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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)**

**MAJOR TRANSACTION**

**DISPOSAL OF A WHOLLY-OWNED SUBSIDIARY**

**THE DISPOSAL**

On 21 July 2020 (after trading hours), Sinomart Development, a wholly-owned subsidiary of the Company, and the Purchaser entered into the Share Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and Sinomart Development has conditionally agreed to sell the Sale Shares, representing 100% equity interest in Target Company at the Consideration of RMB3,220,388,400 (subject to any adjustment in accordance with adjustment mechanism).

**LISTING RULES IMPLICATION**

As one or more of the applicable percentage ratios under Chapter 14 of the Listing Rules in respect of the Disposal exceed 25% but are less than 75%, the Disposal contemplated under the Share Purchase Agreement constitutes a major transaction for the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

**GENERAL INFORMATION**

To the best of the Directors' knowledge, information, belief, and having made all reasonable enquires, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Disposal. In accordance with Rule 14.44 of the Listing Rules, the Company intends to obtain a written approval from SKI, which holds 1,500,000,000 Shares of the Company (representing approximately 60.33% of the issued share capital of the Company as at the date of this announcement), in lieu of holding a general meeting to approve the Disposal.

A circular containing, among other things, (i) further information in respect of the Share Purchase Agreement and the Disposal; and (ii) other information as required by the Listing Rules, is expected to be despatched to the Shareholders on or before 11 August 2020 in compliance with the Listing Rules.

**Completion is conditional upon the fulfilment or waiver of the conditions set out in the section headed “Conditions Precedent” in this announcement and accordingly, the Disposal may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in securities of the Company.**

## **INTRODUCTION**

The Board is pleased to announce that on 21 July 2020 (after trading hours), Sinomart Development, a wholly-owned subsidiary of the Company, and the Purchaser entered into the Share Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and Sinomart Development has conditionally agreed to sell the Sale Shares, representing 100% of the equity interest in the Target Company at the Consideration in accordance with the terms and conditions of the Share Purchase Agreement.

## **THE SHARE PURCHASE AGREEMENT**

The major terms of the Share Purchase Agreement are set out below:

Date : 21 July 2020 (after trading hours)

Parties : The Purchaser; and  
Sinomart Development

To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, each of the Purchaser and its ultimate beneficial owner is an Independent Third Party as at the date of this announcement.

### **Assets to be disposed of**

Pursuant to the Share Purchase Agreement, Sinomart Development has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Shares.

The Sale Shares represent the entire issued share capital of the Target Company and are beneficially owned by the Company.

## **Basis of Consideration and Adjustment Mechanism**

The Consideration of the Disposal is RMB3,220,388,400 (equivalent to approximately HK\$3,510,223,400), subject to adjustment, if any, as set out in the paragraph headed “Adjustment Mechanism” below. The Consideration was arrived after arm’s length negotiation between Sinomart Development and the Purchaser, and was determined with reference to the appraised value of the Target Company (without the Disposed Assets) as at the Valuation Date from the Business Valuation Report issued by the Independent Professional Valuer.

### **Adjustment Mechanism**

The adjustment mechanism represents the change in profit and loss position of the Target Company during the Interim Period. Pursuant to the Share Purchase Agreement, the profit and loss of the Target Company during the Interim Period shall be enjoyed and borne by Sinomart Development. The actual amount to be paid represents the profit and loss during the Interim Period and is determined by Sinomart Development and the Purchaser based on the audited financial statements, the audits of which shall be conducted by independent accounting firm(s) jointly appointed by both parties. The amount of the above adjustment is expected to be not greater than RMB150,000,000.

In addition, to facilitate the cross-border fund payment, the net proceeds from the disposal of the Disposed Assets will be transferred from the Purchaser to Sinomart Development together with the profit and loss, if any, of the Target Company during the Interim Period in cash.

### **Payment Mechanism of the Consideration**

The Purchaser shall pay 90% of the Consideration to Sinomart Development prior to 23 October 2020 (inclusive), and pay the amount of interest calculated at the demand deposit interest rate offered by banks for the same period from 1 October 2020 to the day of payment. The Purchaser shall pay the remaining 10% of the Consideration within 15 Business Days after completion of the audits and issuance of the audit report by the independent accounting firm(s) appointed by both parties, and pay the amount of interest calculated at the demand deposit interest rate offered by banks for the same period from 1 October 2020 to the day of payment. If the Purchaser fails to complete the payment within the above-mentioned period due to the approval of the government departments, the payment period shall be extended accordingly, but the extension period shall not exceed 5 Business Days.

### **Conditions Precedent**

Completion is conditional upon the satisfaction of the following conditions as set out in the Share Purchase Agreement:

- (1) the representations, covenants and warranties provided by both parties to the Share Purchase Agreement contained in the Share Purchase Agreement remaining true, accurate and complete and without misleading, false statements and omissions in all material aspects;

- (2) Sinomart Development and the Company having complied with its respective internal corporate documents to approve and the regulatory authorities having approved the Share Purchase Agreement and the transactions contemplated thereunder;
- (3) the Purchaser having complied with its internal corporate documents for the approval of the Share Purchase Agreement and the transactions contemplated thereunder;
- (4) declaration of concentration of business operators having been approved by the relevant PRC government authorities for the Share Purchase Agreement and the transactions contemplated thereunder;
- (5) the Business Valuation Report of the Target Company having been approved or filed in accordance with national laws and regulations; and
- (6) the Share Purchase Agreement and the transactions contemplated thereunder having been reviewed, permitted, filed and registered by all other applicable PRC government authorities.

The parties to the Share Purchase Agreement may waive in writing condition (1) above but cannot waive any of the conditions (2) to (6) above which are related to internal corporate procedures, government or regulatory approval.

### **Completion and Handover Preparation Period**

Pursuant to the Share Purchase Agreement, Sinomart Development and the Purchaser shall perform their respective obligations to facilitate the transfer of the Target Company from Sinomart Development to the Purchaser prior to Completion and handover of the Target Company which are summarised below:

- (1) each of Sinomart Development and the Purchaser undertakes to cooperate and obtain all relevant licences, permissions, waivers, orders, exemptions, notification, authorisations, consents, confirmations and approvals from all relevant third parties and/or bodies necessary for the consummation and implementation of the transactions contemplated by the Share Purchase Agreement;
- (2) Sinomart Development undertakes to provide the Purchaser with all necessary information and assistance for the handover of the Target Company and its assets;
- (3) Sinomart Development undertakes to ensure with reasonable efforts that the Target Company would maintain its usual operations of business and that no material adverse changes would occur to the business of the Target Company; and
- (4) Sinomart Development undertakes not to make decision to take actions which may have material adverse changes to the normal business activities of the Target Company.

## **Breaching Responsibilities**

Any party who violates any clause of the Share Purchase Agreement constitutes a breach of contract, and the breaching party shall compensate the innocent party for direct losses.

If the Purchaser fails to pay the Consideration in accordance with the Share Purchase Agreement, for each day overdue, the Purchaser shall pay a penalty to Sinomart Development according to the standard of 0.05% of overdue consideration per day.

If Sinomart Development refuses to complete the changes in industrial and commercial procedures of the Target Company within the agreed period in accordance with the Share Purchase Agreement, for each day overdue, Sinomart Development shall pay the Purchaser a penalty charge according to the standard of 0.05% of the Consideration per day. The liability for breach of contract assumed by Sinomart Development shall not exceed one percent of the Target Company's appraised value except for the case that the delayed delivery of the Target Company is not due to the fault conducted by Sinomart Development.

## **Completion**

Completion is expected to take place on 30 September 2020, subject to the fulfillment or waiver of the conditions precedent to the Share Purchase Agreement by the parties to the Share Purchase Agreement. The ownership and risk of the Target Company shall be transferred from Sinomart Development to the Purchaser since the Completion Date.

Upon Completion, the Company will cease to hold any interests in the Target Company and the Target Company will cease to be a subsidiary of the Company. Accordingly, the financial results of the Target Company will no longer be consolidated into the consolidated financial statements of the Group.

In addition, since the Target Company will cease to be a subsidiary of the Company upon Completion, the transactions contemplated under the framework agreements entered into between the Target Company and Sinopec Corp. and/or its subsidiaries will no longer constitute continuing connected transactions/connected transactions of the Company under Chapter 14A of the Listing Rules. For further details of such continuing connected transactions/connected transactions, please refer to the announcements of the Company dated 21 October 2019 and 25 March 2020 and the section headed "Connected Transactions" of the Company's 2019 Annual Report dated 25 March 2020.

## **INFORMATION OF THE COMPANY AND SINOMART DEVELOPMENT**

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 other things, 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.

Sinomart Development, a wholly-owned subsidiary of the Company, was incorporated in Hong Kong with limited liability. As at the date of this announcement, the Target Company is wholly-owned by Sinomart Development.

## INFORMATION OF THE TARGET COMPANY

As at the date of this announcement, the Target Company is a limited liability company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company. The Target Company is mainly engaged in the natural gas pipeline transmission business through its only core asset, Yulin-Jinan Pipeline. The pipeline starts in Yulin, Shaanxi Province, and ends at Jinan, Shandong Province, which passes through four provinces including Shaanxi Province, Shanxi Province, Henan Province and Shandong Province. The initial designed gas transmission capacity of the Yulin-Jinan Pipeline was 3 billion m<sup>3</sup> per year. In order to further improve its profitability, the Target Company implemented the compression and capacity expansion of the Yulin-Jinan pipeline. The Yulin Start Station and the Pingyao Station had successively built additional compression equipment, thereby increasing the Yulin-Jinan pipeline transmission capacity to 4 billion m<sup>3</sup> per year. New compression equipment (second compression project) will further be built at Anyang Station in the future and the transmission capacity of Yulin-Jinan pipeline is expected to further increase to 5 billion m<sup>3</sup> per year.

Set out below is a summary of the financial information of the Target Company (without the Disposed Assets) for the two financial years ended 31 December 2018 and 2019:

	<b>For the year ended 31 December 2018</b>	<b>For the year ended 31 December 2019</b>
	<i>RMB million</i>	<i>RMB million</i>
	<i>Audited</i>	<i>Audited</i>
	<i>(approximately)</i>	<i>(approximately)</i>
Revenue	828.4	737.8
Profit before taxation	314.8	230.6
Profit after taxation	236.2	172.9

As at 31 December 2019, the total asset value and the net asset value of the Target Company (without the Disposed Assets) were approximately RMB4,043 million and RMB2,254 million, respectively while the appraised value and the increased amount were RMB3,220 million and RMB966 million respectively with an appreciation rate of 42.84%.

## INFORMATION OF THE PURCHASER

The Purchaser (PipeChina) was established on 6 December 2019 as a limited liability company funded by the State Council. PipeChina is mainly engaged in pipeline transmission, storage service, equipment imports, technology imports and exports, science and technology research, informatization research and application, and technology consultant, service, transfer and promotion. (With the items subject to approval in accordance with the law, any business activity shall be carried out in accordance with the scope as approved by relevant authorities.)

## REASONS FOR THE DISPOSAL TRANSACTION AND USE OF PROCEEDS

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. After a thorough and careful evaluation, the Board decided to sell the Group's natural gas pipeline business in due course for the reasons listed below.

As of the date of this announcement, the Group is engaged in natural gas pipeline transmission business through Yulin-Jinan Pipeline owned by the Target Company. Yulin-Jinan Pipeline mainly provides natural gas transmission services for Daniudi Gas Field of Sinopec Corp.. In recent years, the production capacity of the gas field can only be maintained at about 3 billion m<sup>3</sup> per year which can provide limited contribution to the profit increment of the Company. 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. As of the date of this announcement, the billing of inter-provincial long-distance natural gas pipeline services in the PRC has been regulated by the PRC Government, and since 1 September 2017, the National Development and Reform Commission has promulgated and implemented a new natural gas pipeline transmission tariff standard, in which the pipeline transmission service billing was changed from original "one province one price" billing model to a unit-based pipeline transmission distance billing model, which brought about certain negative impacts on the Target Company's profitability. According to the new billing model, under the same pipeline transmission volume and gas transmission structure, the revenue and profitability of the pipeline transmission business will be reduced. At present, the pipeline transmission capacity of the Yulin-Jinan Pipeline has reached 4 billion m<sup>3</sup> per year, and it is expected to further increase to 5 billion m<sup>3</sup> per year after the completion of the second compression project. Therefore, the disposal of the Yulin-Jinan Pipeline on one hand enables the Company to focus on the projects with higher returns, and on the other hand, it can also enable the Yulin-Jinan Pipeline to fully utilize its transmission capacity and realize better value.

In contrast, benefited from the economic growth and increasing energy demand in the PRC, the performance of the Company's crude oil jetty and storage business segment has continued to grow for consecutive years. For the three consecutive years ended 31 December 2019, the throughput of the Group's crude oil jetty were 235 million tons, 250 million tons and 265 million tons, respectively; the segment results of the crude oil jetty and storage business segment were approximately HK\$1,010 million, HK\$1,166 million and HK\$1,241 million, respectively. In the next few years, a further increase in new oil refining plants in the PRC will further provide opportunities for the development of the Group's oil terminal and storage business in the PRC.



In summary, the Board believes that the transfer of 100% of the equity interests in the Target Company to PipeChina is a very rare opportunity. In addition to applying part of the net proceeds from the Disposal to improve the financial position and replenish the working capital of the Group, the Company will continue to seek the strong support from the parent company and apply the remaining net proceeds from the Disposal to further develop the Company's crude oil jetty and storage business at appropriate times with the aim of shaping the Company into a world-class international petrochemical storage and logistic company.

For illustrative purpose, based on the Target Company's carrying amount of net assets to be disposed as at 31 December 2019 of approximately RMB2,254 million (equivalent to approximately HK\$2,457 million) and the Consideration of approximately RMB3,220 million (equivalent to approximately HK\$3,510 million), it is estimated that the Group will record a profit before taxation from the Disposal of approximately RMB966 million (equivalent to approximately HK\$1,053 million). The net impact to retained earnings of the Disposal is approximately RMB144 million (equivalent to approximately HK\$157 million), being the effect of transferring of the merger reserve of approximately RMB822 million (equivalent to approximately HK\$896 million), recorded by the Group in 2015 for the acquisition of 100% of equity interest in Sinopec Yu Ji Pipeline Company Limited, to retained earnings, and the profit before taxation from the Disposal.

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 net assets to be disposed of recorded on the Group's financial statements at the date in which completion of the Disposal takes place, the transaction cost including tax effect for the disposal and therefore may be different from the amount mentioned above.

Accordingly, the Directors consider that the terms (including the Consideration) of the Share Purchase Agreement are on normal commercial terms, fair and reasonable and the Disposal is in the interests of the Company and the Shareholders as a whole.



## LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios under Chapter 14 of the Listing Rules in respect of the Disposal exceed 25% but are less than 75%, the Disposal contemplated under the Share Purchase Agreement constitutes a major transaction for the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

## GENERAL INFORMATION

To the best of the Directors' knowledge, information, belief, and having made all reasonable enquiries, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Disposal. In accordance with Rule 14.44 of the Listing Rules, the Company intends to obtain a written approval from SKI, which holds 1,500,000,000 Shares of the Company (representing approximately 60.33% of the issued share capital of the Company as at the date of this announcement), in lieu of holding a general meeting to approve the Disposal.

A circular containing, among other things, (i) further information in respect of the Share Purchase Agreement and the Disposal; and (ii) other information as required by the Listing Rules, is expected to be despatched to the Shareholders on or before 11 August 2020 in compliance with the Listing Rules.

**Completion is conditional upon the fulfilment or waiver of the conditions set out in the section headed "Conditions Precedent" in this announcement and accordingly, the Disposal may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in securities of the Company.**

## DEFINITIONS

Unless the context requires otherwise, the capitalised terms used in this announcement shall have the following meanings:

"associate(s)"	has the meaning ascribed to it in the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	day(s) other than a Saturday, Sunday or public holiday in the PRC
"Business Valuation Report"	the business valuation report in respect of entire equity of the Target Company (excluding the Disposed Assets) issued by the Independent Professional Valuer on 20 July 2020
"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 (stock code: 934)

“Completion”	Completion of the Disposal as contemplated under the Share Purchase Agreement
“Completion Date”	the date of Completion
“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
“Consideration”	RMB3,220,388,400, being the aggregate value of the consideration for the sale and purchase of the Sale Shares, excluding the adjustment set out in the paragraph headed “Adjustment Mechanism” on page 3 of this announcement
“Director(s)”	director(s) of the Company
“Disposal”	the sale of the Sale Shares by Sinomart Development pursuant to the terms of the Share Purchase Agreement and the transactions contemplated thereunder
“Disposed Assets”	Qingfeng Line, the Office Building Properties, and auxiliary facilities of Henan Management Office held by the Target Company, for details of these assets, please refer to the Company’s announcement in relation to connected transaction dated 21 July 2020
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Professional Valuer”	中聯資產評估集團有限公司 (China United Assets Appraisal Group Company Limited*), an independent professional valuer appointed by Sinomart Development
“Independent Third Party(ies)”	independent third party(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and Directors, chief executives, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Interim Period”	the period from the Valuation Date (exclusive) to the Completion Date (inclusive)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchaser” or “PipeChina”	國家石油天然氣管網集團有限公司 (China Oil & Gas Pipeline Network Corporation*), to the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, being an Independent Third Party, as at the date of this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	100% equity interest in the Target Company to be purchased conditionally by the Purchaser from Sinomart Development in accordance with the Share Purchase Agreement
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Share Purchase Agreement”	the share purchase agreement dated 21 July 2020 entered into between Sinomart Development and the Purchaser in relation to the Disposal
“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, is an indirect controlling shareholder of the 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

“SKI”	Sinopec Kantons International Limited, a company incorporated with limited liability in British Virgin Islands, being the controlling shareholder of the Company and a wholly-owned subsidiary of Sinopec Corp.
“State Council”	The State Council of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it in the Listing Rules
“Target Company”	中石化榆濟管道有限責任公司 (Sinopec Yu Ji Pipeline Company Limited*) but excluding the Disposed Assets. Such company is a limited liability company incorporated in the PRC and is wholly-owned by Sinomart Development, with Sinopec Group Company being its ultimate holding company, as at the date of this announcement
“Valuation Date”	31 December 2019, being the benchmark date for the valuation of the Target Company (without the Disposed Assets) conducted by the Independent Professional Valuer
“Yulin-Jinan Pipeline”	Natural gas transmission pipelines and the ancillary facilities from Yulin, Shaanxi Province to Jinan, Shandong Province, which pass through Shaanxi Province, Shanxi Province, Henan Province and Shandong Province, the PRC
“%”	per cent.

\* *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