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SINOPEC KANTONS HOLDINGS LIMITED
(中石化冠德控股有限公司)*
(incorporated in Bermuda with limited liability)
(Stock Code: 934)

CONNECTED TRANSACTION
DISPOSAL OF ASSETS HELD BY YU JI PIPELINE COMPANY

The Board announces that on 21 July 2020, Yu Ji Pipeline Company and Sinopec Yu Ji Pipeline Branch Company entered into the Sale and Purchase Agreement in relation to the Disposal.

As at the date of this announcement, Yu Ji Pipeline Company is an indirect wholly-owned subsidiary of the Company. Sinopec Yu Ji Pipeline Branch Company is a branch company of Sinopec Corp., the indirect controlling shareholder of the Company holding approximately 60.33% of the issued share capital of the Company. Accordingly, Sinopec Yu Ji Pipeline Branch Company is an associate of Sinopec Corp. and a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules, and the entering into of the Sale and Purchase Agreement with Sinopec Yu Ji Pipeline Branch Company constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Disposal exceeds 0.1% but all are less than 5%, the Disposal is subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval and circular requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

The Board announces that on 21 July 2020, Yu Ji Pipeline Company and Sinopec Yu Ji Pipeline Branch Company entered into the Sale and Purchase Agreement in relation to the Disposal, principal terms of which are set out below.

THE SALE AND PURCHASE AGREEMENT

Date

21 July 2020

Parties

- (i) Yu Ji Pipeline Company, as the seller; and
- (ii) Sinopec Yu Ji Pipeline Branch Company, as the purchaser.

Assets to be disposed of

Pursuant to the terms and conditions under the Sale and Purchase Agreement, Yu Ji Pipeline Company agreed to sell and Sinopec Yu Ji Pipeline Branch Company agreed to purchase Qingfeng Line, the Office Building Properties and the auxiliary facilities of Henan Management Office, collectively the Disposed Assets.

As at the date of this announcement, Qingfeng Line is located at Puyang City, Henan Province, the PRC. It starts at Nanle Sub-station, passes through Qingfeng Sub-station, and ends at Liutun Compressor Station, with a total length of about 35.07 km. The designed natural gas transmission capacity of Qingfeng Line is approximately 1.4 billion cubic meters per year with the Nanle – Qingfeng section being about 29.69 km long with pipeline diameter and designed transmission pressure of 610 mm and 8 MPa respectively while the Qingfeng – Liutun section being about 5.38 km long with pipeline diameter and designed transmission pressure of 508 mm and 3.9 MPa respectively. The major functions of Qingfeng Line include natural gas transmission to end users and peak adjustment through transmission to gas storage facility. The gas transmission capacity to end users is about 2.15 million cubic meters/day, the maximum gas input capacity to gas storage facility is about 1.8 million cubic meters/day, and the gas output capacity is about 3.0 million cubic meters/day.

As at the date of this announcement, the Office Building Properties to be disposed of consist of property and land located at 1-101, Control Centre (Phase I), No. 77 Tianchen Road, Lixia District, Jinan City, Shandong Province, the PRC, with a total land area of 15,891 square meters, building area of 8,381.29 square meters, an area of 8,474 square meters with right of use, and an area of 8,474 square meters for exclusive use.

As at the date of this announcement, Henan Management Office is located at No. 10 Xindong Road, Industrial Development Cluster District, Puyang City, Henan Province, the PRC. Assets in relation to Henan Management Office to be disposed of include structures such as on-site walls, field roads, garages, floor, and green areas; production vehicles, production facilities and office equipment etc.

The completion of the Disposal is expected to take place on 15 September 2020 or other date agreed by both parties.

Pursuant to the Sale and Purchase Agreement, during the period from 31 December 2019 (the benchmark date of valuation of the Disposed Assets, as described below) to the date in which completion of the Disposal takes place, any profit or loss generated from the Disposed Assets shall belong to Yu Ji Pipeline Company.

Consideration and basis of determination

Pursuant to the Sale and Purchase Agreement, the consideration payable by Sinopec Yu Ji Pipeline Branch Company for the acquisition of the Disposed Assets amounts to RMB179,139,100 (equivalent to approximately HK\$195,261,600), which is payable to Yu Ji Pipeline Company in cash within three business days after completion of the Disposal.

The consideration was arrived at after arm's length negotiation between Yu Ji Pipeline Company and Sinopec Yu Ji Pipeline Branch Company and was determined with reference to the appraised value of Qingfeng Line, the Office Building Properties and the auxiliary facilities of Henan Management Office as at 31 December 2019, being the date of valuation conducted by an independent valuer.

Financial information of the Disposed Assets

As at 31 December 2019 (the benchmark date of valuation conducted by an independent valuer on the Disposed Assets), the total asset carrying value (after depreciation) of Qingfeng Line, the Office Building Properties and the auxiliary facilities of Henan Management Office were about RMB80,917,600, RMB57,265,300 and RMB8,229,000 respectively, totalling RMB146,411,900.

Qingfeng Line, the Office Building Properties and the auxiliary facilities of Henan Management Office have been held by the Group for more than 12 months.

Set out below are the profits (both before and after taxation and extraordinary items) attributable to the Disposed Assets for the two financial years ended 31 December 2018 and 2019:

	For the year ended 31 December 2018	For the year ended 31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	5,525.0	2,863.5
Profit after taxation	4,143.7	2,147.6

FINANCIAL EFFECTS OF THE DISPOSAL

For illustrative purpose, based on the Company's net asset carrying value of the Disposed Assets as at 31 December 2019 of approximately RMB145,358,100 (equivalent to approximately HK\$158,440,300) and the consideration of RMB179,139,100 (equivalent to approximately HK\$195,261,600), it is estimated that the Group will record a profit before taxation from the Disposal of approximately RMB33,781,000 (equivalent to approximately HK\$36,821,300). It should be noted that the actual gain or loss on the Disposal to be recorded by the Group will depend on the carrying value of the Disposed Assets recorded on the Group's financial statements as at the date of completion of the Disposal and therefore may be different from the amount mentioned above.

It is expected that the net proceeds of the Disposal will be used for the development of the Group's core businesses in the future.

INFORMATION OF YU JI PIPELINE COMPANY, THE GROUP AND SINOPEC YU JI PIPELINE BRANCH COMPANY

Yu Ji Pipeline Company is an indirect wholly-owned subsidiary of the Company incorporated in the PRC with limited liability and is principally engaged in provision of natural gas pipeline transmission services.

The Company, a non wholly-owned subsidiary of Sinopec Corp., was incorporated in Bermuda with limited liability and its shares are listed on the Stock Exchange. The principal businesses of the Group 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 global logistics services including storage, logistics, transportation and terminal services.

Sinopec Yu Ji Pipeline Branch Company is a branch company of Sinopec Corp. and is principally engaged in the construction, operation, repair and technical consultation services of natural gas pipeline. As at the date of this announcement, Sinopec Yu Ji Pipeline Branch Company is a branch company of Sinopec Corp. which is held as to approximately 68.31% by Sinopec Group Company, the single largest percentage interest holder of Sinopec Yu Ji Pipeline Branch Company.

REASONS FOR AND BENEFITS OF THE DISPOSAL

Maximization of Shareholders' interests and continuous improvement of the return on assets of various business segments have always been one of the goals that the Company strives to pursue. As such, the Board evaluates the performance of each business segment from time to time and implements corresponding measures in a timely manner.

The Group's natural gas pipeline transmission business is operated through Yu Ji Pipeline Company. Since its acquisition by Sinomart Development from Sinopec Corp. in December 2015, Yu Ji Pipeline Company has been providing natural gas pipeline transmission services to Sinopec Corp. Due to multiple factors, the revenue and profitability of the Group's natural gas pipeline business segment have been decreasing in recent years. For the three consecutive years ended 31 December 2019, revenues of the Group's natural gas pipeline transmission business segment were approximately HK\$1,137 million, HK\$1,000 million and HK\$852 million, respectively, and segment results were HK\$475 million, HK\$380 million and HK\$266 million, respectively. After a thorough and careful evaluation, the Board decided to dispose of the Group's natural gas pipeline business.

Based on the above reasons and among the assets owned by Yu Ji Pipeline Company, Qingfeng Line is a supporting facility of "Wen 96" gas storage of Sinopec Corp. and the Office Building Properties and the auxiliary facilities of Henan Management Office do not possess actual economic value after the disposal of natural gas pipeline transmission business. The parties to the Sale and Purchase Agreement have agreed that Qingfeng Line, the Office Building Properties and the auxiliary facilities of Henan Management Office will be sold to Sinopec Yu Ji Pipeline Branch Company. It is considered that the functions of these assets would be better performed in terms of production and operation if they are integrated and maintained within Sinopec Corp.. The Disposal is in line with the Board's decision to dispose of the Group's natural gas pipeline transmission business and can facilitate delineation of assets of Yu Ji Pipeline Company, it can also achieve better utilization and functions of these disposed assets. The net proceeds of the Disposal can also be used for the development of the Group's core businesses in order to promote the competitiveness of the Group.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Yu Ji Pipeline Company is an indirect wholly-owned subsidiary of the Company. Sinopec Yu Ji Pipeline Branch Company is a branch company of Sinopec Corp., the indirect controlling shareholder of the Company holding approximately 60.33% of the issued share capital of the Company. Accordingly, Sinopec Yu Ji Pipeline Branch Company is an associate of Sinopec Corp. and a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules, and the entering into of the Sale and Purchase Agreement with Sinopec Yu Ji Pipeline Branch Company constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Disposal exceeds 0.1% but all are less than 5%, the Disposal is subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval and circular requirements under Chapter 14A of the Listing Rules.

Mr. Chen Yaohuan, Mr. Zhong Fuliang, Mr. Mo Zhenglin, Mr. Yang Yanfei, Mr. Zou Wenzhi and Mr. Wang Guotao, the executive Directors, hold important executive posts in Sinopec Group other than the Group. To avoid any potential conflict of interests, they have abstained from voting on the board resolutions for approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

THE DIRECTORS' VIEWS

The Directors (including the independent non-executive Directors) are of the view that the Sale and Purchase Agreement is on normal commercial terms and 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 announcement.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“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
“Disposal”	the disposal of Qingfeng Line, the Office Building Properties and the auxiliary facilities of Henan Management Office held by Yu Ji Pipeline Company to Sinopec Yu Ji Pipeline Branch Company pursuant to the terms and conditions under Sale and Purchase Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Henan Management Office”	the management office located at No. 10 Xindong Road, Industrial Development Cluster District, Puyang City, Henan Province, the PRC
“PRC”	the People's Republic of China, but for the purposes of this announcement and for geographical reference purposes (unless otherwise indicated) excludes Taiwan, Macau and Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

“Sale and Purchase Agreement”	the sale and purchase agreement dated 21 July 2020 entered into between Yu Ji Pipeline Company and Sinopec Yu Ji Pipeline Branch Company in relation to the Disposal
“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 Development”	Sinomart KTS Development Limited (經貿冠德發展有限公司), a limited liability company incorporated in Hong Kong and is a wholly-owned subsidiary of the Company
“Sinopec Corp.”	China Petroleum & Chemical Corporation (中國石油化工股份有限公司) (stock code: 386), a joint stock limited liability company incorporated in the PRC, the shares of which are listed on the stock exchanges of Hong Kong, Shanghai, New York and London, the indirect controlling shareholder of the Company (and hence Yu Ji Pipeline Company) holding approximately 60.33% of the issued share capital of the Company
“Sinopec Group”	Sinopec Group Company, its subsidiaries and its associated companies and affiliates, including the Group
“Sinopec Group Company”	China Petrochemical Corporation (中國石油化工集團有限公司, 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 (and hence Yu Ji Pipeline Company by virtue of Sinopec Corp.’s indirect holding of approximately 60.33% in the issued share capital of the Company)
“Sinopec Yu Ji Pipeline Branch Company”	中國石油化工股份有限公司天然氣榆濟管道分公司 (China Petroleum & Chemical Corporation Natural Gas Yu Ji Pipeline Branch Company*) a branch company of Sinopec Corp, which is held as to approximately 68.31% by Sinopec Group Company, the single largest percentage interest holder of Sinopec Yu Ji Pipeline Branch Company.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it in the Listing Rules

“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 Qingfeng Line, the Office Building Properties and the auxiliary facilities of Henan Management Office and is an indirect wholly-owned subsidiary of the Company, with Sinopec Group Company being its ultimate holding company

“Office Building Properties” the office premises and land owned by Yu Ji Pipeline Company which are located at 1-101, Control Center (Phase I), No. 77 Tianchen Road, Lixia District, Jinan City, Shandong Province, the PRC, with a total land area of 15,891 square meters, a building area of 8,381.29 square meters, an area of 8,474 square meters with right of use, and an area of 8,474 square meters for exclusive use

“Qingfeng Line” the natural gas transmission pipeline of about 35.07 km long which is located at Puyang City, Henan Province, the PRC, from Nanle Sub-Station to Liutun Compressor Station passing through Qingfeng Sub-station with the ancillary facilities

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

** *Translation of RMB into HK\$ is based on the approximate exchange rate of RMB1.00 to HK\$1.09 for information purposes only. Such translation should not be constructed as representations that the relevant amounts have been, could have been, or could be converted at that rate or any other rate or at all.*

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

Hong Kong, 21 July 2020

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

Executive Directors:

Mr. Chen Yaohuan (*Chairman*)

Mr. Zhong Fuliang

Mr. Mo Zhenglin

Mr. Yang Yanfei

Mr. Zou Wenzhi

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

* *For identification purposes only*