and Shandong Natural Gas Services Jinan Branch Company, details of which are disclosed in Section III of the 21 October 2019 Announcement
“New Lands and Buildings Framework Master Lease Agreement”	the agreement dated 21 October 2019 entered into between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company, details of which are disclosed in Section II of the 21 October 2019 Announcement
“New Lease Framework Agreement”	the agreement dated 21 October 2019 entered into between Yu Ji Pipeline Company and Shandong Natural Gas Pipeline Company, details of which are disclosed in Section II of the 21 October 2019 Announcement

DEFINITIONS

“New Natural Gas Pipeline Construction & Related Technical Services Framework Master Agreement”	the agreement dated 21 October 2019 entered into between Yu Ji Pipeline Company and Sinopec Pipeline Services Company, details of which are disclosed in Section II of the 21 October 2019 Announcement
“New Natural Gas Pipeline & Station Construction Works Framework Master Agreement”	the agreement dated 21 October 2019 entered into between Yu Ji Pipeline Company and Sinopec Construction Company, details of which are disclosed in Section III of the 21 October 2019 Announcement
“New Natural Gas Transmission Services Framework Master Agreement”	the agreement dated 21 October 2019 entered into between Yu Ji Pipeline Company, Sinopec Natural Gas Branch Company, Shanxi Energy Company and Sinopec Changcheng Gas, details of which are disclosed in Section II of this Circular
“New Non-exempt Framework Master Agreements”	collectively, the New Crude Oil Jetty and Storage Services Framework Master Agreement, the New Sinopec Finance Financial Services Framework Master Agreement, the New Century Bright Financial Services Framework Master Agreement, the New Natural Gas Transmission Services Framework Master Agreement, the New Comprehensive Outsourcing Framework Master Agreement and the New Yu Ji Pipeline Financial Services Framework Master Agreement
“New Oil Terminal Entrusted Management Framework Master Agreement”	the agreement dated 21 October 2019 entered into between Sinomart and Sinopec Pipeline Storage Company, details of which are disclosed in Section II of the 21 October 2019 Announcement
“New Oil Product Purchase Framework Master Agreement”	the agreement dated 21 October 2019 entered into between Huade and China Shipping & Sinopec Shenzhen, details of which are disclosed in Section III of the 21 October 2019 Announcement
“New Power Technical Services Framework Master Agreement”	the agreement dated 21 October 2019 entered into between Yu Ji Pipeline Company and Zhongyuan Electricity Supply Centre, details of which are disclosed in Section II of the 21 October 2019 Announcement
“New Sinopec Finance Financial Services Framework Master Agreement”	the agreement dated 21 October 2019 entered into between Huade and Sinopec Finance Guangzhou Branch, details of which are disclosed in Section II of this Circular

DEFINITIONS

“New Sinopec Fuel Oil Sales Company Limited Framework Master Agreement”	the agreement dated 21 October 2019 entered into between Huade and Sinopec Fuel Oil, details of which are disclosed in Section II of the 21 October 2019 Announcement
“New Yu Ji Compression Project Framework Master Agreement”	the agreement dated 21 October 2019 entered into between Yu Ji Pipeline Company and Sinopec Petroleum Engineering, details of which are disclosed in Section III of this Circular
“New Yu Ji Pipeline Financial Services Framework Master Agreement”	the agreement dated 21 October 2019 entered into between Yu Ji Pipeline Company and Sinopec Finance, details of which are disclosed in Section II of this Circular
“Non-exempt Existing Continuing Connected Transactions”	the continuing connected transactions contemplated under 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 Services Outsourcing Framework Master Agreement and the Existing Yu Ji Pipeline Financial Services Framework Master Agreement
“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 purposes (unless otherwise indicated) excludes Taiwan, the Macau Special Administrative Region of the PRC and Hong Kong
“Previous Yu Ji Compression Project Framework Master Agreement”	the agreement dated 11 November 2016 entered into between Yu Ji Pipeline Company and Sinopec Petroleum Engineering, details of which are disclosed in the 11 November 2016 Announcement
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	the special general meeting to be convened for the purpose of considering, and if thought fit, passing ordinary resolutions regarding the entering into of the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement and all matters contemplated thereunder
“Shandong Natural Gas Pipeline Company”	山東省天然氣管道有限責任公司 (Shandong Natural Gas Pipeline Company Limited*), a company incorporated in the PRC with limited liability and a non-wholly owned subsidiary of Sinopec Corp.
“Shandong Natural Gas Services Jinan Branch Company”	山東省中遠天然氣技術服務有限責任公司濟南分公司 (Shandong Natural Gas Technical Services Jinan Branch Company Limited*), an associate of Sinopec Natural Gas Limited Company, a wholly-owned subsidiary of Sinopec Corp.
“Shanxi Energy Company”	山西國化能源有限責任公司 (Shanxi Energy Company Limited*), an associate of Sinopec Natural Gas Limited Company, a wholly-owned subsidiary of Sinopec Corp.
“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 Changcheng Gas”	中石化長城燃氣投資有限公司 (Sinopec Changcheng Gas Investment Company Limited*), a company incorporated under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of Sinopec Corp.
“Sinopec Construction Company”	中石化中原油建工程有限公司 (Sinopec Zhongyuan Oil Construction Company Limited*), an indirect wholly-owned subsidiary of Sinopec Oilfield Service Corporation, which is a subsidiary of Sinopec Group Company

DEFINITIONS

“Sinopec Corp.”	China Petroleum & Chemical Corporation (中國石油化工有限公司) (Stock Code: 386), a joint-stock limited liability company incorporated in the PRC, the shares of which are listed on the Stock Exchange and the stock exchanges of Shanghai, New York and London
“Sinopec Finance”	中國石化財務有限責任公司 (Sinopec Finance Company Limited*), a company incorporated under the laws of the PRC with limited liability and a subsidiary of Sinopec Group Company
“Sinopec Finance Guangzhou Branch”	中國石化財務有限責任公司廣州分公司 (Sinopec Finance Company Limited Guangzhou Branch*), a branch company of Sinopec Finance
“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, 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, and for the purpose of this Circular, excludes the Group
“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 68.31% 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”	中國石油化工股份有限公司廣州分公司 (China Petroleum & Chemical Corporation Guangzhou Branch*), a branch company of Sinopec Corp.
“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.

DEFINITIONS

“Sinopec Natural Gas Limited Company”	中國石化天然氣有限責任公司 (Sinopec Natural Gas Limited Company*), a company incorporated under the laws of the PRC with limited liability and a wholly-owned subsidiary of Sinopec Corp.
“Sinopec Oilfield Service Corporation”	Sinopec Oilfield Service Corporation (中石化石油工程技術服務股份有限公司), a joint stock limited company established in the PRC and its A shares are listed on the Shanghai Stock Exchange and its H shares are listed on the Main Board of the Stock Exchange (Stock Code: 1033)
“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 Petroleum Reserve Company”	中國石化集團石油商業儲備有限公司 (Sinopec Petroleum Reserve Company Limited*), a company incorporated under the laws of the PRC with limited liability and a wholly-owned subsidiary of Sinopec Group Company
“Sinopec Pipeline Services Company”	中石化管道技術服務有限公司 (Sinopec Pipeline Technical Services Company Limited*), a company incorporated under the laws of the PRC with limited liability and a wholly-owned subsidiary of Sinopec Oilfield Service Corporation, which is a 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 Limited*), a wholly-owned subsidiary of Sinopec Corp.
“Sinopec Pipeline Storage and Transportation Branch Company”	中國石化管道儲運有限公司原油銷售分公司 (Sinopec Pipeline Storage and Transportation Company Limited Crude Oil Sales Branch Company*), a branch company of a wholly-owned subsidiary of Sinopec Corp.

DEFINITIONS

“Six Oil Terminal Companies”	six joint venture companies in 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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it in the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Unipecc”	中國國際石油化工聯合有限公司 (China International United Petroleum and Chemicals Co. Ltd.*), a company established under the laws of the PRC with limited liability, which holds the entire issued share capital of SKI
“Yu Ji Pipeline Company”	中石化榆濟管道有限責任公司 (Sinopec Yu Ji Pipeline Company Limited*), a limited liability company incorporated in the PRC which owns the Yulin-Jinan Pipeline and a wholly-owned subsidiary of the Company
“Yulin-Jinan Pipeline”	Yulin, Shaanxi Province to Jinan, Shandong Province Natural Gas Transmission Pipelines of about 944.93 kilometres 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 New Yu Ji Compression Project Framework Master Agreement

DEFINITIONS

“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 company incorporated under the laws of the PRC with limited liability and a wholly-owned subsidiary of Sinopec Corp.
“Zhongyuan Natural Gas Technical Centre”	中國石化集團中原油田勘探局天然氣技術服務中心 (Sinopec Zhongyuan Oilfield Natural Gas Technical Centre*), a company incorporated under the laws of the PRC with limited liability and a wholly-owned subsidiary of Sinopec Group Company
“%”	per cent

Conversion of RMB into HK\$ is based on the approximate exchange rate of RMB1.00 to HK\$1.14 and is for illustrative purposes only. Such conversion does not constitute or should not be construed as representations that the relevant amounts have been, could have been, or could be converted at such rate or any other rate or at all.

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

** *For identification purpose only*

LETTER FROM THE BOARD



中国石化
SINOPEC

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*)

Independent non-executive Directors:

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

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Principal place of business
in Hong Kong:*

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

11 November 2019

To the Shareholders

Dear Sir or Madam

**(1) CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE
TRANSACTIONS 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 21 October 2019 Announcement regarding, among others, the continuing connected transactions, connected transaction and discloseable transactions in relation to (i) the continuing connected transactions and discloseable transactions regarding renewal of the Non-exempt Existing Continuing Connected Transactions; (ii) the continuing connected transactions regarding renewal of the Exempt Existing Continuing Connected

* *For identification purpose only*

LETTER FROM THE BOARD

Transactions; (iii) the New Exempt Continuing Connected Transactions; and (iv) the connected transaction and discloseable transaction regarding the Yulin-Jinan Pipeline Compression Project.

The purpose of this Circular is to provide you with further information on (i) the continuing connected transactions and discloseable transactions regarding renewal of the Non-exempt Existing Continuing Connected Transactions; and (ii) the connected transaction and discloseable transaction regarding the Yulin-Jinan Pipeline Compression Project.

II. CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS REGARDING RENEWAL OF THE NON-EXEMPT EXISTING CONTINUING CONNECTED TRANSACTIONS

References are made to the 11 November 2016 Announcement, the 30 August 2018 Announcement and the 2 December 2016 Circular respectively in relation to, among others, the Non-exempt Existing Continuing Connected Transactions.

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

1. New Crude Oil Jetty and Storage Services Framework Master Agreement

On 21 October 2019, having considered that the Group will renew the transactions contemplated under the Existing Sinopec Guangzhou Branch Framework Master Agreement, the term of which will expire on 31 December 2019, Huade, a wholly-owned subsidiary of the Company, entered into the New Crude Oil Jetty and Storage Services Framework Master Agreement with Sinopec Guangzhou Branch, Sinopec Petroleum Reserve Company and Sinopec Pipeline Storage and Transportation Branch Company, in order to set out the terms for, among others, the provision of crude oil jetty services from Huade to Sinopec Guangzhou Branch, Sinopec Petroleum Reserve Company and/or Sinopec Pipeline Storage and Transportation Branch Company.

The New Crude Oil Jetty and Storage Services Framework Master Agreement is conditional on the passing of an ordinary resolution at the SGM by the Independent Shareholders to approve, among others, the entering into of the New Crude Oil Jetty and Storage Services Framework Master Agreement and the related annual caps. Subject to the passing of such ordinary resolution, the term of the New Crude Oil Jetty and Storage Services Framework Master Agreement will commence on 1 January 2020 and expire on 31 December 2022.

Relationship with the connected persons

Sinopec Guangzhou Branch is a branch company of, and Sinopec Pipeline Storage and Transportation Branch Company is a branch company of a wholly-owned Subsidiary of Sinopec Corp., which indirectly wholly owns SKI, the controlling shareholder of the Company. Sinopec Petroleum Reserve Company is a wholly-owned Subsidiary of Sinopec Group Company,

LETTER FROM THE BOARD

the holding company of Sinopec Corp. Each of Sinopec Guangzhou Branch, Sinopec Pipeline Storage and Transportation Branch Company and Sinopec Petroleum Reserve Company is therefore an associate of SKI and a connected person of the Company under Chapter 14A of the Listing Rules.

Nature of the transactions

Pursuant to the Existing Sinopec Guangzhou Branch Framework Master Agreement, Huade has provided to Sinopec Guangzhou Branch, and will continue to provide pursuant to the New Crude Oil Jetty and Storage Services Framework Master Agreement, the following services and facilities to Sinopec Guangzhou Branch, Sinopec Petroleum Reserve Company and/or Sinopec Pipeline Storage and Transportation Branch Company through the Huizhou Jetty:

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

Pricing basis

Pursuant to the New Crude Oil Jetty and Storage Services Framework Master Agreement, Huade will enter into crude oil jetty services agreements with Sinopec Guangzhou Branch, Sinopec Petroleum Reserve Company and/or Sinopec Pipeline Storage and Transportation Branch Company, whereby the relevant parties will negotiate the terms thereof with reference to, among others, laws and regulations, market conditions, normal commercial terms, trade customs and the principle of fairness, and will incorporate such terms into such agreements.

Pursuant to the New Crude Oil Jetty and Storage Services Framework Master Agreement, the service fees payable by Sinopec Guangzhou Branch, Sinopec Petroleum Reserve Company and/or Sinopec Pipeline Storage and Transportation Branch Company to Huade will be based on the following calculations and adjustments:

- (i) in respect of jetty and related services in relation to the unloading of crude oil from oil tankers and their dockage, the service fees will be based on State-prescribed prices, which are currently regulated by the Ministry of Transport of the PRC; and government-approved prices, which are currently regulated by the Guangdong Price Bureau of the PRC;

LETTER FROM THE BOARD

- (ii) in respect of crude oil storage and related services in relation to the storage of crude oil in oil tanks and oil tank handling, the service fees will be based on government-approved prices, which are currently regulated by the Guangdong Price Bureau of the PRC; and
- (iii) in respect of the transmission of crude oil and related services in relation to the transmission of crude oil from the Huizhou Jetty to the refinery complex of Sinopec Guangzhou Branch in Guangzhou, the PRC, the service fees will be based on State-prescribed prices, which are currently regulated by the National Development and Reform Commission of the PRC.

If the State-prescribed prices or the government-approved prices (as the case may be) as described above are repealed, the service fees payable may be (a) the fair market price for the relevant services (which shall be determined by the relevant parties after arm's length negotiations), which shall not be lower than (i) the market price for similar services which may be charged by independent third parties in the vicinity or by Huade to independent third parties and; (ii) the actual and direct costs to Huade for provision of the relevant services; or (b) if no fair market price is determined by the relevant parties, the State-prescribed prices or government-approved prices (as the case may be) that were applicable previously, plus a margin that does not exceed the rate of increase of the consumer price index in the PRC during the immediately preceding calendar year. Information on such consumer price index may be obtained from the National Statistics Bureau of the PRC.

Before entering into any specific crude oil jetty services agreement for a transaction under the New Crude Oil Jetty and Storage Services Framework Master Agreement, Huade will review the terms thereof to ensure that such terms are consistent with the principles as set out under the New Crude Oil Jetty and Storage Services Framework Master Agreement.

Huade will also check, from time to time, if any notices concerning adjustments to the State-prescribed prices for the relevant services are issued by the relevant regulatory bodies, which include (among others) the National Development and Reform Commission and the Ministry of Transport of the PRC, and will adjust the service fees to be charged accordingly. In the event that service fees are to be charged at the fair market price, to ensure that the terms thereof are no less favourable than those for similar services offered by independent third parties in the vicinity, Huade will monitor and review the pricing and terms of such similar services.

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

LETTER FROM THE BOARD

Historical amounts

The following table sets out the historical transaction amounts received by Huade under the Existing Sinopec Guangzhou Branch Framework Master Agreement for each of the two years ended 31 December 2017 and 31 December 2018 and the six months ended 30 June 2019:

Historical transaction amounts received by Huade (approx. RMB (approx. HK\$))

For the year ended 31 December 2017	For the year ended 31 December 2018	For the six months ended 30 June 2019
RMB441,930,000 (HK\$503,800,000)	RMB476,100,000 (HK\$542,750,000)	RMB239,200,000 (HK\$272,690,000)

None of these historical transaction amounts have exceeded the relevant annual caps for the corresponding financial years.

Annual caps

The following table sets out the historical annual caps of the transaction amounts estimated to be received by Huade under the Existing Sinopec Guangzhou Branch Framework Master Agreement for each of the two years ended 31 December 2017 and 31 December 2018 and the year ending 31 December 2019:

Historical annual caps of the estimated transaction amounts (RMB (approx. HK\$))

For the year ended 31 December 2017	For the year ended 31 December 2018	For the year ending 31 December 2019
RMB700,000,000 (HK\$798,000,000)	RMB700,000,000 (HK\$798,000,000)	RMB700,000,000 (HK\$798,000,000)

The differences between the historical transaction amounts for each of the two years ended 31 December 2017 and 31 December 2018 and the six months ended 30 June 2019 and the historical annual caps for each of the two years ended 31 December 2017 and 31 December 2018 and the year ending 31 December 2019 under the Existing Sinopec Guangzhou Branch Framework Master Agreement were mainly due to (i) regular maintenance works carried out by Sinopec Guangzhou Branch in 2017 which resulted in the Huizhou Jetty not being utilised for approximately one month in 2017 and had an impact on the provision of jetty and related services in relation to the unloading of crude oil from oil tankers and their dockage, and thus their transmission volume; (ii) environmental protection reasons pursuant to which Sinopec Guangzhou Branch imported a new type of crude oil that did

LETTER FROM THE BOARD

not require blending before transmission and hence the demand for storage and the duration of any storage were reduced; and (iii) the demand for oil products was below the expected demand, which lowered the quantity of services required by Sinopec Guangzhou Branch. Therefore, the historical transaction amounts were lower than expected.

The following table sets out the annual caps of the transaction amounts estimated to be received by Huade under the New Crude Oil Jetty and Storage Services Framework Master Agreement for each of the three years ending 31 December 2020, 31 December 2021 and 31 December 2022:

Annual caps (RMB (approx. HK\$))		
For the year ending 31 December 2020	For the year ending 31 December 2021	For the year ending 31 December 2022
RMB650,000,000 (HK\$741,000,000)	RMB650,000,000 (HK\$741,000,000)	RMB650,000,000 (HK\$741,000,000)

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

- (1) The historical volume for the transmission of crude oil services which was around 13.0 million tonnes and jetty and related services which was also around 13.0 million tonnes for the year ended 31 December 2018.
- (2) In light of the demand for petroleum products in the PRC market, it is estimated that Sinopec Guangzhou Branch, Sinopec Petroleum Reserve Company and/or Sinopec Pipeline Storage and Transportation Branch Company will import a stable-to-rising quantity of crude oil, and therefore will require a stable-to-rising quantity of transmission of crude oil services at around 13.0 million tonnes per year and jetty and related services at around 16.0 million tonnes per year (in which the throughput capacity of the Huizhou Jetty is around 30.0 million tonnes per year).
- (3) The State-prescribed prices and the government-approved prices for transmission of crude oil services and jetty and related services, which have remained relatively stable at approximately RMB20.0 per tonne and approximately RMB17.3 per tonne respectively.
- (4) The revenue generated from other related services, which includes charges for crude oil storage and tug boat services, amounted to approximately RMB36,600,000 (approximately HK\$41,720,000) for the year ended 31 December 2018. It is estimated that such

LETTER FROM THE BOARD

amount will increase to approximately RMB47,000,000 (approximately HK\$53,580,000) per year, the rate of increase of which is similar to that for the estimated increase in the demand for jetty and related services, as described in paragraph (2) above.

- (5) A buffer of about 11% has been applied in determining the proposed annual caps, which will provide the Group with more flexibility so as to ensure that it operates smoothly in the event that it will be required to accommodate any sudden increase in the demand for the relevant services from Sinopec Guangzhou Branch, Sinopec Petroleum Reserve Company and/or Sinopec Pipeline Storage and Transportation Branch Company.
- (6) Given that the business operations of Sinopec Guangzhou Branch, Sinopec Petroleum Reserve Company and/or Sinopec Pipeline Storage and Transportation Branch Company may from time to time be conducted closely and simultaneously, any changes in the level of demand for services and facilities from Huade for any one of them may mutually impact the others' level of demand. As such, it is estimated that their demand for services and facilities from Huade will remain stable-to-rising on the whole.

Reasons for and benefits of the transactions

The Huizhou Jetty and the existing crude oil storage facilities of Huade are close to Sinopec Guangzhou Branch and a crude oil pipeline connects Huade to Sinopec Guangzhou Branch, which as a result will allow Huade to provide crude oil jetty unloading and storage services and also related services to Sinopec Guangzhou Branch, Sinopec Petroleum Reserve Company and/or Sinopec Pipeline Storage and Transportation Branch Company conveniently. Sinopec Guangzhou Branch is also a major customer of Huade for crude oil unloading and pipeline transmission services.

Currently, the income of Huade is mostly attributable from Sinopec Guangzhou Branch. The provision of crude oil jetty unloading and storage services and also related services to Sinopec Guangzhou Branch, Sinopec Petroleum Reserve Company and/or Sinopec Pipeline Storage and Transportation Branch Company would significantly utilise Huade's crude oil jetty and facilities, and as a result create economic benefits for Huade. This is therefore in the interests of the Company and the Shareholders as a whole.

As Sinopec Petroleum Reserve Company and Sinopec Pipeline Storage and Transportation Branch Company will require crude oil jetty and storage services which are similar to those as provided by Huade to Sinopec Guangzhou Branch under the Existing Sinopec Guangzhou Branch Framework Master Agreement, and as the business operations of Sinopec Petroleum Reserve Company, Sinopec Pipeline Storage and Transportation Branch Company and Sinopec Guangzhou Branch may from time to time be

LETTER FROM THE BOARD

conducted closely and simultaneously, the New Crude Oil Jetty and Storage Services Framework Master Agreement was entered into by all such parties with Huade, in order to simplify the administrative process and enhance the operating efficiency in the provision of crude oil jetty and storage services and also related services by Huade.

2. New Sinopec Finance Financial Services Framework Master Agreement

On 21 October 2019, having considered that the Group will renew the transactions contemplated under the Existing Sinopec Finance Financial Services Framework Master Agreement, the term of which will expire on 31 December 2019, Huade, a wholly-owned subsidiary of the Company, entered into the New Sinopec Finance Financial Services Framework Master Agreement with Sinopec Finance Guangzhou Branch, in order to set out the terms for, among others, the provision of intra group financial services by Sinopec Finance Guangzhou Branch to the Huade Group.

The New Sinopec Finance Financial Services Framework Master Agreement is conditional on the passing of an ordinary resolution at the SGM by the Independent Shareholders to approve, among others, the entering into of the New Sinopec Finance Financial Services Framework Master Agreement and the related annual caps. Subject to the passing of such ordinary resolution, the term of the New Sinopec Finance Financial Services Framework Master Agreement will commence on 1 January 2020 and expire on 31 December 2022.

Relationship with the connected person

Sinopec Finance Guangzhou Branch is a branch company of Sinopec Finance, which is owned as to 51% by Sinopec Group Company and 49% by Sinopec Corp. Sinopec Group Company is the holding company of Sinopec Corp., which indirectly wholly owns SKI, the controlling shareholder of the Company. Sinopec Finance Guangzhou Branch is therefore an associate of SKI and a connected person of the Company under Chapter 14A of the Listing Rules.

Nature of the transactions

The intra group financial services to be provided by Sinopec Finance Guangzhou Branch to the Huade Group within the PRC include loan services, deposit services, entrusted loan services, bill acceptance and discounting services, transfer and relevant settlement services and services in relation to the planning of settlement schemes. Sinopec Finance Guangzhou Branch has agreed to provide financial services other than those aforesaid services to the Huade Group at Huade's request or instructions provided that Sinopec Finance and Sinopec Finance Guangzhou Branch (as the case may be) have obtained the relevant approval(s) from CBIRC.

LETTER FROM THE BOARD

Pricing basis

Sinopec Finance Guangzhou Branch has undertaken to adhere to the principles below in providing the intra group financial services to the Huade Group within the PRC:

- (i) the interest rates for the Huade Group's deposits with Sinopec Finance Guangzhou Branch shall be determined with reference to the deposit interest rates as announced by PBOC from time to time, and shall be no lower than the interest rates for deposits offered by other independent commercial banks to the members of the Sinopec Group;
- (ii) the interest rates for loans to be granted to the Huade Group by Sinopec Finance Guangzhou Branch shall be determined with reference to the base lending rates as announced by PBOC from time to time and in compliance with the relevant laws and regulations, such interest rates shall not be higher than the interest rates for loans offered by other independent commercial banks to members of the Sinopec Group;
- (iii) the rates for bill discounting services shall be determined with reference to the bill rediscounting rates as announced by PBOC from time to time and depending on market conditions, such rates shall not be higher than the bill discounting rates offered by other independent commercial banks to the members of the Sinopec Group;
- (iv) the service fees for entrusted loan services shall not be higher than the fees offered by other independent commercial banks to the members of the Sinopec Group; and
- (v) no service fees shall be charged for transfer and relevant settlement services and services in relation to the planning of settlement schemes. However, if any service fees relating to such services are to be charged by independent commercial banks on Sinopec Finance Guangzhou Branch, the Huade Group will then be charged the same by Sinopec Finance Guangzhou Branch.

Capital risk control measures

- (a) In accordance with PRC laws and regulations, Sinopec Finance Guangzhou Branch will ensure that its fund management information system will operate safely and stably. Such system has undergone the security test in respect of connections to online commercial banking platforms and has reached the national security standards applicable to commercial banks.

LETTER FROM THE BOARD

- (b) Sinopec Finance Guangzhou Branch will ensure that it complies with the risk monitoring indicators for financial institutions issued by CBIRC and other applicable PRC laws and regulations. Sinopec Group Company has also agreed with CBIRC to increase the share capital of Sinopec Finance in the event that Sinopec Finance is in financial straits.
- (c) In accordance with PRC laws and regulations, Huade will be able to check the status of its deposits with Sinopec Finance Guangzhou Branch on any business day so as to enable it 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 Guangzhou Branch does not exceed the relevant annual cap.
- (d) If any laws or regulations are breached, Sinopec Finance Guangzhou Branch will inform Huade immediately and will seek to ascertain the procedures and plans to remedy or mitigate such breach or the effects thereof.
- (e) The annual financial statements of Sinopec Finance Guangzhou Branch will be provided to Huade upon request.

The Directors consider that the above capital risk control measures are adequate to cover the risks involved in depositing funds with Sinopec Finance Guangzhou Branch.

Historical amounts

The following table sets out the historical maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits placed by the Huade Group with Sinopec Finance under the Existing Sinopec Finance Financial Services Framework Master Agreement for each of the two years ended 31 December 2017 and 31 December 2018 and the six months ended 30 June 2019:

**Historical maximum outstanding balance at any time
(including any interest accrued therefrom) for the deposits placed
by the Huade Group
(approx. RMB (approx. HK\$))**

For the year ended 31 December 2017	For the year ended 31 December 2018	For the six months ended 30 June 2019
RMB61,020,000 (HK\$69,560,000)	RMB63,400,000 (HK\$72,280,000)	RMB82,480,000 (HK\$94,030,000)

None of these historical amounts have exceeded the relevant annual caps for the corresponding financial years.

LETTER FROM THE BOARD

Annual caps

The following table sets out the historical annual caps in respect of the maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits estimated to be placed by the Huade Group with Sinopec Finance under the Existing Sinopec Finance Financial Services Framework Master Agreement for each of the two years ended 31 December 2017 and 31 December 2018 and the year ending 31 December 2019:

Historical annual caps in respect of the maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits estimated to be placed by the Huade Group (RMB (approx. HK\$))

For the year ended 31 December 2017	For the year ended 31 December 2018	For the year ending 31 December 2019
RMB500,000,000 (HK\$570,000,000)	RMB500,000,000 (HK\$570,000,000)	RMB500,000,000 (HK\$570,000,000)

The differences between the historical maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits placed by the Huade Group with Sinopec Finance for each of the two years ended 31 December 2017 and 31 December 2018 and the six months ended 30 June 2019 and the historical annual caps for each of the two years ended 31 December 2017 and 31 December 2018 and the year ending 31 December 2019 under the Existing Sinopec Finance Financial Services Framework Master Agreement were mainly due to the trade and other receivables of the Huade Group having been higher than expected, which lowered the potential amount of deposits available to be placed.

The following table sets out the annual caps in respect of the maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits estimated to be placed by the Huade Group with Sinopec Finance Guangzhou Branch under the New Sinopec Finance Financial Services Framework Master Agreement for each of the three years ending 31 December 2020, 31 December 2021 and 31 December 2022:

**Annual caps
(RMB (approx. HK\$))**

For the year ending 31 December 2020	For the year ending 31 December 2021	For the year ending 31 December 2022
RMB400,000,000 (HK\$456,000,000)	RMB400,000,000 (HK\$456,000,000)	RMB400,000,000 (HK\$456,000,000)

LETTER FROM THE BOARD

In arriving at the aforesaid annual caps, the future business expansion plans of, the expected increase in the volume of transactions to be conducted by, and the expected increase in the cash flow movement of the Huade Group and the following factors were taken into account:

- (1) As at 30 June 2019, trade and other receivables in the amount of approximately RMB447,920,000 (approximately HK\$510,630,000) was recorded by Huade and for the six months ended 30 June 2019, net cash inflow from operating activities in the amount of approximately RMB494,260,000 (approximately HK\$563,460,000) was recorded by Huade. Pursuant to the New Sinopec Finance Financial Services Framework Master Agreement, the Huade Group will consider depositing any funds deriving from trade and other receivables and operating activities as deposits with Sinopec Finance Guangzhou Branch first, before taking into account any future investing and financing activities such as capital expenditures and dividend payouts.
- (2) In order to strengthen its centralised system for the management of funds and for the purpose of monitoring the manner in which funds are utilised, the Sinopec Group (including the Group) will utilise a “funding pool” platform with the assistance of Sinopec Finance Guangzhou Branch. Such platform will seek to consolidate the funds of the Sinopec Group (including the Group) and enable loans to be granted within the Sinopec Group (including the Group) more efficiently by taking advantage of the anticipated time difference between the receipt and payment of funds by members of the Sinopec Group (including the Group), with an aim to support the development of the Sinopec Group and the Group.
- (3) Sinopec Finance and Sinopec Finance Guangzhou Branch, which are regulated by CBIRC and which have implemented well-regulated corporate governance measures, have been maintaining satisfactory operating results and financial positions and implementing effective risk controls during the past three years. The safety standards of their settlement systems have reached the standards of domestic commercial banks. Obtaining intra group financial services from Sinopec Finance Guangzhou Branch would reduce finance costs and settlement costs, increase interest income of deposits and controls risks for the Huade Group.
- (4) The applicable interest rates for the deposits of the Huade Group to be placed with Sinopec Finance Guangzhou Branch shall be no less favourable than those offered by other independent commercial banks in the PRC.

LETTER FROM THE BOARD

- (5) In respect of the Huade Group's funds settlement business to be conducted through Sinopec Finance Guangzhou Branch, the relevant settlement fees and expenses will be settled by Sinopec Finance Guangzhou Branch, save if other independent commercial banks charge Sinopec Finance Guangzhou Branch for such fees and expenses, Sinopec Finance Guangzhou Branch will charge the Huade Group the same accordingly.
- (6) Sinopec Finance Guangzhou Branch has undertaken that its major shareholder shall not appropriate the Group's funds.
- (7) Given that currently, PRC companies are required to fulfill relatively stricter approval procedures before remitting any capital out of mainland China, it is expected that the time required for the Huade Group to obtain the necessary approval(s) to distribute dividends to the Company will take relatively longer and therefore, it is also expected that the amount of deposits to be placed by the Huade Group with Sinopec Finance Guangzhou Branch will be higher than what was deposited under the Existing Sinopec Finance Financial Services Framework Master Agreement.

Loan services and bill acceptance and discount services

In view that the loan services and bill acceptance and discounting services to be provided by Sinopec Finance Guangzhou Branch to the Huade Group will be on normal commercial terms or better than those offered by independent third parties for comparable services in the PRC, and will not be secured by the assets of the Huade Group, such services which also constitute financial assistance received by the Group are fully exempt under Rule 14A.90 of the Listing Rules from all reporting, annual review, announcement and Independent Shareholders' approval requirements. As such, no annual caps have been set for such services.

Entrustment loans and other services

Apart from the deposit services, loan services and bill acceptance and discounting services, the other services which may be provided by Sinopec Finance Guangzhou Branch 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 better than those offered by independent third parties for comparable services in the PRC.

As all of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the total fees estimated to be paid by the Huade Group to Sinopec Finance Guangzhou Branch for the entrustment loans and other financial services on an annual basis will fall within the de minimis threshold of 0.1% as stipulated under Rule 14A.76(1)(a) of the Listing Rules, such transactions are fully exempt from all reporting, annual

LETTER FROM THE BOARD

review, announcement and Independent Shareholders' approval requirements. The Company will comply with the reporting, annual review, announcement and/or Independent Shareholders' approval requirements of the Listing Rules if and when such relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) exceed the relevant threshold.

Reasons for and benefits of the transactions

1. The interest rates on loans and deposits to be offered by Sinopec Finance Guangzhou Branch to the Huade Group will be no less favourable than those offered by other independent commercial banks in the PRC.
2. Sinopec Finance and Sinopec Finance Guangzhou Branch are regulated by PBOC and CBIRC and provide their services in accordance with the rules and operational requirements of these regulatory authorities.
3. Sinopec Finance Guangzhou Branch fully understands and is familiar with the business nature and needs of the Huade Group. As Sinopec Finance Guangzhou Branch and the Huade Group are both members of Sinopec Group (including the Group), Sinopec Finance Guangzhou Branch can better foresee the funding needs of the Huade Group and can offer flexible and cost-effective services to the Huade Group.
4. The settlement operations of members of the Sinopec Group (including the Group) will be conducted more effectively and the Huade Group will be able to better manage and control its capital and mitigate and avert any operational risks.
5. The time required for the capital of Huade Group to be transmitted or transferred will be reduced, which will also accelerate the turnover of cash flow and reduce transaction costs and expenses, thereby further enhancing the quality and efficiency of capital utilisation.
6. Diversified financial services in broad areas will be available to the Huade Group, which is in the interests of the Company and the Shareholders as a whole. Furthermore, the financial services to be provided by Sinopec Finance Guangzhou Branch are in line with market norms and are on normal commercial terms, which will be determined with reference to the terms imposed by other independent commercial banks in the PRC.
7. Pursuant to the relevant regulations of PBOC and CBIRC, the customers of Sinopec Finance Guangzhou Branch are limited to entities within the Sinopec Group (including the Group) and its subsidiaries, as a result of which, the risks that Sinopec Finance Guangzhou Branch may otherwise be exposed to if its customers include other entities unrelated to the Sinopec Group (including the Group) will be reduced.

LETTER FROM THE BOARD

B. Non-exempt Existing Continuing Connected Transactions in relation to the Company

1. New Century Bright Financial Services Framework Master Agreement

On 21 October 2019, having considered that the Group will renew the transactions contemplated under the Existing Century Bright Financial Services Framework Master Agreement, the term of which will expire on 31 December 2019, the Company entered into the New Century Bright Financial Services Framework Master Agreement with Century Bright, in order to set out the terms for, among others, the provision of deposit services and settlement and similar services by Century Bright to the Group.

The New Century Bright Financial Services Framework Master Agreement is conditional on the passing of an ordinary resolution at the SGM by the Independent Shareholders to approve, among others, the entering into of the New Century Bright Financial Services Framework Master Agreement and the related annual caps. Subject to the passing of such ordinary resolution, the term of the New Century Bright Financial Services Framework Master Agreement will commence on 1 January 2020 and expire on 31 December 2022.

Relationship with the connected person

Century Bright is a wholly-owned subsidiary of Sinopec Group Company, the holding company of Sinopec Corp., which indirectly wholly owns SKI, the controlling shareholder of the Company. Century Bright is therefore an associate of SKI and a connected person of the Company under Chapter 14A of the Listing Rules.

Nature of the transactions

Century Bright will provide deposit services and settlement and similar services to the Company and its 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 rates as announced by other independent commercial banks in Hong Kong (such as The Hongkong and Shanghai Banking Corporation Limited) from time to time. Such interest rates shall be (i) equal to or higher than the interest rates offered by Century Bright to Sinopec Group Company, Sinopec Corp. and other members of the Sinopec Group in similar deposit arrangements; and (ii) equal to or higher than the interest rates as announced by other independent commercial banks in Hong Kong (such as The Hongkong and Shanghai Banking Corporation Limited) from time to time, whichever is higher.

LETTER FROM THE BOARD

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) 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 the 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) from time to time in respect of settlement and similar services provided by Century Bright, whichever is lower.

Historical amounts

The following table sets out the historical maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits placed by the Group with Century Bright under the Existing Century Bright Financial Services Framework Master Agreement for each of the two years ended 31 December 2017 and 31 December 2018 and the six months ended 30 June 2019:

Historical maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits placed by the Group (approx. HK\$)

For the year ended 31 December 2017	For the year ended 31 December 2018	For the six months ended 30 June 2019
HK\$7,430,000	HK\$353,810,000	HK\$17,970,000

None of these historical amounts have exceeded the relevant annual caps for the corresponding financial years.

Annual caps

The following table sets out the historical annual caps in respect of the maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits estimated to be placed by the Group with Century Bright under the Existing Century Bright Financial Services Framework Master Agreement for each of the two years ended 31 December 2017 and 31 December 2018 and the year ending 31 December 2019:

LETTER FROM THE BOARD

**Historical annual caps of the maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits estimated to be placed by the Group
(HK\$)**

For the year ended 31 December 2017	For the year ended 31 December 2018	For the year ending 31 December 2019
HK\$500,000,000	HK\$500,000,000	HK\$500,000,000

The differences between the historical maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits placed by the Group with Century Bright for each of the two years ended 31 December 2017 and 31 December 2018 and the six months ended 30 June 2019 and the historical annual caps for each of the two years ended 31 December 2017 and 31 December 2018 and the year ending 31 December 2019 under the Existing Century Bright Financial Services Framework Master Agreement were mainly due to the repayment of certain borrowings during the relevant years by the Group, which lowered the potential amount of deposits available to be placed.

The following table sets out the annual caps in respect of the maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits estimated to be placed by the Group with Century Bright under the New Century Bright Financial Services Framework Master Agreement for each of the three years ending 31 December 2020, 31 December 2021 and 31 December 2022:

Annual caps (HK\$)		
For the year ending 31 December 2020	For the year ending 31 December 2021	For the year ending 31 December 2022
HK\$500,000,000	HK\$500,000,000	HK\$500,000,000

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

- (1) The historical figures of the transactions, including the historical maximum outstanding balance (including any interest accrued therefrom) for the deposits placed by the Group with Century Bright for each of the two years ended 31 December 2015 and 31 December 2016, which amounted to approximately HK\$493,750,000 and approximately HK\$493,750,000 respectively.

LETTER FROM THE BOARD

- (2) It is expected that the gearing ratio of the Group will improve, which would potentially result in less borrowings being required to be repaid by the Group, and therefore a potential increase in the amount of cash being available to be placed with Century Bright as deposits (the Group's gearing ratio has been lowered from approximately 41% as at 31 December 2016 to approximately 25% as at 30 June 2019).
- (3) The amount of dividends expected to be earned from the operating entities of the Company and potentially placed as deposits with Century Bright (Sinomart, being one of the two subsidiaries of the Company that places deposits with Century Bright, recorded dividend receivables in the amount of approximately HK\$427,330,000 as at 30 June 2019 and in the amount of approximately HK\$279,620,000 as at 31 December 2018).
- (4) The anticipated cash flow movements of, the anticipated volume of transactions to be conducted by, and the financial control and treasury management system implemented by the Group; and the potential need to settle accounts receivables of members of the Sinopec Group or any third party through the deposit accounts of the Group with Century Bright.

Reasons for and benefits of the transactions

1. The interest rates 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 time required for the capital of the Group to be transmitted or transferred will be reduced, which will also accelerate the turnover of cash flow and reduce transaction costs and expenses, thereby further enhancing the quality and efficiency of capital utilisation.
3. Diversified financial services in broad areas will be available to the Group, which is in the interests of the Company and the Shareholders as a whole.

C. Non-exempt Existing Continuing Connected Transactions and the Exempt Existing Continuing Connected Transactions in relation to Yu Ji Pipeline Company

1. New Natural Gas Transmission Services Framework Master Agreement

On 21 October 2019, having considered that the Group will renew the transactions contemplated under the Existing Natural Gas Transmission Services Framework Master Agreement and the Existing Changcheng Natural Gas Transmission Services Framework Master Agreement, the terms of which will

LETTER FROM THE BOARD

expire on 31 December 2019, Yu Ji Pipeline Company, a wholly-owned Subsidiary of the Company, entered into the New Natural Gas Transmission Services Framework Master Agreement with Sinopec Natural Gas Branch Company, Shanxi Energy Company and Sinopec Changcheng Gas, in order to set out the terms for, among others, the provision of natural gas transmission services by Yu Ji Pipeline Company to Sinopec Natural Gas Branch Company, Shanxi Energy Company and/or Sinopec Changcheng Gas.

The New Natural Gas Transmission Services Framework Master Agreement is conditional on the passing of an ordinary resolution at the SGM by the Independent Shareholders to approve, among others, the entering into of the New Natural Gas Transmission Services Framework Master Agreement and the related annual caps. Subject to the passing of such ordinary resolution, the term of the New Natural Gas Transmission Services Framework Master Agreement will commence on 1 January 2020 and expire on 31 December 2022.

Relationship with the connected persons

Each of Sinopec Natural Gas Branch Company, Shanxi Energy Company and Sinopec Changcheng Gas is a branch company, associate or subsidiary of Sinopec Corp. (or its subsidiaries), which indirectly wholly owns SKI, the controlling shareholder of the Company. Sinopec Natural Gas Branch Company is therefore an associate of SKI and a connected person of the Company under Chapter 14A of the Listing Rules.

Nature of the transactions

Yu Ji Pipeline Company will provide natural gas transmission services to Sinopec Natural Gas Branch Company, Shanxi Energy Company and/or Sinopec Changcheng Gas by transmitting natural gas 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, Shanxi Energy Company and/or Sinopec Changcheng Gas.

Pricing basis

Under the New Natural Gas Transmission Services Framework Master Agreement, the pipeline transmission fees will be determined in accordance with (i) the policies and/or guidelines set out in the Notice of the National Development and Reform Commission on Adjustment of Cross-Provincial Natural Gas Pipeline Transmission Fee (National Development and Reform Commission Pricing [2019] No.561) (《國家發展改革委關於調整天然氣跨省管道運輸價格的通知》(發改價格[2019]561號)), which shall be subject to adjustments as announced by the State or the relevant local government authorities; and (ii) the actual distance covered for the transmission of natural gas.

LETTER FROM THE BOARD

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

Historical amounts

The following table sets out the historical transaction amounts received by Yu Ji Pipeline Company under the Existing Natural Gas Transmission Services Framework Master Agreement and the Existing Changcheng Natural Gas Transmission Services Framework Master Agreement (as the case may be) for the year ended 31 December 2018 and the six months ended 30 June 2019:

Historical transaction amounts received by Yu Ji Pipeline Company (approx. RMB (approx. HK\$))

For the year ended 31 December 2018	For the six months ended 30 June 2019
Existing Natural Gas Transmission Services Framework Master Agreement	
RMB678,390,000 (HK\$773,360,000)	RMB339,120,000 (HK\$386,600,000)
Existing Changcheng Natural Gas Transmission Services Framework Master Agreement	
RMB5,630,000 ^{Note} (HK\$6,420,000)	RMB2,840,000 (HK\$3,240,000)

Note: The term of the Existing Changcheng Natural Gas Transmission Services Framework Master Agreement commenced on 30 August 2018 and will expire on 31 December 2019.

None of these historical transaction amounts have exceeded the relevant annual caps for the corresponding financial years.

LETTER FROM THE BOARD

Annual caps

The following table sets out the historical annual caps of the transaction amounts estimated to be received by Yu Ji Pipeline Company under the Existing Natural Gas Transmission Services Framework Master Agreement and the Existing Changcheng Natural Gas Transmission Services Framework Master Agreement (as the case may be) for the year ended 31 December 2018 and the year ending 31 December 2019:

Historical annual caps of the estimated transaction amounts (RMB (approx. HK\$))

For the year ended 31 December 2018	For the year ending 31 December 2019
Existing Natural Gas Transmission Services Framework Master Agreement	
RMB1,800,000,000 (HK\$2,052,000,000)	RMB1,800,000,000 (HK\$2,052,000,000)
Existing Changcheng Natural Gas Transmission Services Framework Master Agreement	
RMB8,000,000 ^{Note} (HK\$9,120,000)	RMB15,000,000 (HK\$17,100,000)

Note: The term of the Existing Changcheng Natural Gas Transmission Services Framework Master Agreement commenced on 30 August 2018 and will expire on 31 December 2019.

The differences between the historical transaction amounts for the year ended 31 December 2018 and the six months ended 30 June 2019 and the historical annual caps for the year ended 31 December 2018 and the year ending 31 December 2019 under the Existing Natural Gas Transmission Services Framework Master Agreement and the Existing Changcheng Natural Gas Transmission Services Framework Master Agreement respectively were mainly due to (i) the actual annual natural gas production capacity of the upstream gas field of the Group having been lower than expected (while approximately 3 billion cubic meters per annum were produced, it was estimated that approximately 5 billion cubic meters per annum would have been produced); and (ii) unexpected changes in market structures that resulted in an increase in the proportion of natural gas having been transmitted to Shanxi Province and Henan Province, the PRC, which are closer to the said upstream gas field and which require a shorter transmission distance, and a decrease in the proportion of natural gas having been transmitted to Shandong Province, the PRC, which requires a longer transmission distance. As the average transmission price of natural gas varies

LETTER FROM THE BOARD

according to the transmission distance covered, the historical transaction amounts were less than expected given that a higher proportion of natural gas was transmitted for a relatively shorter distance.

The following table sets out the annual caps of the transaction amounts estimated to be received by Yu Ji Pipeline Company under the New Natural Gas Transmission Services Framework Master Agreement for each of the three years ending 31 December 2020, 31 December 2021 and 31 December 2022:

Annual caps (RMB (approx. HK\$))

For the year ending 31 December 2020	For the year ending 31 December 2021	For the year ending 31 December 2022
RMB900,000,000 (HK\$1,026,000,000)	RMB950,000,000 (HK\$1,083,000,000)	RMB1,000,000,000 (HK\$1,140,000,000)

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

- (1) The historical figures of the transactions.
- (2) It is estimated that the natural gas transmission capacity will increase from the current level of approximately 4.0 billion cubic meters to approximately 4.5, 4.8 and 5.0 billion cubic meters by the end of 2020, 2021 and 2022 respectively, having taken into account the Group's business scale and operation plans after completion of the Yulin-Jinan Pipeline Compression Project.
- (3) It is expected that the applicable average transmission price will be approximately RMB0.2 per cubic meter (approximately HK\$0.23 per cubic meter), which is similar to that for the first half of 2019.
- (4) The applicable State-prescribed prices or government-approved prices (as the case may be).
- (5) The estimated demand for natural gas transmission services having taken into account the recent discovery of gas reserves in Erdos Basin, the PRC, by Sinopec Group Company.
- (6) A buffer of less than 4% has been applied in determining the proposed annual caps, which will provide the Group with more flexibility so as to ensure that it operates smoothly in the event that it will be required to accommodate any sudden increase in the

LETTER FROM THE BOARD

demand for the relevant services from Sinopec Natural Gas Branch Company, Shanxi Energy Company and/or Sinopec Changcheng Gas.

Taking into account the above, it is expected that the volume of transactions to be conducted by Yu Ji Pipeline Company will increase year by year in the coming three years.

Reasons for and benefits of the transactions

1. The Yulin-Jinan Pipeline, which is designed solely for natural gas transmission, is the core principal asset of Yu Ji Pipeline Company. The provision of natural gas transmission services to Sinopec Natural Gas Branch Company, Shanxi Energy Company and/or Sinopec Changcheng Gas would significantly utilise the Yulin-Jinan Pipeline and create economic benefits for Yu Ji Pipeline Company.
2. Currently, the revenue deriving from the core business of Yu Ji Pipeline Company is all generated from the provision of natural gas transmission services. Therefore, the provision of such services to Sinopec Natural Gas Branch Company, Shanxi Energy Company and/or Sinopec Changcheng Gas would potentially generate revenue for the Group, which is in the interests of the Company and the Shareholders as a whole.
3. As the transactions contemplated under the Existing Natural Gas Transmission Services Framework Master Agreement and the Existing Changcheng Natural Gas Transmission Services Framework Master Agreement are similar in nature and as Shanxi Energy Company will require natural gas transmission services which are similar to those as provided by Yu Ji Pipeline Company thereunder, and as the business operations of Sinopec Natural Gas Branch Company, Shanxi Energy Company and Sinopec Changcheng Gas may from time to time be conducted closely and simultaneously, the New Natural Gas Transmission Services Framework Master Agreement was entered into by all the aforementioned parties, in order to simplify the administrative process and enhance the operating efficiency in the provision of natural gas transmission services by Yu Ji Pipeline Company. Such decision is in the interests of the Company and the Shareholders as a whole.

2. New Comprehensive Outsourcing Framework Master Agreement

On 21 October 2019, having considered that the Group will renew the transactions contemplated under the Existing Services Outsourcing Framework Master Agreement, the term of which will expire on 31 December 2019, Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, entered into the New Comprehensive Outsourcing Framework Master Agreement with Sinopec

LETTER FROM THE BOARD

Natural Gas Branch Company, in order to set out the terms for, among others, the provision of a range of services and products from Sinopec Natural Gas Branch Company.

The New Comprehensive Outsourcing Framework Master Agreement is conditional on the passing of an ordinary resolution at the SGM by the Independent Shareholders to approve, among others, the entering into of the New Comprehensive Outsourcing Framework Master Agreement and the related annual caps. Subject to the passing of such ordinary resolution, the term of the New Comprehensive Outsourcing Framework Master of Agreement will commence on 1 January 2020 and expire on 31 December 2022.

Relationship with the connected person

Sinopec Natural Gas Branch Company is a branch company of Sinopec Corp., which indirectly wholly owns SKI, the controlling shareholder of the Company. Sinopec Natural Gas Branch Company is therefore an associate of SKI and a connected person of the Company under Chapter 14A of the Listing Rules.

Nature of the transactions

Yu Ji Pipeline Company will procure a range of services, products and assistance from Sinopec Natural Gas Branch Company and/or other companies as outsourced by Sinopec Natural Gas Branch Company and mutually agreed between Yu Ji Pipeline Company and Sinopec Natural Gas Branch Company in relation to the operation of the Yulin-Jinan Pipeline, including:

- (i) operating the Yulin-Jinan Pipeline on a daily basis;
- (ii) repair, maintenance and relevant technical supporting services for operating the Yulin-Jinan Pipeline;
- (iii) supervising and managing the production, safety, operation and other related works of Yu Ji Pipeline Company and carrying out operational organisation and coordination, risk management and personnel management works; and
- (iv) providing Yu Ji Pipeline Company with other services and products, including but not limited to the sale of cushion gas to Yu Ji Pipeline Company in the normal operation of natural gas pipelines and the provision of property insurance services relating to the operations and facilities of Yu Ji Pipeline Company from Sinopec Group Company through Sinopec Natural Gas Branch Company.

LETTER FROM THE BOARD

Pricing basis

The provision of outsourcing services by Sinopec Natural Gas Branch Company to Yu Ji Pipeline Company under the New Comprehensive Outsourcing Framework Master Agreement will continue to be conducted on arm's length negotiations between the parties and on normal commercial terms with reference to the costs for the provision of the relevant services and products, and the applicable taxes. The outsourcing services, products and assistance include but are not limited to (i) manpower technical services for operating the Yulin-Jinan Pipeline; (ii) the sale of cushion gas; and (iii) the provision of property insurance services from Sinopec Group Company etc. The costs to be incurred by Sinopec Natural Gas Branch Company in respect of the provision of the outsourcing services will take into account, among others, the salaries and social security insurance contributions of the employees of Sinopec Natural Gas Branch Company, the operational maintenance fees incurred, the travelling expenses incurred, the market price of cushion gas, the amount of property insurance services required by Yu Ji Pipeline Company (the relevant fees to be paid is calculated in accordance with the prescribed rates set out by the Ministry of Finance of the PRC and Sinopec Group Company applicable to each type of asset held by members of the Sinopec Group (including the Group)), and the applicable taxes.

Historical amounts

The following table sets out the historical transaction amounts paid by Yu Ji Pipeline Company under the Existing Services Outsourcing Framework Master Agreement for the year ended 31 December 2018 and the six months ended 30 June 2019:

**Historical transaction amounts paid by Yu Ji Pipeline Company
(approx. RMB (approx. HK\$))**

For the year ended 31 December 2018	For the six months ended 30 June 2019
RMB38,340,000 (HK\$43,710,000)	RMB15,100,000 (HK\$17,210,000)

None of these historical transaction amounts have exceeded the relevant annual caps for the corresponding financial years.

Annual caps

The following table sets out the historical annual caps in respect of the transaction amounts estimated to be paid by Yu Ji Pipeline Company under the Existing Services Outsourcing Framework Master Agreement for the year ended 31 December 2018 and the year ending 31 December 2019:

LETTER FROM THE BOARD

Historical annual caps of the estimated transaction amounts (RMB (approx. HK\$))

For the year ended 31 December 2018	For the year ending 31 December 2019
RMB170,000,000 (HK\$193,800,000)	RMB170,000,000 (HK\$193,800,000)

In determining the historical annual caps under the Existing Services Outsourcing Framework Master Agreement, all the fees payable for the outsourcing services provided by Sinopec Natural Gas Branch Company to Yu Ji Pipeline Company, which include outsourcing fees payable to service providers outsourced by Sinopec Natural Gas Branch Company, were taken into account. The differences between the historical transaction amounts for the year ended 31 December 2018 and the six months ended 30 June 2019 and the historical annual caps for the year ended 31 December 2018 and the year ending 31 December 2019 under the Existing Services Outsourcing Framework Master Agreement were mainly due to a high proportion of the service fees having been paid directly to such service providers instead of through Sinopec Natural Gas Branch Company, which resulted in lower actual transaction amounts during the term of the Existing Services Outsourcing Framework Master Agreement.

The following table sets out the annual caps in respect of the transaction amounts estimated to be paid by Yu Ji Pipeline Company under the New Comprehensive Outsourcing Framework Master Agreement for each of the three years ending 31 December 2020, 31 December 2021 and 31 December 2022:

Annual caps (RMB (approx. HK\$))

For the year ending 31 December 2020	For the year ending 31 December 2021	For the year ending 31 December 2022
RMB70,000,000 (HK\$79,800,000)	RMB75,000,000 (HK\$85,500,000)	RMB80,000,000 (HK\$91,200,000)

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

- (1) The historical figures of the transactions.
- (2) It is expected that the annual transaction amounts relating to manpower technical services and the relevant costs for the year ending 31 December 2019 will amount to approximately RMB45,000,000 (approximately HK\$51,300,000).

LETTER FROM THE BOARD

- (3) It is estimated that the salaries and social security insurance contributions of the employees of Sinopec Natural Gas Branch Company for operating the the Yulin-Jinan Pipeline will increase by approximately 7% each year.
- (4) Based on Yulin-Jinan Pipeline's transmission volume, it is estimated that the quantity of manpower technical services required will increase by approximately 7% each year.
- (5) It is estimated that cushion gas in the amount of approximately RMB4,000,000 (approximately HK\$4,560,000) and property insurance services in the amount of approximately RMB7,400,000 (approximately HK\$8,440,000) will be required each year.
- (6) The applicable tax rates.

Taking into account the above, it is expected that the volume of outsourcing services required by Yu Ji Pipeline Company will increase year by year in the coming three years.

Reasons for and benefits of the transactions

1. The provision of outsourcing services that include but are not limited to pipeline operation, maintenance and support services in relation to the Yulin-Jinan Pipeline by Sinopec Natural Gas Branch Company to Yu Ji Pipeline Company would take advantage of 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 services, and as to lower operational costs.
2. As the natural gas pipeline transmission business of Yu Ji Pipeline Company is of a high-risk nature, the services to be procured by Yu Ji Pipeline Company also include property insurance services relating to its operations and facilities. The petrochemical industry generally adopts a captive insurance model and Sinopec Group Company has obtained the necessary approval(s) from the Ministry of Finance of the PRC in order to provide captive insurance services to its member companies. Procuring insurance services from Sinopec Group Company through Sinopec Natural Gas Branch Company would allow Yu Ji Pipeline Company to better control and diversify its operation risks and also enable it to obtain essential insurance coverage and make insurance claims more conveniently and faster, as compared to procuring other general commercial insurance services from other insurance service providers.

LETTER FROM THE BOARD

3. Yu Ji Pipeline Company relies entirely on external support for pipeline operation and maintenance works, otherwise it would not be able to maintain normal operations and fully utilise its natural gas pipeline assets.
4. The historical relationship between Sinopec Natural Gas Branch Company and Yu Ji Pipeline Company has enabled Sinopec Natural Gas Branch Company to gain a comprehensive and deep understanding of Yu Ji Pipeline Company's business affairs and its general needs. Therefore, Yu Ji Pipeline Company is able to receive relatively high quality outsourcing services from Sinopec Natural Gas Branch Company.
5. Sinopec Natural Gas Branch Company does not seek to earn profits in providing outsourcing services to Yu Ji Pipeline Company, as the fees payable under the New Comprehensive Outsourcing Framework Master Agreement are determined with reference to costs and the applicable taxes. The entering into of the New Comprehensive Outsourcing Framework Master Agreement is therefore in the interests of the Company and the Shareholders as a whole.

3. New Yu Ji Pipeline Financial Services Framework Master Agreement

On 21 October 2019, having considered that the Group will renew the transactions contemplated under the Existing Yu Ji Pipeline Financial Services Framework Master Agreement, the term of which will expire on 31 December 2019, Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, entered into the New Yu Ji Pipeline Financial Services Framework Master Agreement with Sinopec Finance, in order to set out the terms for, among others, the provision of intra group financial services by Sinopec Finance to Yu Ji Pipeline Company.

The New Yu Ji Pipeline Financial Services Framework Master Agreement is conditional on the passing of an ordinary resolution at the SGM by the Independent Shareholders to approve, among others, the entering into of the New Yu Ji Pipeline Financial Services Framework Master Agreement and the related annual caps. Subject to the passing of such ordinary resolution, the term of the New Yu Ji Pipeline Financial Services Framework Master Agreement will commence on 1 January 2020 and expire on 31 December 2022.

Relationship with the connected person

Sinopec Finance is owned as to 51% by Sinopec Group Company and 49% by Sinopec Corp. Sinopec Group Company is the holding company of Sinopec Corp., which indirectly wholly owns SKI, the controlling

LETTER FROM THE BOARD

shareholder of the Company. Sinopec Finance is therefore an associate of SKI and a connected person of the Company under Chapter 14A of the Listing Rules.

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, entrusted loan services, bill acceptance and discounting services, and transfer and relevant settlement services and services in relation to the planning of settlement schemes. Sinopec Finance has agreed to provide financial services other than those aforesaid services to Yu Ji Pipeline Company at its request or instructions provided that Sinopec Finance has obtained the relevant approval(s) from CBIRC.

Pricing basis

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

- (i) the interest rates for Yu Ji Pipeline Company's deposits with Sinopec Finance shall be determined with reference to the deposit interest rates as announced by PBOC from time to time, and shall be no lower than the interest rates for deposits offered by other independent commercial banks to the members of the Sinopec Group;
- (ii) the interest rates for loans to be granted to Yu Ji Pipeline Company by Sinopec Finance shall be determined with reference to the base lending rates as announced by PBOC from time to time and in compliance with the relevant laws and regulations, such interest rates shall not be higher than the interest rates for loans offered by other independent commercial banks to members of the Sinopec Group;
- (iii) the rates for bill discounting services shall be determined with reference to the bill rediscounting rates as announced by PBOC from time to time; and depending on market conditions, such rates shall not be higher than the bill discounting rates offered by other independent commercial banks to the members of the Sinopec Group;
- (iv) the service fees for entrusted loan services shall not be higher than the fees offered by other independent commercial banks to the members of the Sinopec Group; and

LETTER FROM THE BOARD

- (v) no service fees shall be charged for transfer and relevant settlement services and the services in relation to planning of settlement schemes. However, if any service fees relating to such services are to be charged by independent commercial banks on Sinopec Finance, Yu Ji Pipeline Company will then be charged the same by Sinopec Finance.

Capital risk control measures

- (a) In accordance with PRC laws and regulations, Sinopec Finance will ensure that its fund management information system will operate safely and stably. Such system has undergone the security test in respect of connections to online commercial banking platforms and has reached the national security standards applicable to commercial banks.
- (b) Sinopec Finance will ensure that it complies with the risk monitoring indicators for financial institutions issued by CBIRC and other applicable PRC laws and regulations. Sinopec Group Company has also agreed with CBIRC to increase the share capital of Sinopec Finance in the event that Sinopec Finance is in financial straits.
- (c) In accordance with PRC laws and regulations, Yu Ji Pipeline Company will be able to check the status of its deposits with Sinopec Finance on any business day so as to enable it 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 annual cap.
- (d) If any laws or regulations are breached, Sinopec Finance will inform Yu Ji Pipeline Company immediately and will seek to ascertain the procedures and plans to remedy or mitigate such breach or the effects thereof.
- (e) The annual financial statements of Sinopec Finance will be provided to Yu Ji Pipeline Company upon request.

The 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 following table sets out the historical maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits placed by Yu Ji Pipeline Company with Sinopec Finance under the Existing Yu Ji Pipeline Financial Services Framework Master Agreement for the year ended 31 December 2018 and the six months ended 30 June 2019:

LETTER FROM THE BOARD

**Historical maximum outstanding balance at any time
(including any interest accrued therefrom)
for the deposits placed by Yu Ji Pipeline Company
(approx. RMB (approx. HK\$))**

For the year ended 31 December 2018	For the six months ended 30 June 2019
RMB302,130,000 (HK\$344,430,000)	RMB310,400,000 (HK\$353,860,000)

None of these historical amounts have exceeded the relevant annual caps for the corresponding financial years.

Annual caps

The following table sets out the historical annual caps in respect of the maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits estimated to be placed by Yu Ji Pipeline Company with Sinopec Finance under the Existing Yu Ji Pipeline Financial Services Framework Master Agreement for the year ended 31 December 2018 and the year ending 31 December 2019:

**Historical annual caps of the maximum outstanding balance at any
time (including any interest accrued therefrom) for the deposits
estimated to be placed by Yu Ji Pipeline Company
(RMB (approx. HK\$))**

For the year ended 31 December 2018	For the year ending 31 December 2019
RMB800,000,000 (HK\$912,000,000)	RMB800,000,000 (HK\$912,000,000)

The differences between the historical maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits placed by Yu Ji Pipeline Company with Sinopec Finance for the year ended 31 December 2018 and the six months ended 30 June 2019 and the historical annual caps for the year ended 31 December 2018 and the year ending 31 December 2019 under the Existing Yu Ji Pipeline Financial Services Framework Master Agreement were mainly due to the repayment of certain borrowings during the relevant years by the Group, which lowered the potential amount of deposits available to be placed.

The following table sets out the annual caps in respect of the maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits estimated to be placed by Yu Ji Pipeline Company with

LETTER FROM THE BOARD

Sinopec Finance under the New Yu Ji Pipeline Financial Services Framework Master Agreement for each of the three years ending 31 December 2020, 31 December 2021 and 31 December 2022:

Annual caps (RMB (approx. HK\$))

For the year ending 31 December 2020	For the year ending 31 December 2021	For the year ending 31 December 2022
RMB700,000,000 (HK\$798,000,000)	RMB700,000,000 (HK\$798,000,000)	RMB700,000,000 (HK\$798,000,000)

In arriving at the aforesaid annual caps, the historical figures of transactions, such as the historical maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits placed by Yu Ji Pipeline Company with Sinopec Finance for the year ended 31 December 2017 which was in the amount of approximately RMB575,440,000 (HK\$656,000,000); the increase in the amount of cash held by Yu Ji Pipeline Company from approximately RMB167,910,000 (approximately HK\$191,420,000) recorded as at 31 December 2018 to approximately RMB310,460,000 (approximately HK\$353,920,000) recorded as at 30 June 2019; the recording of net cash inflow from the operating activities of Yu Ji Pipeline Company for the year ended 31 December 2018 and six months ended 30 June 2019 in the amount of approximately RMB594,000,000 (approximately HK\$677,160,000) and in the amount of approximately RMB195,000,000 (approximately HK\$222,300,000) respectively; and the future business expansion plans of, the expected increase in the volume of transactions to be conducted by, and the expected increase in the cash flow movement of Yu Ji Pipeline Company were taken into account.

The following factors were also taken into account in arriving at the aforesaid annual caps:

- (1) In order to strengthen its centralised system for the management of funds and for the purpose of monitoring the manner in which funds are utilised, the Sinopec Group (including the Group) will utilise a “funding pool” platform with the assistance of Sinopec Finance. Such platform will seek to consolidate the funds of the Sinopec Group (including the Group) and enable loans to be granted within the Sinopec Group (including the Group) more efficiently by taking advantage of the anticipated time difference between the receipt and payment of funds by members of the Sinopec Group (including the Group), with an aim to support the development of the Sinopec Group and the Group.
- (2) Sinopec Finance, which is regulated by CBIRC and which has implemented well-regulated corporate governance measures, has been maintaining satisfactory operating results and financial

LETTER FROM THE BOARD

positions and implementing effective risk controls during the past three years. The safety standards of its settlement system has reached the standards of domestic commercial banks. Obtaining intra group financial services from Sinopec Finance would reduce finance costs and settlement costs, increase interest income of deposits, and control risks for Yu Ji Pipeline Company.

- (3) The applicable interest rates for the deposits of Yu Ji Pipeline Company to be placed with Sinopec Finance shall be 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 to be conducted through Sinopec Finance, the relevant settlement fees and expenses will be settled by Sinopec Finance, save if other independent commercial banks charge Sinopec Finance for such fees and expenses, Sinopec Finance will charge Yu Ji Pipeline Company the same accordingly.
- (5) Sinopec Finance has undertaken that its major shareholder shall not appropriate the Group's funds.
- (6) Given that currently, PRC companies are required to fulfill stricter approval procedures before remitting any capital out of mainland China, it is expected that the time required for Yu Ji Pipeline Company to obtain the necessary approval(s) to distribute dividends to the Company will take relatively longer and therefore, it is also expected that the amount of deposits to be placed by Yu Ji Pipeline Company with Sinopec Finance will be higher than what was deposited under the Existing Yu Ji Pipeline Financial Services Framework Master Agreement.

Loan services and bill acceptance and discount services

In view that the loan services and bill acceptance and discounting services to be provided by Sinopec Finance to Yu Ji Pipeline Company will be on normal commercial terms or better than those offered by independent third parties for comparable services in the PRC, and will not be secured by the assets of the Group, such services which also constitute financial assistance received by the Group are fully exempt under Rule 14A.90 of the Listing Rules from all reporting, annual review, announcement and Independent Shareholders' approval requirements. As such, no annual caps have been set for such services.

LETTER FROM THE BOARD

Entrustment loans and other services

Apart from the deposit services, loan services and bill acceptance and discounting 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 better than those offered by independent third parties for comparable services in the PRC.

As all of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the total fees estimated to be paid by Yu Ji Pipeline Company to Sinopec Finance for the entrustment loans and other financial services on an annual basis will fall within the de minimis threshold of 0.1% as stipulated under Rule 14A.76(1)(a) of the Listing Rules, such transactions are fully exempt from all reporting, annual review, announcement and Independent Shareholders' approval requirements. The Company will comply with the reporting, annual review, announcement and/or Independent Shareholders' approval requirements of the Listing Rules if and when such relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) exceed the relevant threshold.

Reasons for and benefits of 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 PBOC and CBIRC and provides its services in accordance with the rules and operational requirements of these regulatory authorities.
3. Sinopec Finance fully understands and is familiar with the business nature and needs of Yu Ji Pipeline Company. As Sinopec Finance and Yu Ji Pipeline Company are both subsidiaries of Sinopec Group Company, Sinopec Finance can better foresee the funding needs of Yu Ji Pipeline Company and can offer flexible and cost-effective services to Yu Ji Pipeline Company.
4. The settlement operations of members of the Sinopec Group (including the Group) will be conducted more effectively and Yu Ji Pipeline Company will be able to better manage and control its capital and mitigate and avert any operational risks.
5. The time required for the capital of Yu Ji Pipeline Company to be transmitted or transferred will be reduced, which will also accelerate the turnover of cash flow and reduce transaction costs and expenses, thereby further enhancing the quality and efficiency of capital utilisation.

LETTER FROM THE BOARD

6. Diversified financial services in broad areas will be available to Yu Ji Pipeline Company, which is in the interests of the Company and the Shareholders as a whole. Furthermore, the financial services to be provided by Sinopec Finance are in line with market norms and are on normal commercial terms, which will be determined with reference to the terms imposed by other independent commercial banks in the PRC.
7. Pursuant to the relevant regulations of PBOC and CBIRC, the customers of Sinopec Finance are limited to entities within the Sinopec Group (including the Group) and its subsidiaries, as a result of which the risks that Sinopec Finance may otherwise be exposed to if its customers include other entities unrelated to the Sinopec Group (including the Group) will be reduced.

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

New Yu Ji Compression Project Framework Master Agreement

References are made to the 11 November 2016 Announcement and the 2 December 2016 Circular respectively in relation to, among others, the Previous Yu Ji Compression Project Framework Master Agreement entered into between Yu Ji Pipeline Company, a wholly-owned subsidiary of the Company, and Sinopec Petroleum Engineering. Pursuant to such agreement, equipment procurement, design and construction services in respect of compression projects in connection with the Yulin-Jinan Pipeline were agreed to be provided by Sinopec Petroleum Engineering to Yu Ji Pipeline Company. As disclosed therein, the compression projects in connection with the Yulin-Jinan Pipeline contemplated under such agreement were expected to be completed in or around the end of 2018. However, the approval from the local government in Henan Province, the PRC, necessary for Yu Ji Pipeline Company to utilise land for such compression projects was only obtained in October 2018. Yu Ji Pipeline Company has carried out land acquisition works thereafter and the Yulin-Jinan Pipeline Compression Project will commence after such land acquisition is completed. The Yulin-Jinan Pipeline Compression Project is expected to be completed by the end of 2020. As at the Latest Practicable Date, approximately RMB1,220,000 (approximately HK\$1,390,000) has been incurred for conducting preparatory works for such land acquisition.

On 21 October 2019, due to reasons including but not limited to inflation and having considered the amount of the total fees which have been incurred up to the Latest Practicable Date, and having taken into account that the estimated maximum fees payable by Yu Ji Pipeline Company to Sinopec Petroleum Engineering of around RMB135,000,000 (approximately HK\$153,900,000) under the Previous Yu Ji Compression Project Framework Master Agreement will be insufficient to cover the fees contemplated to be paid by Yu Ji Pipeline Company based on recent estimations, Yu Ji Pipeline Company entered into the New Yu Ji Compression Project Framework Master Agreement with Sinopec Petroleum Engineering whereby the amount of the revised estimated maximum fees payable by Yu Ji Pipeline Company was determined.

LETTER FROM THE BOARD

Such agreement is conditional on the passing of an ordinary resolution at the SGM by the Independent Shareholders to approve, among others, the entering into of the New Yu Ji Compression Project Framework Master Agreement. Save as aforementioned, all other terms and conditions under the Previous Yu Ji Compression Project Framework Master Agreement have been incorporated into the New Yu Ji Compression Project Framework Master Agreement.

Relationship with the connected person

Sinopec Petroleum Engineering is a wholly-owned subsidiary of Sinopec Group Company, the holding company of Sinopec Corp., which indirectly wholly owns SKI, the controlling shareholder of the Company. Sinopec Petroleum Engineering is therefore an associate of SKI and a connected person of the Company under Chapter 14A of the Listing Rules.

Nature of transactions

Sinopec Petroleum Engineering has agreed to provide equipment procurement, design and construction services in respect of the Yulin-Jinan Pipeline Compression Project for the construction of the Anyang compression station, to Yu Ji Pipeline Company.

Pricing basis

It is estimated that the maximum fees payable by Yu Ji Pipeline Company to Sinopec Petroleum Engineering under the New Yu Ji Compression Project Framework Master Agreement will be RMB155,000,000 (approximately HK\$176,700,000), and such fees will be determined with reference to the following pricing basis:

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

The estimated maximum fees of RMB155,000,000 (approximately HK\$176,700,000) were determined with reference to the budget for the entire compression project in connection with the Yulin-Jinan Pipeline as approved by Sinopec Corp. in 2014, under which the total approved estimated investment cost amounted to approximately RMB742,700,000 (approximately HK\$846,680,000), which was also the approved maximum fees payable for such entire compression project, which shall not be exceeded.

LETTER FROM THE BOARD

Taking into account the total capital expenditures which have already been invested in relation to the compression projects in connection with the Yulin-Jinan Pipeline, which amounted to approximately RMB533,800,000 (approximately HK\$608,530,000) as at the Latest Practicable Date, the remaining amount of the approved budget for such compression projects would amount to approximately RMB208,900,000 (approximately HK\$238,150,000), which is higher than the estimated maximum fees of RMB155,000,000 (approximately HK\$177,000,000) under the New Yu Ji Compression Project Framework Master Agreement.

The increase of the estimated maximum fees from RMB135,000,000 (approximately HK\$153,900,000) under the Previous Yu Ji Compression Project Framework Master Agreement to RMB155,000,000 (approximately HK\$176,700,000) under the New Yu Ji Compression Project Framework Master Agreement also takes into account the increase in wages and costs of materials and equipment since November 2016, which was when the Previous Yu Ji Compression Project Framework Master Agreement was entered into.

The fees payable by Yu Ji Pipeline Company to Sinopec Petroleum Engineering will be the fair market price for the provision of the relevant services, which shall be determined with reference to normal commercial terms, and the terms to be offered to Yu Ji Pipeline Company shall be no less favourable than those offered by Sinopec Petroleum Engineering to independent third parties for comparable services.

Pursuant to the New Yu Ji Compression Project Framework Master Agreement, Yu Ji Pipeline Company will separately enter into compression projects agreements with Sinopec Petroleum Engineering, whereby the parties will negotiate and determine the terms thereof with reference to, among others, laws and regulations, market conditions, normal commercial terms, trade customs and the principle of fairness.

Reasons for and benefits of the transactions

The construction of the Anyang compression station is the most economical and optimal way to further enhance the natural gas transmission capacity of the Yulin-Jinan Pipeline, which will as a result further improve the profitability and economic efficiency of the Yulin-Jinan Pipeline. Given the recent discovery of gas reserves in Erdos Basin, the PRC, by Sinopec Group Company, it is expected that there will be an increase in the volume of gas supply through the Yulin-Jinan Pipeline.

Having Sinopec Petroleum Engineering participate in the Yulin-Jinan Pipeline Compression Project would facilitate the communication between the project owners and the compression projects construction units and would also result in more effective compression projects management and coordination.

LETTER FROM THE BOARD

Sinopec Petroleum Engineering possesses extensive professional experience in natural gas compression facilities and natural gas engineering. Having Sinopec Petroleum Engineering participate in the Yulin-Jinan Pipeline Compression Project would assist Yu Ji Pipeline Company in achieving targets on time, as well as guarantee the quality of the compression projects.

Having considered the above factors, the entering into of the New 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 TRANSACTIONS WITH THE SINOPEC GROUP

We rely on Sinopec Group Company, our ultimate controlling shareholder, and its subsidiaries for the business operations of Huade, Sinomart and Yu Ji Pipeline Company, and the termination of any of the agreements as disclosed in this Circular by the relevant connected persons of the Company may significantly impact the business and results of operations of the Group.

The PRC's energy sector is dominated by state-owned firms operating in the oil and gas industry. The Sinopec Group (including the 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 own their own oil terminals and natural gas pipelines. Each of such oil terminals and natural gas pipelines is supported by oil pipelines that are connected to their respective affiliated oil refining customers or respective affiliated natural gas fields. As such, these oil terminal and natural gas pipeline companies usually have their own unique customers for the reason that oil transmission by road will significantly increase the costs for providing such services. In addition, due to either size or geographical restrictions, there are very limited service providers and/or customers for the oil jetty services and storage services provided by the Group. Sinopec Group (including the Group) has seized and taken advantage of such opportunity by 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 (including the Group).

During the year ended 31 December 2016, the revenue generated under the Existing Sinopec Guangzhou Branch Framework Master Agreement and the Existing Natural Gas Transmission Services Framework Master Agreement were approximately HK\$553,000,000 and approximately HK\$1,000,000,000 respectively, representing approximately 31% and approximately 57% of the Group's total revenue. The revenue in total generated under the Existing Sinopec Guangzhou Branch Framework Master Agreement and the Existing Natural Gas Transmission Services Framework Master Agreement were approximately HK\$1,322,500,000 and approximately HK\$662,500,000 respectively, representing approximately 80% and approximately 89% of the Group's total revenue for the year ended 31 December 2018 and six months ended 30 June 2019, respectively.

LETTER FROM THE BOARD

In respect of the transactions to be conducted under the New Crude Oil Jetty and Storage Services Framework Master Agreement, although Huizhou Jetty is open for public use, it was initially designed to complement the operations and requirements of Sinopec Guangzhou Branch. Hence, both Sinopec Guangzhou Branch and Huade are mutually dependent on each other and it is expected that the transactions relating to the crude oil jetty services will be on-going and continue in the future.

In respect of the natural gas transmission services to be conducted under the New Natural Gas Transmission Services Framework Master Agreement, the Notice on the Supervision of Fair Opening of Oil and Gas Pipeline Network Facilities 《油氣管網設施公平開放監管辦法的通知》 jointly issued by the National Development and Reform Commission, the National Energy Administration of the PRC (國家能源局), the Ministry of Housing and Urban-Rural Development of the PRC (住房城鄉建設部) and the State Administration for Market Regulation (市場監管總局) in May 2019 stated that, among others, pipelines ought to be inter-connected to facilitate the deployment of oil and gas resources between different pipeline networks. As such, Yu Ji Pipeline Company would potentially be able to provide natural gas transmission services through the Yulin-Jinan Pipeline to other independent third party customers via different pipeline networks. The transactions relating to natural gas transmission services will be on-going and continue in the future and the reliance on Sinopec Group in relation to natural gas transmission services may be reduced as a result of the proposed inter-connection of different natural gas pipeline networks.

Although there is a strong demand by the Sinopec Group for the services provided by the 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 implementing risk control measures to reduce its 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 monitoring the market trends through its sale personnel and leveraging on potential third party contractors.

Given the 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 the Sinopec Group's management; and (ii) in respect of all transactions between any member of the Group and the Sinopec Group, it will treat the Group no less favourable than other subsidiaries which are within the scope of the Sinopec Group's management, the Company has developed and is constantly seeking to develop its overseas market position by setting up joint-venture companies in order to explore other opportunities, such as providing storage services to customers that are independent of the Sinopec Group. For the jetties that the Company holds interests in through the Six Oil Terminal Companies, the Company has expanded its clientele base that are independent of the Sinopec Group to reduce reliance on the Sinopec Group. The percentage of revenue generated by non-Sinopec Group customers from the Six Oil Terminal Companies has increased progressively. However, the potential non Stated-owned customers are substantially smaller in size as compared to those of the Sinopec Group, CNPC and CNOOC.

LETTER FROM THE BOARD

Having said that, there is no assurance that the Group will be able to attract other customers to utilise 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 provided by the Group after the expiry of the New Non-exempt Framework Master Agreements or the Sinopec Group fails to comply with its obligations under the New Non-exempt Framework Master Agreements during the term thereof, the Group's business and financial condition may be materially and adversely affected, particularly if the Group fails to attract other customers to utilise its services.

V. INFORMATION ON RENEWAL OF THE EXEMPT EXISTING CONTINUING CONNECTED TRANSACTIONS AND THE NEW EXEMPT CONTINUING CONNECTED TRANSACTIONS

On 21 October 2019, having considered that the Group will renew the transactions contemplated under the Exempt Existing Continuing Connected Transactions, the terms of which will expire on 31 December 2019, members of the Group also entered into the New Exempt Framework Master Agreements with connected persons of the Company, with terms that will commence on 1 January 2020 and expire on 31 December 2022.

On 21 October 2019, members of the Group also entered into the New Exempt Continuing Connected Transactions Agreements in respect of the New Exempt Continuing Connected Transactions with connected persons of the Company, with terms that will commence on 1 January 2020 and expire on 31 December 2022.

The transactions contemplated under the aforementioned agreements are subject to the reporting, annual review and announcement requirements but are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

For information on the New Exempt Framework Master Agreements and the New Exempt Continuing Connected Transactions Agreements, please refer to the 21 October 2019 Announcement.

VI. LISTING RULES' IMPLICATIONS

As at the Latest Practicable Date, Sinopec Group Company holds approximately 68.31% of the issued share capital of Sinopec Corp. Sinopec Corp. holds the entire issued share capital of Unipec, which holds the entire issued share capital of SKI, and is the indirect controlling shareholder of the Company, indirectly holding approximately 60.33% of the issued share capital of the Company.

Under the Listing Rules, for so long as SKI remains a substantial shareholder of the Company and both Sinopec Corp and Sinopec Group Company remain as holding companies of SKI, they and any 30%-controlled company held by them, or any of their subsidiaries or branch companies, including but not limited to Sinopec Guangzhou Branch, Sinopec Petroleum Reserve Company, Sinopec Pipeline Storage and Transportation Branch Company, Sinopec Finance Guangzhou Branch, Sinopec Finance, Century Bright, Sinopec Natural Gas Branch Company, Shanxi Energy Company, Sinopec Changcheng Gas and Sinopec Petroleum Engineering, will remain as connected persons of the Company, and the

LETTER FROM THE BOARD

transactions contemplated under each of the New Non-exempt Framework Master Agreements will constitute continuing connected transactions of the Company. The transactions contemplated under New Yu Ji Compression Project Framework Master Agreement will also constitute a connected transaction and a discloseable transaction of the Company under the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the annual caps for the transactions contemplated under each of the New Non-exempt Framework Master Agreements are more than 5%, such agreements are therefore subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will also disclose the relevant details in its next published annual report in accordance with the relevant requirements as set out in Rule 14A.49 of the Listing Rules.

In addition, in respect of 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, the provision of deposit services to the Group from Sinopec Finance Guangzhou Branch, Sinopec Finance and Century Bright (as the case may be) thereunder also constitutes the provision of financial assistance by the Group to Sinopec Finance Guangzhou Branch, Sinopec Finance and Century Bright (as the case may be) under Rule 14.04(1)(e) of the Listing Rules. As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the aggregate transaction amounts for such transactions on an annual basis under such agreements (if required to be aggregated) are more than 5% but all of which are below 25%, such transactions also constitute discloseable transactions of the Company, and are therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

Under the New Sinopec Finance Financial Services Framework Master Agreement:

- (i) in view that the loan services and bill acceptance and discounting services to be provided by Sinopec Finance Guangzhou Branch to the Huade Group will be on normal commercial terms or better than those offered by independent third parties for comparable services in the PRC, and will not be secured by the assets of the Huade Group, such services which also constitute financial assistance received by the Group are fully exempt under Rule 14A.90 of the Listing Rules from all reporting, annual review, announcement and Independent Shareholders' approval requirements. As such, no annual caps have been set for such services; and
- (ii) apart from the deposit services, loan services and bill acceptance and discounting services, the other services which may be provided by Sinopec Finance Guangzhou Branch 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 better than those offered by independent third parties for comparable services in the PRC. As all of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the total fees estimated to be paid by the Huade Group to Sinopec Finance Guangzhou Branch for the entrustment loans and other financial services on an annual basis will fall within the de

LETTER FROM THE BOARD

de minimis threshold of 0.1% as stipulated under Rule 14A.76(1)(a) of the Listing Rules, such transactions are fully exempt from all reporting, annual review, announcement and Independent Shareholders' approval requirements. The Company will comply with the reporting, annual review, announcement and/or Independent Shareholders' approval requirements of the Listing Rules if and when such relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) exceed the relevant threshold.

Under the New Yu Ji Pipeline Financial Services Framework Master Agreement:

- (i) in view that the loan services and bill acceptance and discounting services to be provided by Sinopec Finance to Yu Ji Pipeline Company will be on normal commercial terms or better than those offered by independent third parties for comparable services in the PRC, and will not be secured by the assets of the Group, such services which also constitute financial assistance received by the Group are fully exempt under Rule 14A.90 of the Listing Rules from all reporting, annual review, announcement and Independent Shareholders' approval requirements. As such, no annual caps have been set for such services; and
- (ii) apart from the deposit services, loan services and bill acceptance and discounting 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 better than those offered by independent third parties for comparable services in the PRC. As all of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the total fees estimated to be paid by Yu Ji Pipeline Company to Sinopec Finance for the entrustment loans and other financial services on an annual basis will fall within the de minimis threshold of 0.1% as stipulated under Rule 14A.76(1)(a) of the Listing Rules, such transactions are fully exempt from all reporting, annual review, announcement and Independent Shareholders' approval requirements. The Company will comply with the reporting, annual review, announcement and/or Independent Shareholders' approval requirements of the Listing Rules if and when such relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) exceed the relevant threshold.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) for the transaction amounts under the New Yu Ji Compression Project Framework Master Agreement are more than 5%, such agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. In addition, as one or more of the said applicable percentage ratios are more than 5% but are less than 25%, the transactions contemplated under the New Yu Ji Compression Project Framework Master Agreement also constitute a discloseable transaction of the Company, and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

Since SKI is considered to have a material interest in the transactions contemplated under the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement, it will abstain from voting on the resolution(s) to approve the entering into of such agreements at the SGM.

In addition, as certain executive Directors, including Mr. Chen Bo, Mr. Xiang Xiwen, Mr. Dai Liqi, Mr. Li Jianxin and Mr. Wang Guotao are considered to have a material interest in the transactions contemplated under the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement due to their other executive posts within the Sinopec Group, they have abstained from voting on the board resolutions(s) to approve such agreements.

VII. THE DIRECTORS' VIEWS

The Directors (including the independent non-executive Directors, the opinion of which after taking into account the advice of the Independent Financial Adviser, is included in the section headed "Letter from the Independent Board Committee" in this Circular) are of the view that the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement are on normal commercial terms and are entered into in the ordinary and usual course of business of the Group on 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, after taking into account the factors stated in this Circular.

VIII. GENERAL INFORMATION

The Company was incorporated in Bermuda with limited liability and its shares are listed on the Stock Exchange. The principal activities of the Group (the members of which include but are not limited to Huade, Sinomart and Yu Ji Pipeline Company) include, among others, the provision of natural gas pipeline transmission services, the operation of crude oil and oil products terminals and their ancillary facilities and the provision of logistics services including storage, logistics, transportation and terminal services on a global basis.

Sinopec Guangzhou Branch is principally engaged in the business of oil refining and petrochemical production. Its marketing distribution network covers the whole South China area with some of the products being exported to Southeast Asian countries.

Sinopec Petroleum Reserve Company is principally engaged in the sale and storage of crude oil, the import and export of petrochemical products and the construction of oil reserve facilities.

Sinopec Pipeline Storage and Transportation Branch Company is principally engaged in the wholesale of crude oil and the storage and distribution of crude oil, petroleum, natural gas and other oil products.

Sinopec Finance Guangzhou Branch is a branch company of Sinopec Finance. Sinopec Finance Guangzhou Branch and Sinopec Finance were established in the PRC as non-banking financial institutions and are regulated by PBOC and CBIRC. Sinopec Finance Guangzhou Branch and Sinopec Finance are principally engaged in the provision of services,

LETTER FROM THE BOARD

including but not limited to deposit services, loan services, entrusted loan services and entrusted investment services, in accordance with the rules and operational requirements of these regulatory authorities.

Century Bright is principally engaged in providing settlement and similar services and taking deposits from members of the Sinopec Group outside the PRC, and conducting intra group loan transactions. It is a money lender registered under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) and is a licensed money service operator under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615 of the Laws of Hong Kong).

Sinopec Natural Gas Branch Company is principally engaged in the construction and operation of natural gas transmission pipelines, liquefied natural gas terminals, compressed natural gas refuelling stations and gas storage facilities, and developments in the long distance pipelines market and liquefied natural gas projects, as well as the sale of natural gas.

Shanxi Energy Company is principally engaged in the construction and operation of natural gas and coalbed methane pipelines and liquefied natural gas and compressed natural gas refuelling stations, as well as the sale of natural gas and coalbed methane.

Sinopec Changcheng Gas is principally engaged in the sale of natural gas, the provision of heating services, the sale of petrochemical products, technological development works in the provision of natural gas storage and transmission, consultation and services, as well as the provision of project investment and asset management services.

Sinopec Petroleum Engineering is principally engaged in the development and construction of petroleum projects.

IX. SPECIAL GENERAL MEETING

The SGM will be held on Friday, 29 November 2019 at 10:00 a.m. or at any adjournment thereof at Salon Rooms II-III, 5/F., Harbour Grand Hong Kong, 23 Oil Street, North Point, Hong Kong during which ordinary resolutions shall be proposed to the Shareholders to approve the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement. SKI, the controlling shareholder of the Company which is interested in 1,500,000,000 Shares (representing approximately 60.33% of the total issued share capital of the Company), will abstain from voting in relation to the resolution(s) to be proposed to approve the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement. The New Non-exempt Framework Master Agreements and the New 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 54, Hopewell

LETTER FROM THE BOARD

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.

X. RECOMMENDATION

The Directors (including the independent non-executive Directors, the opinion of which after taking into account the advice of the Independent Financial Adviser, is included in the section headed "Letter from the Independent Board Committee" in this Circular) are of the view that the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement are on normal commercial terms and are entered into in the ordinary and usual course of business of the Group on 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, after taking into account the factors stated in this Circular.

Accordingly, the Directors (including the independent non-executive Directors, the opinion of which after taking into account the advice of the Independent Financial Adviser, is included in the section headed "Letter from the Independent Board Committee" in this Circular) recommend the Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement. Your attention is drawn to the recommendation of the Independent Board Committee as set out on pages 59 to 60 of this Circular and the letter from the Independent Financial Adviser as set out on pages 61 to 88 of this Circular.

XI. ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendix to this Circular.

By order of the Board
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)

11 November 2019

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular issued by the Company to the Shareholders dated 11 November 2019 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

As disclosed in the 21 October 2019 Announcement, among others, the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement were entered into by members of the Group and connected persons of the Company.

The Independent Board Committee was formed on 21 October 2019 to consider and advise the Independent Shareholders on, among others, (i) the New Non-exempt Framework Master Agreements and the terms and conditions thereof (including the annual caps thereunder); (ii) the New Yu Ji Compression Project Framework Master Agreement and the terms and conditions thereof, and (iii) how to vote in the SGM. The Company has appointed Somerley Capital Limited as the Independent Financial Adviser to advise and make recommendations to the Independent Board Committee and the Independent Shareholders in this regard.

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The terms and conditions, and the reasons for and benefits of the transactions contemplated under the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement are set out on pages 15 to 51 of the Circular, which we urge you to read carefully, together with the additional information as set out in the appendix to the Circular.

We also draw your attention to the letter from the Independent Financial Adviser containing their advice and recommendation in respect of the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement, as set out on pages 61 to 88 of the Circular, which we urge you to read carefully.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for and benefits of entering into the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement, and the basis upon which their terms and conditions (including the annual caps thereunder, as the case may be) have been determined. We have also considered the key factors taken into account by the Independent Financial Adviser in arriving at its opinion regarding the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement, as set out in the letter from the Independent Financial Adviser.

The Independent Board Committee, after taking into account, among others, the advice of the Independent Financial Adviser, considers that the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement are on normal commercial terms and are entered into in the ordinary and usual course of business of the Group on 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,

Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution(s) in relation to the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement, as set out in the notice of the SGM at the end of the Circular.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Ms. Tam Wai Chu,
Maria

Mr. Fong Chung,
Mark

Dr. Wong Yau Kar,
David

Ms. Wong Pui Sze,
Priscilla

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

11 November 2019

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

Dear Sirs,

**(1) CONTINUING CONNECTED TRANSACTIONS AND
DISCLOSEABLE TRANSACTIONS REGARDING RENEWAL
OF THE NON-EXEMPT EXISTING CONTINUING CONNECTED
TRANSACTIONS; AND
(2) CONNECTED TRANSACTION 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 discloseable and continuing connected transactions regarding the entering into of the New Non-exempt Framework Master Agreements; and (ii) the discloseable and connected transaction regarding the entering into of the New Yu Ji Compression Project Framework Master Agreement (collectively, the “**Transactions**”). Details of the Transactions are contained in the circular to the Shareholders dated 11 November 2019 (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.

As at the Latest Practicable Date, Sinopec Group Company holds approximately 68.31% of the issued share capital of Sinopec Corp.. Sinopec Corp. holds the entire issued share capital of Unipecc, which holds the entire issued share capital of SKI, and is the indirect controlling shareholder of the Company, indirectly holding approximately 60.33% of the issued share capital of the Company. Pursuant to the Listing Rules, (i) transactions contemplated under each of the New Non-exempt Framework Master Agreements constitute discloseable and continuing connected transactions of the Company; and (ii) the transaction contemplated under the New Yu Ji Compression Project Framework Master Agreement constitutes a discloseable and connected transaction of the Company. The transactions contemplated under the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement are subject to the Independent Shareholders' approval requirements under the Listing Rules. Since SKI is considered to

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

have a material interest in the transactions contemplated under the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement, it will abstain from voting on the resolution(s) to approve the Transactions at the SGM.

The Independent Board Committee comprising all of the independent non-executive Directors, namely Ms. Tam Wai Chu, Maria, Mr. Fong Chung, Mark, Dr. Wong Yau Kar, David and Ms. Wong Pui Sze, Priscilla, to consider and advise the Independent Shareholders on (i) the New Non-exempt Framework Master Agreements and the terms and conditions thereunder (including the annual caps); (ii) the New Yu Ji Compression Project Framework Master Agreement and the terms and conditions thereunder (including the maximum fee payable); and (iii) how to vote in the SGM. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

In addition, as certain executive Directors, including Mr. Chen Bo, Mr. Xiang Xiwen, Mr. Dai Liqi, Mr. Li Jianxin and Mr. Wang Guotao, held other executive posts within the Sinopec Group, they are considered to have a material interest in the transactions contemplated under the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement and have abstained from voting on the board resolution(s) to approve the Transactions.

We are not associated with the Company, counterparties to the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement, their respective substantial shareholders or associates, and accordingly, are considered ourselves 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, counterparties to the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement, their substantial shareholders or associates. In addition, we have not been engaged by the Company as the independent financial adviser or financial adviser for the Company's other transactions in the past two years.

As at the Latest Practicable Date, there were no relationship or interest between Somerley Capital Limited on one hand and the Company, counterparties to the New Non-exempt Framework Master Agreements and the New Yu Ji Compression Project Framework Master Agreement, 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 agreements in connection to the Non-exempt Existing Continuing Connected Transactions, the Previous Yu Ji Compression Project Framework Master Agreement, the New Non-exempt Framework Master Agreements, the New Yu Ji Compression Project Framework Master Agreement, the annual report of the Company for year ended 31 December 2018 (the "**2018 Annual Report**"), the interim report of the Company for the six

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

months ended 30 June 2019 (the “**2019 Interim Report**”) and the information set out in the Circular. We have also discussed with the management of the Group, among other things, the basis in arriving at the annual caps for the transactions under the New Non-exempt Framework Master Agreements and the maximum fee payable for the transactions under the New Yu Ji Compression Project Framework Master Agreement.

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, among other things, the provision of natural gas pipeline transmission services, the operation of crude oil and oil products terminals and their ancillary facilities and provision of logistics services including storage, logistics, transportation and terminal services on a global basis.

2. Information on the connected parties

Sinopec Guangzhou Branch is principally engaged in the business of oil 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 Guangzhou Branch is a branch company of Sinopec Corp., which indirectly wholly owns SKI, the controlling shareholder of the Company.

Sinopec Petroleum Reserve Company is principally engaged in sale and storage of crude oil, import and export of petrochemical products and the construction of oil reserve facilities. Sinopec Petroleum Reserve Company is a wholly-owned subsidiary of Sinopec Group Company, the holding company of Sinopec Corp., which indirectly wholly owns SKI, the controlling shareholder of the Company.

Sinopec Pipeline Storage and Transportation Branch Company is principally engaged in wholesaling of crude oil and the storage and distribution of crude oil, petroleum, natural gas and other oil products. Sinopec Pipeline Storage and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Transportation Branch Company is a branch company of a wholly-owned subsidiary of Sinopec Corp., which indirectly wholly owns SKI, the controlling shareholder of the Company.

Sinopec Finance Guangzhou Branch is a branch company of Sinopec Finance. Sinopec Finance and Sinopec Finance Guangzhou Branch were established in the PRC as non-banking financial institutions and are regulated by PBOC and CBIRC. They are principally engaged in the provision of services, including but not limited to deposit services, loan services, entrusted loan services and entrusted investment services, in accordance with the rules and operational requirements of these regulatory authorities. Sinopec Finance is owned as to 51% by Sinopec Group Company and 49% by Sinopec Corp. Sinopec Group Company is the holding company of Sinopec Corp., which indirectly wholly owns SKI, the controlling shareholder of the Company.

Century Bright is principally engaged in providing settlement and similar services and taking deposits from members of the Sinopec Group outside the PRC, and conducting intra group loan transactions. It is a money lender registered under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) and is a licensed money service operator under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615 of the Laws of Hong Kong). Century Bright is a wholly-owned subsidiary of Sinopec Group Company, the holding company of Sinopec Corp., which indirectly wholly owns SKI, the controlling shareholder of the Company.

Sinopec Natural Gas Branch Company is principally engaged in the construction and operation of natural gas transmission pipelines, liquefied natural gas terminals, compressed natural gas refuelling stations and gas storage facilities, and development in the long distance pipelines market and liquefied natural gas projects, as well as the sale of natural gas. Sinopec Natural Gas Branch Company is a branch company of Sinopec Corp., which indirectly wholly owns SKI, the controlling shareholder of the Company.

Shanxi Energy Company is principally engaged in the construction and operation of natural gas and coalbed methane pipelines, liquefied natural gas and compressed natural gas refuelling stations, as well as sale of natural gas and coalbed methane. Shanxi Energy is an associate of Sinopec Natural Gas Limited Company, a wholly-owned subsidiary of Sinopec Corp., which indirectly wholly owns SKI, the controlling shareholder of the Company.

Sinopec Changcheng Gas is principally engaged in the sale of natural gas, the provision of heating services, the sale of petrochemical products, technological development works in the provision of natural gas storage and transmission, consultation and services, as well as the provision of project investment and asset management. Sinopec Changcheng Gas is an indirect wholly-owned subsidiary of Sinopec Corp., which indirectly wholly owns SKI, the controlling shareholder of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Sinopec Petroleum Engineering is principally engaged in the development and construction of petroleum projects. Sinopec Petroleum Engineering is a wholly-owned subsidiary of Sinopec Group Company, the holding company of Sinopec Corp., which indirectly wholly owns SKI, the controlling shareholder of the Company.

3. Background and reasons for the Transactions

References are made to the 11 November 2016 Announcement, the 30 August 2018 Announcement and the 2 December 2016 Circular, in relation to, among others, the Non-exempt Existing Continuing Connected Transactions.

Having considered that the Group will renew the Non-exempt Existing Continuing Connected Transactions which will expire on 31 December 2019, the Company would like to seek the Independent Shareholders' approval on (i) the entering into of the New Non-exempt Framework Master Agreements entered into by members of the Group and connected persons of the Company on 21 October 2019 and (ii) the proposed annual caps for the three years ending 31 December 2022 for all continuing connected transactions contemplated under the New Non-exempt Framework Master Agreements.

Reference is made to the 11 November 2016 Announcement and the 2 December 2016 Circular in relation to, among others, the Previous Yu Ji Compression Project Framework Master Agreement entered into between Yu Ji Pipeline Company and Sinopec Petroleum Engineering, in respect of the provision of equipment procurement, design and construction services by Sinopec Petroleum Engineering for the compression projects in connection with the Yulin-Jinan Pipeline, to Yu Ji Pipeline Company. As disclosed therein, the compression projects in connection with the Yulin-Jinan Pipeline contemplated thereunder were expected to be completed in or around the end of 2018. However, the approval from the local government in Henan Province, the PRC, necessary for Yu Ji Pipeline Company to utilise the land for such compression projects, was only obtained in October 2018. Yu Ji Pipeline Company has carried out land acquisition works thereafter and the Yulin-Jinan Pipeline Compression Project will commence after such land acquisition is completed.

Having considered that the estimated maximum fees payable by Yu Ji Pipeline Company to Sinopec Petroleum Engineering under the Previous Yu Ji Compression Project Framework Master Agreement will be insufficient to cover the fees contemplated to be paid by Yu Ji Pipeline Company based on recent estimations, on 21 October 2019, Yu Ji Pipeline Company entered into the New Yu Ji Compression Project Framework Master Agreement with Sinopec Petroleum Engineering whereby the amount of the revised estimated maximum fees payable by Yu Ji Pipeline Company was agreed. Such agreement is conditional on the passing of an ordinary resolution at the SGM by the Independent Shareholder to approve, among others, the entering into of the New Yu Ji Compression Project Framework Master Agreement. Save as aforementioned, all other terms and conditions under the Previous Yu Ji Compression Project Framework Master Agreement have been incorporated into the New Yu Ji Compression Project Framework Master Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. The New Non-exempt Framework Master Agreements

As set out in the letter from Board, the New Non-exempt Framework Master Agreements has been entered into by members of the Group with connected persons of the Company on 21 October 2019 in respect of (i) the provision of crude oil jetty and storage services by Huade to Sinopec Guangzhou Branch, Sinopec Petroleum Reserve Company and/or Sinopec Pipeline Storage and Transportation Branch Company; (ii) the provision of natural gas transmission services by Yu Ji Pipeline Company to Sinopec Natural Gas Branch Company, Sinopec Changcheng Gas and Shanxi Energy Company; (iii) the procurement of a range of services and products by Yu Ji Pipeline Company from Sinopec Natural Gas Branch Company; (iv) the provision of financial services including loan services, bill acceptance and discount services, settlement services, deposit services, entrustment loan services and other financial services by Sinopec Finance Guangzhou Branch to the Huade Group and by Sinopec Finance to Yu Ji Pipeline Company, respectively; and (v) the provision of deposit services and settlement and similar services by Century Bright to the Group, for the three years ending 31 December 2022.

A summary of the pricing basis for the transactions to be carried out under the new framework agreements has been set out as follows:

Table 1: Pricing basis of the transactions contemplated under the New Non-exempt Framework Master Agreements

Type of transaction	Agreements	Group Member(s)	Counterparties	Scope of Transaction	Pricing basis
1. Crude oil jetty and storage services	New Crude Oil Jetty and Storage Services Framework Master Agreement	Huade	<ul style="list-style-type: none"> ● Sinopec Guangzhou Branch ● Sinopec Petroleum Reserve Company ● Sinopec Pipeline Storage and Transportation Branch Company 	<p>(i) Provision of jetty and related services in relation to the unloading of crude oil from oil tankers and dockage;</p> <p>(ii) provision of crude oil storage and related services in relation to the storage of crude oil in oil tank and oil tank handling; and</p> <p>(iii) provision of transmission of crude oil and related services in relation to the transmission of crude oil from Huizhou Jetty to the refinery complex of Sinopec Guangzhou Branch in Guangzhou, the PRC</p>	<p>Principally based on the State-prescribed prices or the government-approved prices (as the case maybe)</p> <p>If State-prescribed price or government-approved price of any services are repealed, the service fees payable shall be either:</p> <p>(a) the fair market price; or</p> <p>(b) if market price is not available, then 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 PRC's consumer price index ("CPI") as compared to the preceding calendar year</p>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Type of transaction	Agreements	Group Member(s)	Counterparties	Scope of Transaction	Pricing basis
2. Financial Services	For PRC Financial Services:				
	New Sinopec Finance Services Framework Master Agreement	Huade	Sinopec Finance Guangzhou Branch	Provision of the following services: (i) deposit services; (ii) loan services; (iii) bill acceptance and discount services; (iv) entrusted loan services; and (v) transfer and settlement services	Principally based on rates set by PBOC and in any event the terms (i.e. rates or charges) shall not be less favourable than those offered by independent commercial banks to members of the Sinopec Group
	New Yu Ji Pipeline Financial Services Framework Master Agreement	Yu Ji Pipeline Company	Sinopec Finance		
	For Non-PRC Financial Services:				
	New Century Bright Financial Services Framework Master Agreement	the Company	Century Bright	Provision of deposit services and settlement and similar services to the Company and its subsidiaries outside the PRC	With reference to rates offered by independent commercial banks in Hong Kong and in any event the terms (i.e. rate or charges) shall not be less favourable than those offered by independent commercial banks to members of the Sinopec Group
3. Natural Gas Transmission Services	New Natural Gas Transmission Services Framework Master Agreement	Yu Ji Pipeline Company	<ul style="list-style-type: none"> ● Sinopec Natural Gas Branch Company ● Sinopec Changcheng Gas ● Shanxi Energy Company 	Provision of natural gas transmission services through the Yulin-Jinan Pipeline to the natural gas delivery point(s) designated by Sinopec Natural Gas Branch Company, Shanxi Energy Company and/or Sinopec Changcheng Gas	Principally based on the State-prescribed prices and adjusted in accordance to the transmission distance

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Type of transaction	Agreements	Group Member(s)	Counterparties	Scope of Transaction	Pricing basis
4. Services Outsourcing	New Comprehensive Outsourcing Framework Master Agreement	Yu Ji Pipeline Company	Sinopec Natural Gas Branch Company	<p>(i) Operating the Yulin-Jinan Pipeline on a daily basis;</p> <p>(ii) repair, maintenance and relevant technical supporting services for operating the Yulin-Jinan Pipeline;</p> <p>(iii) supervising and managing the production, safety, operation and other related works of Yu Ji Pipeline Company and carrying out operational organisation and coordination, risk management and personnel management works; and</p> <p>(iv) providing Yu Ji Pipeline Company with other services and products, including but not limited to the sale of cushion gas to Yu Ji Pipeline Company in the normal operation of natural gas pipeline and the provision of property insurance services relating to the operations and facilities of Yu Ji Pipeline Company from Sinopec Group Company through Sinopec Natural Gas Branch Company</p>	Conducted on arm's length negotiations between the parties and on normal commercial terms with reference to costs for the provision of the relevant services and products, and the applicable taxes

As shown in the above table, all the transactions contemplated under the New Non-exempt Framework Master Agreements to be entered into between members of the Group and connected persons of the Company for a term of three years commencing from 1 January 2020 and ending on 31 December 2022 are materially the same as those under the Non-exempt Existing Continuing Connected Transactions except for (i) the purchase of cushion gas by Yu Ji Pipeline Company; and (ii) the contribution to the property insurance fund under the New Comprehensive Outsourcing Framework Master Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the management of the Group that (a) pursuant to the Notice on the Supervision of Fair Opening of Oil and Gas Pipeline Network Facilities 《油氣管網設施公平開放監管辦法》的通知 (the “**Joint Notice**”) jointly issued by the National Development and Reform Commission (“**NDRC**”) (國家發改委), the National Energy Administration of the PRC (國家能源局), the Ministry of Housing and Urban-Rural Development of the PRC (住房城鄉建設部) and the State Administration for Market Regulation (市場監管總局) in May 2019, among other things, (i) the oil and gas pipeline facilities should be operated independently and separate from other oil and gas businesses; and (ii) pipelines ought to be inter-connected to facilitate the deployment of oil and gas resources between different pipeline networks; and (b) cushion gas is the minimum volume of gas required in the natural gas pipeline to provide the necessary pressure for natural gas transmission operation. Thus, the Group is required to purchase cushion gas of approximately 23 million m³ at approximately RMB52 million as its cushion gas inventory by the end of 2019. Such amount is calculated based on (i) the average minimum volume of gas to maintain necessary pressure for the transmission of natural gas to customers over the past 12 months through computer simulation by adopting the Benedict-Webb-Rubin equation of state; and (ii) the market price of natural gas price and will be booked as inventories on the balance sheet of Yu Ji Pipeline Company upon purchase. In addition, the Group will purchase additional cushion gas for its increasing transmission capacity as a result of the Yulin-Jinan Pipeline Compression Project from 2020 and onwards.

Under the Administrative Measures of China Petrochemical Corporation Production Safety Insurance Fund* (Ministry of Finance [1997] No.268)* (《中國石油化工總公司安全生產保證基金管理辦法》(財工字[1997]268號)) jointly published by the Ministry of Finance of the PRC and Sinopec Group Company and the Administrative Measures of China Petrochemical Corporation Production Safety Insurance Fund* (China Petrochemical Corporation Safety [2018] No.17)* (《中國石化安全生產保證基金資金管理辦法》(中國石化安[2018]17號)) published by Sinopec Group Company, Yu Ji Pipeline Company is required to contribute to property insurance fund managed by the Sinopec Group. The Sinopec Group’s Department of Production Safety Management* (安全監管局) has published a notice in 2014 in relation to the prescribed rates for each type of assets held by members of the Sinopec Group which are subject to the contribution to the property insurance fund.

Crude oil jetty and storage services

We are advised by the management of the Group that since the Existing Sinopec Guangzhou Branch Framework Master Agreement will expire on 31 December 2019 and it is expected that Sinopec Petroleum Reserve Company and Sinopec Pipeline Storage and Transportation Branch Company (other than Sinopec Guangzhou Branch) will also require the crude oil jetty and storage services from the Group. Thus, each of Sinopec Petroleum Reserve Company and Sinopec Pipeline Storage and Transportation Branch Company are included as a counterparty to the New Crude Oil Jetty and Storage Services Framework Master Agreement. We have reviewed the New Crude Oil Jetty and Storage Services Framework Master Agreement and concur with the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

management of the Group that save for the inclusion of the two counterparties, the transactions contemplated thereunder are materially the same as those under the Existing Sinopec Guangzhou Branch Framework Master Agreement.

The pricing of the New Crude Oil Jetty and Storage Services Framework Master Agreement are principally based on the State-prescribed prices or government-approved prices (as the case may be). In this regard, we have reviewed the relevant documents (i) issued by the Guangdong Price Bureau of the PRC* (廣東省物價局) and jointly issued by the NDRC and the Ministry of Transport of the PRC (交通運輸部) 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) issued by NDRC which sets out the State-prescribed prices for transmission of crude oil. We have also reviewed the Existing Sinopec Guangzhou Branch Framework Master Agreement and relevant invoices of historical transactions, and noted that the prices charged under the contract and invoices were in accordance with the State-prescribed prices or government-approved prices (as the case may be). Moreover, from the sample invoices which we reviewed, we noted that the port charges (港務費) charged to Sinopec Guangzhou Branch before and after the implementation of new port charges on 1 April 2019 were consistent with the State-prescribed prices from time to time. In addition, we are advised by the management of the Group that the payment terms offered to Sinopec Guangzhou Branch, Sinopec Petroleum Reserve Company and Sinopec Pipeline Storage and Transportation Branch Company are similar to those under the Existing Sinopec Guangzhou Branch Framework Master Agreement. We have reviewed the payment terms offered to Sinopec Guangzhou Branch under the Existing Sinopec Guangzhou Branch Framework Master Agreement and learnt that the payment is required to be settled quarterly with a 20-day credit period from the end of previous quarter, which is no more favourable than the payment terms offered to the Group's other customers as disclosed in the 2018 Annual Report and 2019 Interim Report, where the Group granted credit periods of 30 to 90 days to its customers.

In the event the State-prescribed prices or government-approved prices of any services be repealed, the service fee payables shall either be the fair market price or if no market price is available, then the State-prescribed prices or government-approved prices (as the case may be) that were applicable previously plus a margin not exceeding the PRC's CPI growth as compared to the preceding calendar year. Given the transactions will be carried out (i) in accordance with the State-prescribed or government-approved prices for the services which Huade provides; or (ii) in the event the prices of the services are no longer prescribed by the State or the government, at the fair market price which, as advised by the management of the Group, shall not be lower than the market price for similar services which may be charged by independent third parties in the vicinity or by Huade to independent third parties and actual and direct costs to Huade for the provision of relevant services; or at a price based on the State-prescribed prices or government-approved prices that were applicable previously plus a margin not exceeding the PRC's CPI growth as compared to the preceding calendar year, we consider that the pricing basis under the New Crude Oil Jetty and Storage Services Framework Master Agreement is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the above, we are of the view that the terms under the New Crude Oil Jetty and Storage Services Framework Master Agreement are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned.

Financial services

We are advised by the management of the Group that since the Existing Sinopec Finance Financial Services Framework Master Agreement, Existing Yu Ji Pipeline Financial Services Framework Master Agreement and Existing Century Bright Financial Services Framework Master Agreement will expire on 31 December 2019, the Group expects to continue procuring financial services from Sinopec Finance (or through Sinopec Finance Guangzhou Branch as the case maybe) and Century Bright and has entered into the New Sinopec Finance Financial Services Framework Master Agreement, the New Yu Ji Pipeline Financial Services Framework Master Agreement and the New Century Bright Financial Services Framework Master Agreement on 21 October 2019.

PRC financial services

In respect of PRC financial services, the pricing of the New Sinopec Finance Financial Services Framework Master Agreement and the New Yu Ji Pipeline Financial Services Framework Master Agreement are principally based on the rates set by PBOC but shall not be, in any event, less favourable than those offered by the independent commercial banks to members of the Sinopec Group. Save for the deposit services, the financial services under the New Sinopec Finance Financial Services Framework Master Agreement and the New Yu Ji Pipeline Financial Services Framework Master Agreement provided to members of the Group are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

In relation to the PRC financial services, pursuant to the latest interest rates announced by the PBOC in October 2015, the interest rate was 0.35% for saving deposits and 1.15% for agreement deposits. From the invoice samples for the interests received by each of Huade and Yu Ji Pipeline Company from Sinopec Finance in the second half of 2018 and the first half of 2019 which we reviewed, we noted that (i) the saving deposits rate offered by Sinopec Finance to both Huade and Yu Ji Pipeline Company were 0.35% per annum; and (ii) the agreement deposits rates offered by Sinopec Finance to Huade and Yu Ji Pipeline Company were 1.15% per annum and 1.265% per annum, respectively. Both of which are consistent with the deposit rates set by the PBOC or better. Furthermore, we have reviewed the terms of deposit services under the New Sinopec Finance Financial Services Framework Master Agreement and the New Yu Ji Pipeline Financial Services Framework Master Agreement which are generally in line with the existing agreements. From the invoice samples which we reviewed, we note that that the deposit rate offered by Sinopec Finance to each of Huade and Yu Ji Pipeline Company is no less favourable than the rates offered by independent bank of the same period.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Non-PRC financial services

In respect of non-PRC financial services, the pricing of the New Century Bright Financial Services Framework Master Agreement is referenced to the rates offered by independent commercial banks in Hong Kong. The terms (rates or charges) thereunder shall not be, in any event, less favourable than those offered by the independent commercial banks to members of the Sinopec Group.

In relation to the non-PRC financial services, 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) as at the Latest Practicable Date, the saving deposit rates mostly ranged from nil to 0.01% for HK\$, from 0.25% to 0.30% for RMB and from nil to 0.01% for US\$. Based on the information provided by the management of the Group, the effective interest rates of the Group's saving deposit balance under the Existing Century Bright Financial Services Framework Master Agreement for the year ended 31 December 2018 were approximately 0.31% for HK\$, 0.30% for RMB and 0.17% for US\$, which are the same as or higher than the interest rates for saving deposits announced by independent commercial banks in Hong Kong. We are advised by the management of the Group that the cash of the Group has been deposited as saving deposits with Century Bright primarily for earning interest and as working capital for its daily operations. Moreover, we have reviewed the terms of deposit services under the New Century Bright Financial Services Framework Master Agreement which are generally in line with the existing agreement.

In view of the above, we considered that the terms of deposit services under the New Sinopec Finance Financial Services Framework Master Agreement, the New Yu Ji Pipeline Financial Services Framework Master Agreement and the New Century Bright Financial Services Framework Master Agreement are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Natural gas transmission services

The pricing of the New Natural Gas Transmission Services Framework Master Agreement is principally based on the State-prescribed prices pursuant to the Notice of the National Development and Reform Commission on Adjustment of Cross-Provincial Natural Gas Pipeline Transmission Fee* (National Development and Reform Commission Pricing [2019] No. 561)* 《國家發展改革委關於調整天然氣跨省管道運輸價格的通知》 (發改價格[2019]561號)(the “**NDRC Approval**”) and adjusted in accordance with the transmission distance.

We have reviewed the NDRC Approval, the Group's pricing schedule which is based on the NDRC Approval and adjusted in accordance to the transmission distance and invoice samples of the first half of 2019 which set out the unit price and volume of historical transactions under the Existing Natural Gas Transmission Services Framework Master Agreement and the Existing Changcheng Natural Gas Transmission Services Framework Master Agreement, and noted that the prices charged under these

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

invoice samples were principally based on the State-prescribed prices and adjusted in accordance to the transmission distance. Moreover, from the invoice samples which we reviewed, we noted that the transmission fees charged to Sinopec Natural Gas Branch Company before and after the implementation of new transmission fee on 1 April 2019 were consistent with the State-prescribed prices having adjusted in accordance to the transmission distance. In addition, we have reviewed the terms of the New Natural Gas Transmission Services Framework Master Agreement which is generally in line with the terms under the Existing Natural Gas Transmission Services Framework Master Agreement and the Existing Changcheng Natural Gas Transmission Services Framework Master Agreement. Furthermore, we are advised by the management of the Group that the payment terms for all of the Group's trade receivables which included the receivables from Sinopec Natural Gas Branch Company under the Existing Natural Gas Transmission Services Framework Master Agreement and Sinopec Changcheng Gas under the Existing Changcheng Natural Gas Transmission Services Framework Master Agreement, were due within 30 to 90 days from the date of billing as disclosed in the 2019 Interim Report which is in line with the Group's practices in previous years.

Having considered the above, 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 so far as the Company and the Independent Shareholders are concerned.

Services outsourcing

The pricing of the New Comprehensive Outsourcing Framework Master Agreement is conducted through arm's length negotiation between the parties and on normal commercial terms with reference to costs for the provision of services and products, and the applicable taxes. The 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 purchase of cushion gas, the contribution to the property insurance fund, and the travelling expenses plus relevant taxes.

We have reviewed invoice samples 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, and noted that the price charged under the invoice samples were based on the actual costs and taxes. Furthermore, we have reviewed the terms under the New Comprehensive Outsourcing Framework Master Agreement which is generally in line with the existing agreement. In addition, we are advised by the management of the Group that the payment terms for all of the Group's trade payables which included the payables to Sinopec Natural Gas Branch Company under the Existing Services Outsourcing Framework Master Agreement, were repayable within one year from the invoice date which is in line with the Group's practices in previous years.

In view of the above, we considered that the terms under the New Comprehensive Outsourcing Framework Master Agreement are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. Proposed annual caps for the transactions contemplated under the New Non-exempt Framework Master Agreements

Set out below are (i) the historical transaction figures and existing annual caps for the relevant transactions under the Non-exempt Existing Continuing Connected Transactions for the two years ended 31 December 2018 and the six months ended 30 June 2019 and (ii) the proposed annual caps for the transactions under the New Non-exempt Framework Master Agreements for each of the three years ending 31 December 2022, as extracted from the letter from the Board:

Crude oil jetty and storage services

Table 2: Historical transaction figures and existing/proposed annual caps for the transactions in relation to the provision of crude oil jetty and storage services by huade to connected persons of the Company

	For the year ended		For the	For the year ending		
	31 December		six	31 December		
	2017	2018	months	2020	2021	2022
Historical amount (RMB million)	441.9	476.1	ended 30 June 2019	-	-	-
Existing/ proposed annual caps (RMB million)	700	700	700	650	650	650

We have reviewed and discussed with the management of the Group in relation to the basis in determining the above annual caps. We are advised that in arriving at the annual caps, the Group has considered, among other things, (i) the historical figures of the transactions; (ii) the State-prescribed prices and the government-approved prices for the related services; (iii) the expected demand for the Group's jetty and storage services from Sinopec Petroleum Reserve Company and Sinopec Pipeline Storage and Transportation Branch Company; and (iv) the mutual reliance between the Group on one hand and Sinopec Guangzhou Branch, Sinopec Petroleum Reserve Company and/or Sinopec Pipeline Storage and Transportation Branch Company on the other hand for the supply and demand of crude oil jetty and storage services.

Huade's revenue breakdown (generated from connected party transactions)

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

<i>(in million RMB)</i>	For the year ended 31 December		For the six months ended 30 June
	2017	2018	2019
Jetty and related services	195.3	210.7	108.1
Transmission of crude oil	211.2	228.8	114.3
Other related services ^(Note)	35.4	36.6	16.8
Subtotal	441.9	476.1	239.2

Note: As advised by the management of the Group, other related services include, amongst other things, charges for crude oil storage (more than 10 days) and tug boat service charges, etc.

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

Table 3: Historical business volume of Huade:

<i>(in million tonnes)</i>	For the year ended 31 December		For the six months ended 30 June
	2017	2018	2019
Unloading of crude oil ^(Note)	11.9	12.5	6.5
Transmission of crude oil	11.7	12.6	6.3

Note: The unloading of crude oil and storage of crude oil (within 10 days) are hand-in-hand and thus both have about the same transaction volume

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

	<i>RMB/tonne</i>
Jetty and related services	
– Unloading and storage of crude oil <i>(Note 1)</i>	14.5
– Port charges	2.8 ^{<i>(Note2)</i>}
Sub-total	17.3
Transmission of crude oil	20.00 ^{<i>(Note3)</i>}
Total	37.3

Note:

1. Unloading and storage of crude oil includes unloading of crude oil charged at RMB11.5 per tonne and storage of crude oil (within 10 days) charged at RMB3.0 per tonne
2. Pursuant to Notice on Port Charging Calculation Method* jointly issued by the NDRC and the Ministry of Transport of the PRC, 交通運輸部及國家發展改革委關於修訂印發《港口收費計費辦法》的通知(交水規[2019] 2號)the port charges has been revised from RMB3.3 per tonne to RMB2.8 per tonne effective from 1 April 2019
3. 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 NDRC 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 advised by the management of the Group that having considered the historical business volume of Huade (as illustrated from table 3 above), it is expected that the business volume of Huade for both jetty and related services and transmission of crude oil for each of the three years ending 31 December 2022 could maintain at the current level at around 13 million tonnes per year. In addition, we are further advised by the management of the Group that the throughput demand from each of Sinopec Petroleum Reserve Company and Sinopec Pipeline Storage and Transportation Branch Company is expected to be approximately 1.5 million tonnes per year which will increase the total demand for jetty and related services to about 16 million tonnes per year while the jetty-related services capacity is 30 million tonnes per year. In addition, the management of the Group confirmed with us that save for the revision of port charges from RMB3.3 per tonne to RMB2.8 per tonne effective on 1 April 2019 pursuant to the notice issued by relevant government authorities, the relevant State-prescribed prices and the government-approved prices applicable to the Group for the provision of crude oil jetty and storage services were relatively stable in the past three years. Based on the assumption of unchanged State-prescribed prices and the government-approved prices and projected demand for (i) jetty and related services and (ii) transmission of crude oil at about 16 million tonnes and 13 million tonnes per year, respectively, this would translate to approximately RMB537 million revenue contribution to the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) Other related services income

Other related services include, among other things, charges for crude oil storage over 10 days which at a prescribed rate of RMB0.90 per tonne per day and tug boat services accounted for around 8% of Huade's total revenue from connected party transactions for the two years ended 31 December 2018 and six months ended 30 June 2019. We are advised by the management of the Group that the projected demand for other related services for each of the three years ending 2022 is expected to remain stable at around RMB47 million per year.

In addition, we have been advised that a buffer of about 11% is used in determining the proposed annual caps for 2020-2022. We have enquired with the management of the Group in this regard and we understand that the provision of crude oil jetty and storage services is one of the two main income streams of the Group and the provision of crude oil jetty and storage services by Huade to the Sinopec Group accounts for approximately 85%, 83% and 86% of the Group's revenue generated from the provision of crude oil jetty and storage services for the past two years ended 31 December 2018 and for the six months ended 30 June 2019, respectively. Any disruption in the provision of crude oil jetty and storage services to members of the Sinopec Group will have significant impact to the Group's financial performance. As such, the management of the Group wishes to build in a buffer in calculating the relevant annual caps to give more flexibility to the Group in ensuring smooth operation as well as to accommodate any sudden increase in demand for relevant services from members of the Sinopec Group. On this basis, it is in our view that the inclusion of such buffer is acceptable.

Having considered (i) the actual transaction amounts under the New Crude Oil Jetty and Storage Services Framework Master Agreement will be accounted for as revenue of the Group; (ii) the basis of determining the projected demand is in accordance with the historical figures and expected demand from Sinopec Petroleum Reserve Company and Sinopec Pipeline Storage and Transportation Branch Company; (iii) the prices used in the calculation of the proposed annual caps are principally the State-prescribed prices or government-approved prices (as the case may be); and (iv) the buffer of about 11% is to allow flexibility for the smooth operation of Huade, we consider the basis for determining the proposed annual caps under the New Crude Oil Jetty and Storage Services Framework Master Agreement for the three years ending 31 December 2022 to be fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Financial services

Table 5: Historical transaction figures and existing/proposed annual caps for the deposit services provided by connected persons of the Company to members of the Group

	For the year ended		For the	For the year ending		
	31 December		six	31 December		
	2017	2018	months	2020	2021	2022
			ended			
			30 June			
			2019			
PRC Financial Services						
For the Huade Group						
Historical amount (<i>RMB million</i>) (<i>note 1</i>)	61.02	63.40	82.48	-	-	-
Existing/proposed annual caps (<i>RMB million</i>)	500	500	500	400	400	400
For Yu Ji Pipeline Company						
Historical amount (<i>RMB million</i>) (<i>note 2</i>)	-	302.13	310.40	-	-	-
Existing/ proposed annual caps (<i>RMB million</i>)	-	800	800	700	700	700
Non-PRC Financial Services						
For the Group						
Historical amount (<i>HK\$ million</i>) (<i>note 3</i>)	7.43	353.81	17.97	-	-	-
Existing/ proposed annual caps (<i>HK\$ million</i>)	500	500	500	500	500	500

Notes:

1. The maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits placed by the Huade Group with Sinopec Finance under the Existing Sinopec Finance Financial Services Framework Master Agreement
2. The maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits placed by Yu Ji Pipeline Company with Sinopec Finance under the Existing Yu Ji Pipeline Financial Services Framework Master Agreement
3. The maximum outstanding balance at any time (including any interest accrued therefrom) for the deposits placed by the Group with Century Bright under the Existing Century Bright Financial Services Framework Master Agreement

We have discussed with the management of the Group in relation to the bases of determining the proposed annual caps for the deposits to be placed by the Huade Group with Sinopec Finance Guangzhou Branch and Yu Ji Pipeline Company with Sinopec Finance and by the Group to Century Bright, respectively, which are set out in the letter from the Board.

In respect of Huade, according to Huade's management accounts for the year ended 31 December 2017 and 2018 and the six months ended 30 June 2019, we noted that Huade's trade and other receivables as at 31 December 2017, 2018 and 30 June 2019 were approximately RMB454.42 million, RMB764.76 million and RMB447.92 million, respectively, and Huade's cash level as at 31 December 2017, 2018 and 30 June 2019 were RMB44.99 million, RMB25.25 million and RMB0.24 million,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

respectively. On the basis that (i) the Group plans to increase its effort in collecting its outstanding trade and other receivables and therefore its current cash level might increase as advised by the management of the Group; (ii) a possible increase in revenue of Huade in view of the expected demand from Sinopec Petroleum Reserve Company and Sinopec Pipeline Storage and Transportation Branch Company; and (iii) the net cash inflow from operating activities for the six months ended 30 June 2019 was approximately RMB494.26 million according to the management accounts of Huade for the six months ended 30 June 2019, we consider the basis in arriving at proposed annual caps of RMB400 million for each of 2020 – 2022, to be reasonable.

For Yu Ji Pipeline Company, we are advised by the management of the Group that the Group wishes to accommodate the possible increase in natural gas supply upon the completion of stage two and three of the Erdos-Anping-Cangzhou Gas Pipeline (鄂安滄管道) and the inter-connection of different natural gas pipeline network pursuant to the Joint Notice through the Yulin-Jinan Pipeline Compression Project which in turn can increase the revenue and cash to be received from the provision of natural gas transmission services as well as cash flow movement of Yu Ji Pipeline Company. In addition, according to the management of the Group, following the repayment of its long-term debt amounted to RMB519.48 million in 2018, the cash level of Yu Ji Pipeline Company increased from approximately RMB167.91 million as at 31 December 2018 to approximately RMB310.46 million as at 30 June 2019. As the gearing ratio of Yu Ji Pipeline Company is lowered, the Group expects to accumulate more cash and will place more deposits with Sinopec Finance. Furthermore, Yu Ji Pipeline Company recorded a net cash inflow from operating activities for the year ended 31 December 2018 and six months ended 30 June 2019 of approximately RMB594 million and RMB195 million respectively. As advised by the management of the Group, the natural gas transmission volume would be affected by seasonal factors and therefore full year historical figures would be appropriate for determining the annual caps. On the basis that (i) the net cash inflow from operating activities for the year ended 31 December 2018 of approximately RMB594 million; and (ii) the possible increase in revenue and cash to be received from the provision of natural gas transmission services as well as cash flow movement of Yu Ji Pipeline Company from the Yulin-Jinan Pipeline Compression Project (at around 7.7% CAGR as set out in sub-section headed “Services outsourcing” in this section below), we consider the basis in arriving at proposed annual caps, which is RMB700 million for each of three years ending 2022, to be reasonable.

In respect of the Group, we note from Table 5 as illustrated above, the deposits placed by the Group with Century Bright suddenly spiked from approximately HK\$7.43 million in 2017 to approximately HK\$353.81 million in 2018. In 2019, the Group repaid its borrowing due to Century Bright once spare cash is available in the account as advised by the management of the Group. Furthermore, we are advised by the management of the Group that similar to Yu Ji Pipeline Company, the Group has been utilising its cash to settle its debt which lower the Group’s gearing ratio from approximately 33% as at 31 December 2017 to approximately 25% as at 30 June 2019 as set out in the 2018 Annual Report and 2019 Interim Report, respectively. Given that the gearing ratio is improved, more cash is expected to be accumulated and the management of the Group might consider to increase the dividend payout amount. For

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the financial year of 2017 and 2018, the Group has declared a total dividend of HK\$12 cents and HK\$15 cents, respectively, representing a year-on-year increase of 25% and for the first half of 2019, the Group declared an interim dividend of HK\$8 cents, representing an increase of 60% as compared to the corresponding period in 2018. As advised by the management of the Group, the Group generally distributes the interim dividend within the same financial year but the final dividend will be distributed to the Shareholders in the following financial year. According to the 2018 Annual Report and 2019 Interim Report, the interim dividend for the first half of 2017, 2018 and 2019 were approximately HK\$124.3 million, HK\$124.3 million and HK\$198.9 million, respectively, and the final dividend for the financial year ended 31 December 2017 and 2018 were approximately HK\$174.0 million and HK\$248.6 million, respectively. In addition, we learnt from the management of the Group that the Company normally collects dividends from its subsidiaries from time to time and then places the proceeds as deposit with Century Bright. According to the management account of Sinomart (being one of the two subsidiaries of the Company that place deposits with Century Bright) for the six months ended 30 June 2019, Sinomart recorded dividend receivables of approximately HK\$427.3 million as at 30 June 2019, increasing from approximately HK\$279.6 million as at 31 December 2018, mainly attributable to the proposed dividend distribution from oil terminal associate and joint ventures.

Given that (i) the fluctuation of the historical transaction amounts has substantiated the Group's need to accommodate any possible sudden increase of deposit amounts; (ii) the Company normally keeps the dividends collected from its subsidiaries and places with Century Bright from time to time; (iii) the Company might continue to increase its dividend payout as the Group's gearing ratio has improved over the years; (iv) the final dividend for the financial year of 2018 was approximately HK\$248.6 million and the increased interim dividend payout (i.e. the interim dividend for the first half of 2019 of approximately HK\$198.9 million, representing a year-on-year increase of 60% as compared to the interim dividend for the first half of 2018); and (v) one of the two subsidiaries of the Company that places deposits with Century Bright recorded a dividend receivable of approximately HK\$427.3 million, we concur with the view of the management of the Group that retaining the existing annual cap amount as the proposed annual caps for 2020-2022 is acceptable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Natural gas transmission services

Table 6: Historical transaction figures and existing/proposed annual caps for the natural gas transmission services provided by Yu Ji Pipeline Company to Sinopec Natural Gas Branch Company and Sinopec Changcheng Gas

	For the year ended		For the	For the year ending		
	31 December		six	31 December		
	2017	2018	months	2020	2021	2022
			ended 30			
			June			
			2019			
Historical amount (RMB million) <i>(note 1, 3)</i>	923.3	684.0	342.0	-	-	-
Existing/ proposed annual caps (RMB million) <i>(note 2)</i>	1,550	1,808	1,815	900	950	1,000

Note:

1. The aggregate transaction amounts received by Yu Ji Pipeline Company under the Existing Natural Gas Transmission Services Framework Master Agreement and the Existing Changcheng Natural Gas Transmission Services Framework Master Agreement
2. The aggregate cap amounts for the Existing Natural Gas Transmission Services Framework Master Agreement and the Existing Changcheng Natural Gas Transmission Services Framework Master Agreement
3. The term of the Existing Changcheng Natural Gas Transmission Services Framework Master Agreement only commenced from 30 August 2018

We have discussed with the management of the Group and understand that, in arriving at the aforementioned annual caps, the Group has considered, among other things, (i) the historical figures of the transactions; (ii) the State-prescribed prices or government-approved prices (as the case may be); (iii) the estimated demand of the natural gas transmission services as suggested by the Group based on its business scale and operation plan after the completion of Yulin-Jinan Pipeline Compression Project; and (iv) the estimated demand of the natural gas transmission services resulting from the recent discovery of gas reserves in Erdos Basin by Sinopec Group Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the management of the Group, the historical figures of Yu Ji Pipeline Company for the two years ended 31 December 2018 and six months ended 30 June 2019 are as follows:

	For the year ended		For the six
	31 December		months ended
	2017	2018	30 June
			2019
Transmission volume <i>(in million m³)</i>	4,114	4,658	1,924
Transaction amount <i>(in RMB million)</i>	991	848	371
Average transmission price <i>(in RMB/m³)</i>	0.241	0.182	0.193

From the table above, we noted that the transaction amount for the year ended 31 December 2017 declined from approximately RMB991 million to RMB848 million for the year ended 31 December 2018 despite the transmission volume increased from approximately RMB4,114 million m³ to approximately RMB4,658 million m³. We have enquired with the management of the Group and are advised that the Notice on Natural Gas Pipeline Transportation Price Management Measures (trial)* and Notice on the Supervision of Natural Gas Pipeline Transmission Pricing and Cost Measures (trial)* (《天然氣管道運輸價格管理辦法(試行)》和《天然氣管道運輸定價成本監審辦法(試行)》通知)發改價格規[2016] 2142號 issued by the NDRC in October 2016 set out the new pricing basis for the transmission of natural gas. The new pricing basis is principally based on the actual transmission distance and have taken into the account, among other things, the estimated transmission cost reviewed and assessed by the government authorities (for which RMB0.4443 per thousand m³ is determined and announced in August 2017), whereas the previous pricing basis is principally based on prescribed inter-provincial prices assigned to each corporation by relevant government authorities ranging from RMB0.05 per m³ to RMB0.46 per m³. The change in pricing basis promulgated by government authorities have had significant impact to Yu Ji Pipeline Company's revenue, but such effect was not reflected until the implementation the new pricing basis in September 2017 pursuant to Notice on Approving the Pricing of Inter-Provincial Pipeline Transportation of Natural Gas* issued by the NDRC 國家發展改革委關於核定天然氣跨省管道運輸價格的通知(發改價格規[2017]1581號) announced in August 2017. In April 2019, the State-prescribed price for Yu Ji Pipeline is reduced from RMB0.4443 per thousand m³ to RMB0.4363 per thousand m³. In addition, we are advised by the management of the Group that based on the new State-prescribed price and the new pricing basis, the average transmission price is more likely to be influenced by the transmission distance and the revenue generated from the natural gas transmission does not necessarily increase in proportion to the increase in transmission volume. We learnt from the management of the Group that the prevailing average transmission price reflects the current natural gas pricing structure of Yu Ji Pipeline Company which have taken into account transmission distance. Thus, the adoption of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the average transmission price of approximately RMB0.193/m³ in the first half of 2019, which has reflected the new pricing basis as mentioned above, to project the 2020-2022 annual caps is considered reasonable.

In addition, we are advised by the management of the Group that the designed natural gas transmission capacity is another key component for determining the annual caps. The management of the Group expects that the Yulin-Jinan Pipeline Compression Project will further increase the designed natural gas transmission capacity from the current level of approximately 4 billion m³ to 4.5 billion m³, 4.8 billion m³ and 5 billion m³ by the end of 2020, 2021 and 2022, respectively.

On the basis that (i) the pricing of natural gas transmission is principally based on the NDRC Approval and adjusted in accordance to the transmission distance; (ii) the annual cap is calculated based on (a) the prevailing average transmission price which reflects the current natural gas pricing structure Yu Ji Pipeline Company; and (b) the Group's anticipated increase in designed natural gas transmission capacity for each of the three years ending 31 December 2022 through the Yulin-Jinan Pipeline Compression Project; and (iii) a buffer of less than approximately 4% is applied on the product of (a) and (b) above for giving more flexibility to the Group in ensuring smooth operation, we consider the basis in arriving the proposed annual caps for 2020-2022 to be acceptable.

Services outsourcing

Table 7: Historical transaction figures and existing/proposed annual caps in relation to services outsourcing provided by Sinopec Natural Gas Branch Company to Yu Ji Pipeline Company

	For the year ended 31 December 2018	For the six months ended 30 June 2019	For the year ending 31 December		
			2020	2021	2022
Historical amount (<i>RMB million</i>)	38.3	15.1	-	-	-
Existing/ proposed annual caps (<i>RMB million</i>)	170	170	70	75	80

We have discussed with the management of the Group in relation to the basis for determining the proposed annual caps for services outsourcing for the three year ending 31 December 2022 which are set out in the letter from the Board in the Circular. From our discussion with the management of the Group, we understand that the proposed annual caps consist of four components; (i) the services outsourcing fee; (ii) the purchase of cushion gas; (iii) property insurance contribution; and (iv) a buffer.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In respect of the service outsourcing fee, we noted, based on the breakdown of the services outsourcing fee provided by Group, that the labour costs is the largest portion of the total services outsourcing fee, accounting approximately 71.6% and 67.5% for the year ended 31 December 2018 and for the six months ended 30 June 2019, respectively. In addition, from the breakdown which we reviewed, the services outsourcing fee tends to be substantially greater in December than other months of the year. The services outsourcing fee for December 2018 accounted 41.6% of the total services outsourcing fee of the same year, mainly due to concentration of settlement of costs in the last month of calendar year. As advised by the management of the Group, on the above basis and the actual transaction amounts for the first half of 2019, the projected services outsourcing fee for the year ending 31 December 2019 will be approximately RMB45 million. We are further advised by the management of the Group that they estimated more man power is needed to accommodate the increase in designed transmission capacity through the Yu Ji Pipeline Compression Project from the current level at approximately 4 billion m³ to 5 billion m³ by the end of 2022, representing a compound annual growth rate (“CAGR”) of approximately 7.7%. Based on data sourced from the National Bureau of Statistics of China, the CAGR in average wage of employed persons in state-owned units for the production and supply of electricity, gas and water for the period from 2015 to 2017 of approximately 6.8% is also applied to project the services outsourcing fee from 2020 and onwards.

In respect of the purchase of cushion gas, as discussed in section 5 above, the Group will purchase additional cushion gas for its increasing transmission capacity as a result of the Yulin-Jinan Pipeline Compression Project from 2020 and onwards. We are further advised by the management of the Group that as the designed transmission capacity increased, a larger volume of natural gas is required to maintain the necessary pressure for the transmission of natural gas. In view of such, similar to the services outsourcing fee, it is estimated that additional cushion gas in the amount of approximately RMB4 million, representing 7.7% of the initial purchase of cushion gas of RMB52 million, is needed for each of the three years ending 31 December 2022.

In respect of property insurance, as discussed in section 4 above, Yu Ji Pipeline Company is required to contribute to the property insurance managed by the Sinopec Group semi-annually, which is calculated based on the prescribed rates for each type of assets held by it. We have been provided with and reviewed the estimated contribution from Yu Ji Pipeline Company for 2019 of RMB7.4 million, which is based on its management accounts to classify the assets and is then applied with the appropriate prescribed rates for each of them. As advised by the management of the Group, Yu Ji Pipeline Company’s contribution to the property insurance fund is projected for each of the three years ending 31 December 2022 is based on the estimate for 2019.

Moreover, a buffer of approximately 11%, 6% and nil are applied to the three years ended 31 December 2022.

Having considered the above, we concur with the management of the Group that the basis of determining the annual caps for 2020-2022 is reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. Connected transaction and discloseable transaction regarding the Yulin-Jinan Pipeline Compression Project

Reference is made to the 11 November 2016 Announcement and the 2 December 2016 Circular in relation to, among other things, the Previous Yu Ji Pipeline Compression Project Framework Master Agreement entered into between Yu Ji Pipeline Company and Sinopec Petroleum Engineering, in respect of the provision of equipment procurement, design and construction services by Sinopec Petroleum Engineering relating to the compression projects for the Yulin-Jinan Pipeline. As disclosed therein, the compression projects in relation to the Yulin-Jinan Pipeline contemplated thereunder were expected to be completed in or around the end of 2018. However, the approval from the local government in Henan Province, the PRC, necessary for Yu Ji Pipeline Company to utilise the land for such compression projects, was only obtained in October 2018. Yu Ji Pipeline Company has carried out land acquisition works thereafter and the Yulin-Jinan Pipeline Compression Project will commence after such land acquisition is completed.

We are advised by the management of the Group that the estimated maximum fees payable by Yu Ji Pipeline Company to Sinopec Petroleum Engineering under the Previous Yu Ji Pipeline Compression Project Framework Master Agreement will be insufficient to cover the fees contemplated to be paid by Yu Ji Pipeline Company based on recent estimations, on 21 October 2019, Yu Ji Pipeline Company entered into the New Yu Ji Compression Project Framework Master Agreement with Sinopec Petroleum Engineering whereby the amount of the revised estimated maximum fees payable by Yu Ji Pipeline Company has been agreed. Save as aforementioned, all other terms and conditions under the Previous Yu Ji Compression Project Framework Master Agreement have been incorporated into the New Yu Ji Compression Project Framework Master Agreement.

The Yulin-Jinan Pipeline Compression Project is expected to commence upon the completion of acquisition of land and targeted to be completed by the end of 2020. As advised by the management of the Group, upon completion of the New Yu Ji Compression Project Framework Master Agreement, the designed transmission capacity of the Yulin-Jinan Pipeline is expected to increase from 4 billion m³ in 2019 to 5 billion m³ in 2022.

Pursuant to the 2018 Annual Report, it is stated that approximately RMB1.22 million out of RMB135 million for the Yulin-Jinan Pipeline Compression Project is utilised. In this regard, we have discussed with the management of the Group and was advised that the said amount was payable to Sinopec Petroleum Engineering for the preparatory work for land acquisition under Yulin-Jinan Pipeline Compression Project (the “**Preparatory Work**”) conducted in 2018. We were further advised by the management of the Group that save for the Preparatory Work, no other transaction was entered into between any member of the Group and Sinopec Petroleum Engineering since the entering into of the Previous Yu Ji Compression Project Framework Master Agreement in November 2016.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 New Yu Ji Compression Project Framework Master Agreement will be RMB155 million (increased from RMB135 million under the Previous Yu Ji Compression Project Framework Master Agreement), which will be determined with reference to the following pricing basis:

- (a) if tender process is required, the tender price; or
- (b) if no tender process is required, the fees shall be agreed between the parties on an arm's length basis through negotiations with reference to (i) 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; (ii) the prevailing market price for comparable services provided by the independent third parties in the vicinity; and (iii) the prevailing market price for the comparable services provided to the independent third parties by Sinopec Petroleum Engineering.

The fee payable by Yu Ji Pipeline Company to Sinopec Petroleum Engineering will be the fair market price for the provision of the relevant services, which shall be determined with reference to normal commercial terms, and the terms to be offered to Yu Ji Pipeline Company shall be no less favourable than those offered by Sinopec Petroleum Engineering to independent third parties for comparable services. Pursuant to the New Yu Ji Compression Project Framework Master Agreement, Yu Ji Pipeline Company will separately enter into compression projects agreements with Sinopec Petroleum Engineering, whereby the parties will negotiate and determine the terms thereof with reference to, among others, laws and regulations, market conditions, normal commercial terms, trade customs and the principle of fairness. In this regard, we have reviewed the Group's project development process and policies (i.e. tender process) set out in the section headed "III. Connected transaction and discloseable transaction regarding the Yulin-Jinan Pipeline Compression Project – Pricing basis" in the letter from the Board in the circular of the Company dated 2 December 2016. Furthermore, we have reviewed the terms of the New Yu Ji Compression Project Framework Master Agreement which are consistent with those under the Previous Yu Ji Compression Project Framework Master Agreement.

In respect of the Preparatory Work, we are advised by the management of the Group that there was no tender process but Yu Ji Pipeline Company has reimbursed Sinopec Petroleum Engineering the actual costs incurred in respect of the Preparatory Work.

In assessing the revised estimated maximum fees payable of RMB155 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the management account of Yu Ji Pipeline Company for the six months ended 30 June 2019, the capital expenditures which have already been invested in relation to the compression projects amounted to RMB533.8 million, comprising (i) fixed assets of RMB293.3 million; (ii) construction in progress of RMB233.6 million; and (iii) prepaid equipment expenses of RMB6.9 million. Given such, the remaining approved budget for the compression projects would amount to RMB208.9 million, theoretically being the maximum contract sum that may be awarded under the New Yu Ji Compression Project Framework Master Agreement.

We have reviewed the approval notice in relation to the conversion of land use issued by the Henan Government for the Yulin-Jinan Pipeline Compression Project dated October 2018. Moreover, we have discussed with the management of the Group in relation to the revised budget which comprises (i) estimated construction fee of approximately RMB105.2 million; (ii) procurement of construction and related materials of approximately RMB28.7 million; (iii) compensation for relocation of natural gas transmission entry points of approximately RMB19.5 million; and (iv) other miscellaneous fees of approximately RMB1.6 million. We are advised by the management of the Group that the increase in estimated fee payable for the Yulin-Jinan Pipeline Compression Project was largely due to the increase in labour cost in 2019 as compared to 2016. In this regard, we have cross checked with the data from the National Bureau of Statistics of the PRC and found out that the CAGR of average wage of employed persons in state-owned units for the production and supply of electricity, gas and water for the period from 2015 to 2017 is approximately 6.8%. In addition, in respect of the purchase of construction and related materials, we have referred to the industrial producer purchase price index for the period from 2015 to 2018 of approximately 3.3%. The average of the two CAGRs of about 5.05% is slighter higher than the CAGR for the estimated fee payable in relation to the Yulin-Jinan Pipeline Compression Project for the period from 2016 to 2019 of approximately 4.7%. Therefore, we are of the view that the increased in estimated fee payable in relation to the Yulin-Jinan Pipeline Compression Project is acceptable.

Having considered that (i) the maximum fees payable of RMB155 million under the New Yu Ji Compression Project Framework Master Agreement is within the remaining approved budget of RMB208.9 million; (ii) the growth rate for the estimated fee payable in relation to the Yulin-Jinan Pipeline Compression Project is lower than the average growth rate of the average wage of employed persons in state-owned units and the industrial producer purchase price index in the last few years; and (iii) pricing terms of the New Yu Ji Compression Project Framework Master Agreement are generally in line with the Previous Yu Ji Compression Project Framework Master Agreement, we consider that the terms of the New Yu Ji Compression Project Framework Master Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

OPINION

Having taken into account the above principal factors and reasons, we consider that the terms of (i) the disclosable and continuing connected transactions regarding the New Non-exempt Framework Master Agreement (including the proposed annual caps); and (ii) the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

discloseable and connected transaction regarding the New Yu Ji Compression Project Framework Master Agreement 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
Jenny Leung
Director

Ms. Jenny Leung is a licensed person and responsible officer 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 for more than 19 years.

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 document 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 interests 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 (i) 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 and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

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

Directors' Interests in any Assets Acquired, Disposed or Leased

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been, since 31 December 2018, being the date to which the latest audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were 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 had any existing or proposed service contract with any member of the Group which will not expire or be determinable by the relevant member of the Group within one (1) year without payment of compensation (other than statutory compensation).

Directors' Interests in Contracts and Arrangements

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

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

So far as is known to the Directors and the chief executives of the Company, as at the Latest Practicable Date, the following persons had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of interested party	Capacity and nature of interest	Number of Shares held	Approximate percentage of shareholding
SKI ^{Note}	Beneficial owner	1,500,000,000	60.33%

Note: 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.

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.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there had been no material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest audited consolidated financial statements of the Company were made up.

5. EXPERT AND CONSENT

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

Name	Qualifications
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 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/or references to its name or opinion in the form and context in which it appear.

As at the Latest Practicable Date, Somerley Capital Limited had no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and had no interest, direct or indirect, in any assets which had been, since 31 December 2018, being the date to which the latest audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

6. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective close associates had any interest in a business which competes or may compete with the businesses of the Group (which would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them was a controlling shareholder of the Company).

7. MISCELLANEOUS

- (a) So far as is known to the Directors, as at the Latest Practicable Date, there was (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholders, whereby he/she/it has or may have temporarily or permanently passed control over the exercise of the voting rights in respect of his/her/its Shares to a third party, either generally or on a case-by-case basis.
- (b) So far as is known to the Directors, as at the Latest Practicable Date, there was no discrepancy between any Shareholder's beneficial shareholding interest in the Company as disclosed in this Circular and the number of Shares in respect of which he/she/it will control or will be entitled to exercise control over the voting rights at the SGM.
- (c) The English text of this Circular prevails over its Chinese translation in the case of any discrepancy.

8. 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 25 November 2019:

- (a) the New Crude Oil Jetty and Storage Services Framework Master Agreement;
- (b) the New Sinopec Finance Financial Services Framework Master Agreement;
- (c) the New Century Bright Financial Services Framework Master Agreement;
- (d) the New Natural Gas Transmission Services Framework Master Agreement;
- (e) the New Comprehensive Outsourcing Framework Master Agreement;
- (f) the New Yu Ji Pipeline Financial Services Framework Master Agreement;
- (g) the New Yu Ji Compression Project Framework Master Agreement;
- (h) the letter from the Independent Board Committee as set out on pages 59 to 60 of this Circular;
- (i) the letter from the Independent Financial Adviser as set out on pages 61 to 88 of this Circular;
- (j) the letter of consent from the Independent Financial Adviser referred to under the section headed “5. Expert and Consent” in this Appendix; and
- (k) this Circular.

NOTICE OF SPECIAL GENERAL MEETING



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 Salon Rooms II-III, 5/F., Harbour Grand Hong Kong, 23 Oil Street, North Point, Hong Kong on Friday, 29 November 2019 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 11 November 2019.

ORDINARY RESOLUTIONS

1. “**THAT**

- (i) the entering into of the New Crude Oil Jetty and Storage Services Framework Master Agreement be and is hereby approved;
- (ii) the proposed annual caps for the New Crude Oil Jetty and Storage Services Framework Master Agreement for the three financial years ending 31 December 2022 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, enter into all transactions and arrangements, execute all 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 Crude Oil Jetty and Storage Services 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 purpose only

NOTICE OF SPECIAL GENERAL MEETING

- (ii) the proposed annual caps for the New Sinopec Finance Financial Services Framework Master Agreement for the three financial years ending 31 December 2022 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, enter into all transactions and arrangements, execute all 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 2022 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, enter into all transactions and arrangements, execute all 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 three financial years ending 31 December 2022 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, enter into all transactions and arrangements, execute all 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.”

NOTICE OF SPECIAL GENERAL MEETING

5. **“THAT**

- (i) the entering into of the New Comprehensive Outsourcing Framework Master Agreement be and is hereby approved;
- (ii) the proposed annual caps for the New Comprehensive Outsourcing Framework Master Agreement for the three financial years ending 31 December 2022 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, enter into all transactions and arrangements, execute all 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 Comprehensive Outsourcing Framework Master Agreement.”

6. **“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 three financial years ending 31 December 2022 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, enter into all transactions and arrangements, execute all 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.”

7. **“THAT**

- (i) the entering into of the New 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, enter into all transactions and arrangements, execute all other documents and/or deeds and/or take all such steps as he/she may consider

NOTICE OF SPECIAL GENERAL MEETING

necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the New Yu Ji Compression Project Framework Master Agreement.”

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

Hong Kong, 11 November 2019

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 54, 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).
4. The Register of Members of the Company will be closed from 25 November 2019 to 29 November 2019 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify to attend the SGM, all share transfers 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on 22 November 2019.

As at the date of this notice, the Board 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
Ms. Wong Pui Sze, Priscilla