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If you are in doubt as to any aspect of this circular, or as to the action to be taken, you should consult our 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, you should at once hand this circular together with the enclosed form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

EXISTING ONGOING CONNECTED TRANSACTIONS

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



A letter from the Board is set out on pages 6 to 19 of this circular.

A letter from the Independent Board Committee containing its recommendation in respect of the Existing Ongoing Connected Transactions is set out on page 20 of this circular.

A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee is set out on pages 21 to 36 of this circular.

A notice convening the SGM to be held at 1608 Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong on 1 April 2005 at 10:00 a.m. is set out on page 42 of this circular. Whether or not you are able to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to Secretaries Limited, the Hong Kong Branch Share Registrar and Transfer Office of the Company, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong and in any event not less 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 at the SGM or at any adjourned meeting should you so wish.

* For identification purposes only

16 March 2005

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DEFINITIONS

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

“Board”	the board of directors of the Company;
“Company”	Sinopec Kantons Holdings Limited (and for identification only 中石化冠德控股有限公司), an exempted company incorporated in Bermuda with limited liability.
“CPIC”	中國石化國際事業有限公司 (China Petrochemical International Co. Ltd.), a company established under the laws of the PRC, which is a direct wholly-owned subsidiary of Sinopec Corp. and the sole shareholder of SKI.
“CPIC Framework Master Agreement”	the agreement dated 18 February 2005 entered into between the Company and CPIC.
“CPIC Group”	CPIC, its subsidiaries and its associated companies and affiliates.
“CPIGC”	中國石化國際事業廣州公司 (China Petrochemical International Guangzhou Company), a company established under the laws of the PRC, which is a wholly-owned subsidiary of GPC.
“CPIGC Framework Master Agreement”	the agreement dated 18 February 2005 entered into between the Company and CPIGC.
“Director(s)”	the director(s) of the Company, including the independent non-executive directors of the Company.
“Existing Ongoing Connected Transactions”	the services and facilities in relation to the Huizhou Jetty, the supplies of petroleum products to the Kantons Petrol Stations, the crude oil supply and sourcing, petroleum and petrochemical products trading and the third party processing of crude oil collectively, the transactions as contemplated in the Framework Master Agreements, details and the respective caps of which are set out in paragraphs (A) and (B) of the letter from the Board in this circular.
“First Waiver”	first waiver to the connected transactions requirements under the Listing Rules in relation to the Existing Ongoing Connected Transactions granted by the Stock Exchange in June 1999.

DEFINITIONS

“Framework Master Agreements”	collectively the Sinopec Corp. Framework Master Agreement, the Unipet Framework Master Agreement, the CPIC Framework Master Agreement and the CPIGC Framework Master Agreement.
“GPC”	中國石化集團廣州石油化工總廠 (Sinopec Guangzhou Petrochemical Complex), an enterprise established under the laws of the PRC and a wholly-owned subsidiary of Sinopec Group Company.
“Group”	the Company and its subsidiaries.
“Guangdong Company”	中國石油化工股份有限公司廣東石油分公司 (Sinopec Guangdong Oil Products Company), a branch of Sinopec Corp.
“Guangzhou City”	the administrative area which covers ten (10) districts in Guangzhou, namely, Baiyun District (白雲區), Dongshan District (東山區), Fangcun District (芳村區), Haizhu District (海珠區), Huangpu District (黃埔區), Liwan District (荔灣區), Tianhe District (天河區), Yuxiu District (越秀區), Huadu District (花都區) and Panyu District (番禺區).
“Guangzhou Municipality”	the administrative area which covers the Guangzhou City and its two (2) adjacent county-level cities, namely, Conghua (從化) and Zengcheng (增城).
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC.
“Huade”	惠州市大亞灣華德石化有限公司 (Hua De Petrochemical Co. Ltd.), a sino-foreign equity joint venture company established under the laws of the PRC with limited liability in respect of which a seventy per cent. (70%) equity interest is held by the Group through Kantons Investment and a thirty per cent. (30%) equity interest is held by GPC.
“Huizhou Jetty”	the Huizhou Crude Oil Jetty Complex, including its oil tanker handling, crude oil unloading, storage and pipeline transmission facilities, which is located on Mabianzhou Island (馬鞭洲島) in the Daya Bay Economic and Technological Development Zone (大亞灣經濟技術開發區) in Huizhou (惠州), Guangdong Province, the PRC and which is owned and operated by the Group through Huade.

DEFINITIONS

“Independent Board Committee”	the board committee of the Company constituted by Mr. Wong Po Yan, Ms. Tam Wai Chu, Maria and Mr. Fong Chung, Mark, the independent non-executive directors of the Company.
“Independent Financial Adviser”	DBS Asia Capital Limited.
“Independent Shareholders”	Shareholders of the Company other than Sinopec Group Company, Sinopec Corp., CPIC, SKI and their respective associates (as defined in the Listing Rules)
“Kantons Investment”	Kantons International Investment Limited (and for identification only 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.
“Kantons Petrol Stations”	the forty-seven (47) petrol stations currently located in the Guangzhou Municipality (and such other petrol stations from time to time) operated by the Group through KGSIM, either on a contractual operating basis or by virtue of its interest as a party to a joint venture or as an investor.
“KGSIM”	Kantons Gas Station Investment & Management Co. Ltd. (廣州保稅區冠德油站投資管理有限公司), a limited liability company established under the laws of the PRC in respect of which a ninety per cent. (90%) equity interest is held by Huade and a ten per cent. (10%) equity interest is held by GPC.
“Latest Practicable Date”	15 March 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange.
“PRC”	the People’s Republic of China, but for the purposes of this circular and for geographical reference only (unless otherwise indicated) excludes Taiwan, Macau and Hong Kong.
“Second Waiver”	second waiver to the connected transactions requirements under the Listing Rules in relation to the Existing Ongoing Connected Transactions by the Stock Exchange in August 2002.

DEFINITIONS

“SGM”	the special general meeting of the Company to be convened for the purpose of approving and ratifying the Existing Ongoing Connected Transactions.
“Sinochem”	中國化工進出口總公司 (China National Chemicals Import & Export Corporation), a State owned enterprise established under the laws of the PRC.
“Sinopec Corp.”	中國石油化工股份有限公司 (China Petroleum & Chemical Corporation) (Stock Code: 386), a joint-stock limited liability company incorporated in the PRC, the shares of which are listed on the stock exchanges of Hong Kong, Shanghai, New York and London.
“Sinopec Corp. Framework Master Agreement”	the agreement dated 18 February 2005 entered into between the Company and Sinopec Corp.
“Sinopec Group”	Sinopec Group Company, its subsidiaries and its associated companies and affiliates, including the Group, or where the context so requires, any two or more members of such group and the words “member of the Sinopec Group” shall mean any one of them.
“Sinopec Group Company”	中國石油化工集團公司 (China Petrochemical Corporation) (formerly known as 中國石油化工總公司 (China Petrochemical Corporation)), an enterprise established under the laws of the PRC, being the controlling shareholder of Sinopec Corp. (by virtue of its holding of approximately 55.06% in the issued share capital in Sinopec Corp.) and the ultimate controlling shareholder of the Company (by virtue of Sinopec Corp.’s holding of approximately 72.34% 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 of Sinopec Corp.
“Sinopec Guangzhou Branch Expansion”	the planned improvement and expansion of the crude oil refinery of Sinopec Guangzhou Branch from an annual crude refining capacity of 7.7 million to an annual refining capacity of 10 million tonnes grade crude oil refinery.
“SKI”	Sinopec Kantons International Limited (and for identification only 中石化冠德國際有限公司), a company established under the laws of the British Virgin Islands with limited liability and the immediate controlling shareholder of the Company.

DEFINITIONS

“State”	the government of the PRC.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.
“Unipec”	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.
“Unipec Framework Master Agreement”	the agreement dated 18 February 2005 entered into between the Company and Unipec.
“Unipec Group”	Unipec, its subsidiaries and its associated companies and affiliates.

LETTER FROM THE BOARD



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

Non-executive Director:

Mr. Yang Mo Fei

Independent Non-executive Directors:

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

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal office:

1608 Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

16 March 2005

To the shareholders

Dear Sir or Madam,

EXISTING ONGOING CONNECTED TRANSACTIONS

BACKGROUND

The purposes of this circular are to set out: (a) the terms of the Existing Ongoing Connected Transactions and the Framework Master Agreements; (b) the recommendation of the Independent Board Committee in respect of the Existing Ongoing Connected Transactions; (c) the advice of the Independent Financial Adviser to the Independent Board Committee in respect of the Existing Ongoing Connected Transactions; and (d) notice of the SGM to be convened at which ordinary resolution will be proposed to consider, and if thought fit, approving, confirming and ratifying by poll the Existing Ongoing Connected Transactions and all matters contemplated thereunder.

* For identification purposes only

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EXISTING ONGOING CONNECTED TRANSACTIONS

Upon the listing of the Company's shares on the Stock Exchange in June 1999, the Company applied for and was granted the First Waiver for the Existing Ongoing Connected Transactions for a term of three (3) years commencing from the date of the listing. The First Waiver expired in June 2002 and the Second Waiver was granted and approved in August 2002. The Second Waiver expired on 31 December 2004. The Company conducts the Existing Ongoing Connected Transactions and will have to comply with the reporting, announcement and independent shareholders' approval requirements under Chapter 14A.35 of the Listing Rules.

(A) Services and trading activities with Sinopec Corp.

On 18 February 2005, the Company and Sinopec Corp. entered into the Sinopec Corp. Framework Master Agreement to set out a framework and to regulate the following services and trading activities between the Group and Sinopec Corp. Conditional upon the approval and ratification in the SGM, this agreement will commence retrospectively from 1 January 2005 for a term of 3 years up to 31 December 2007.

1. Services and facilities in relation to the Huizhou Jetty

Nature of transaction and the connected party

Huade has provided and will continue to provide the following services and facilities to Sinopec Guangzhou Branch through the Huizhou Jetty:

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

Pricing basis and cap

Pursuant to the Sinopec Corp. Framework Master Agreement, Huade will enter into a separate crude oil jetty service agreement with Sinopec Guangzhou Branch annually. The parties will negotiate with reference to, among other factors, law and regulations, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the agreements.

Pursuant to the Sinopec Corp. Framework Master Agreement, the service fees payable by Sinopec Guangzhou Branch and received by the Group in respect of (i) above is based on the State-prescribed prices, being regulated and standardised by

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the PRC's Ministry of Communications. The service fees payable in respect of (ii) and (iii) above are charged on the basis of government-approved prices, being approved by the Guangdong Price Bureau.

If the State-prescribed prices or the government-approved prices (as the case may be) of any of the above services are abolished, the service fees payable by Sinopec Guangzhou Branch shall be (a) the fair market price for the relevant service (to be determined by the parties after consultation); or (b) if no market price is available or agreed between the parties, the previous State-prescribed prices or government-approved prices (as the case may be) plus a margin not exceeding the rate of increase of the consumer price index for Guangdong Province during the immediately preceding calendar year.

The aggregate amounts received by the Group in respect of this connected transaction for each of the two years ended 31 December 2003 were approximately HK\$305.74 million and HK\$278.38 million.

The Directors expect that this connected transaction will continue and the monetary amount will increase. The aggregate transaction amounts will be within a maximum annual cap of HK\$350 million, HK\$500 million and HK\$500 million for each of the three financial years ending 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

Reasons for the transactions and cap

The Group entered into the connected transaction for the reason that, given the availability and quality of the above services and the proximity of Huade crude oil jetty to Sinopec Guangzhou Branch, the latter always relies on the provision of services by the former.

In arriving at the cap, the historical figures were taken into account. Also, the Directors were informed of the Sinopec Guangzhou Branch Expansion, being the planned improvement and expansion of the crude oil refinery of Sinopec Guangzhou Branch from an annual crude refining capacity of 7.7 million to an annual refining capacity of 10 million tonnes grade crude oil refinery. This is expected to be completed in 2006, which will lead to a corresponding increase in consumption of service and facilities of Huizhou Jetty. Sinopec Guangzhou Branch is the largest customer of Huizhou Jetty.

However, Sinopec Guangzhou Branch is only a customer of the Group and the Group has no control over it. That being the case, there may be changes of or amendments to the plan and to the implementation of Sinopec Guangzhou Branch Expansion, which may affect the increase in the consumption of services and facilities in relation to Huizhou Jetty.

The Directors have also considered that (a) due to the planned increase of crude oil processing capacity of Sinopec Guangzhou Branch and the expected increase in demand for petroleum and petrochemical products in the PRC market, Sinopec

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Guangzhou Company is expected to import more crude oil and thus will consume more crude oil jetty services and its facilities; (b) the planned improvement and expansion of the crude oil jetty and its ancillary facilities to cope with the expected increase in demand for crude oil jetty services of Sinopec Guangzhou Branch; and (c) given the natural of mutual dependence and reliance of the supply and consumption of the services and facilities in relation to the Huizhou Jetty, it is in the interest of the Company to capture any increase in the volume and quantity of this business.

2. *Supplies of petroleum products to the Kantons Petrol Stations*

Nature of the transaction and connected party

The Group has purchased and will continue to purchase gasoline and other petroleum products from Guangdong Company and its subsidiaries for resale through the Kantons Petrol Stations. Guangdong Company is a branch of Sinopec Corp.

Pricing basis and cap

Pursuant to the Sinopec Corp. Framework Master Agreement, the Group will enter into, from time to time, separate written petroleum products purchase agreements not exceeding 3 years with Guangdong Company and its subsidiaries for the supply of petroleum products on a transaction by transaction basis. The parties will negotiate with reference to, among other factors, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the contracts and the agreements.

Pursuant to the Sinopec Corp. Framework Master Agreement, the purchase prices payable for the petroleum products supplied by Guangdong Company to the Group are to be agreed between the parties on an arm's length basis through negotiations, are to be based on government guidance prices, are to be fair and reasonable and the qualities of the products are to be in compliance with the State's prescribed standard. The current government guidance price is based on the notice re price restructuring plan of crude oil and petroleum products (原油成品油價格改革通知) issued by the State Development and Planning Commission (國家發展計劃委員會, now State Development and Reform Commission (國家發展和改革委員會)) in June 1998.

The aggregate amounts paid by the Group in respect of this connected transaction for each of the two years ended 31 December 2003 were approximately HK\$724.13 million and HK\$1,101.1 million.

The Directors expect that this connected transaction will continue and the monetary amount will increase. The aggregate transaction amounts paid by the Group will be within a maximum annual cap of HK\$1,300 million, HK\$1,500 million and HK\$1,600 million for each of the three financial years ending 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

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Reasons for the transactions and cap

The Group entered into the connected transaction because of the close proximity of the Kantons Petrol Stations to Guangdong Company and the availability and quality of the products, which are more economical to KGSIM.

In arriving at the cap, the historical figures were taken into account. Given its trading nature, the amount of business to be conducted is market and customer demand driven. The Directors have considered the expected increase in the consumption of gasoline and other petroleum products in the Guangdong Province; the expected improvement and development of the Kantons Petrol Stations; the volatility and possible increase of the price of gasoline and other petroleum products in the PRC and the international market; and the cost of refining crude oil into petroleum products which may possibly increase.

3. *Third party processing*

Nature of the transaction and connected parties

The Group has engaged and will continue to engage Sinopec Guangzhou Branch to refine and process crude oil into various types of petroleum products on behalf of the Group.

Pricing basis and the cap

Under the Sinopec Corp. Framework Master Agreement, the Group will enter into separate written third party processing agreements not exceeding 3 years with Sinopec Guangzhou Branch for the processing of crude oil on a transaction by transaction basis. The parties will negotiate with reference to, among other factors, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the contracts and the agreements.

Under the Sinopec Corp. Framework Master Agreement, the prices payable are to be determined on a cost plus reasonable profits basis and are to be agreed between the parties on an arm's length basis through negotiations.

The aggregate amounts paid by the Group in respect of these connected transactions for each of the two years ended 31 December 2003 were approximately HK\$90.91 million and HK\$52.97 million.

The Directors expect that these connected transactions will continue and the monetary amount will increase. The aggregate amounts paid by the Group in respect of these transactions shall not exceed HK\$150 million for each of the three financial year ending 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

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Reasons for the transactions and the cap

Because of the close proximity of Sinopec Guangzhou Branch to the Group and to its end users, it is more economical to engage Sinopec Guangzhou Branch to refine and process crude oil for the Group.

In addition, given its trading nature, the amount of business to be conducted is market and customer demand driven. It is in the interest of the Company and its future business development that it can capture any increase in the volume or the quantity or other new opportunities in its trading businesses as they arise.

Apart from the above reasons, in arriving at the above caps, the following factors are taken into account:

- (a) the respective historical figures of these connected transactions.
- (b) the expected increase in the consumption of petroleum and petrochemical products in the relevant markets and the expected increase in crude oil refining capacities of PRC refineries, including the Sinopec Guangzhou Branch Expansion.
- (c) the volatility and possible increase in the international and the PRC market price of crude oil, petroleum and petrochemical products.

(B) Trading activities with Unipet Group, CPIC Group and CPIGC

On 18 February 2005, the Company entered into the Unipet Framework Master Agreement, the CPIC Framework Master Agreement and the CPIGC Framework Master Agreement with Unipet, CPIC and CPIGC respectively to regulate the trading activities amongst them. Conditional upon the approval and ratification in the SGM, these agreements will commence retrospectively from 1 January 2005 for a term of 3 years up to 31 December 2007.

1. Crude oil supply

Nature of the transactions and connected parties

The Group has supplied and will continue to supply crude oil to Unipet Group, CPIC Group and CPIGC.

Pricing basis and cap

Under each of the Unipet Framework Master Agreement, the CPIC Framework Master Agreement and the CPIGC Framework Master Agreement, the Group will enter into separate written supply agreements not exceeding 3 years with members of the Unipet Group, CPIC Group and CPIGC respectively for the supply of crude oil on a transaction by transaction basis. The parties will negotiate with reference to, among other factors, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the contracts and the agreements.

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Under each of the Unipec Framework Master Agreement, the CPIC Framework Master Agreement and the CPIGC Framework Master Agreement, the prices payable are to be based on international market prices and are to be agreed between the parties on an arm's length basis through negotiations. The parties can access such pricing information from various sources, including the EMIS energy market information resource operated by Platts.

The aggregate amounts received by the Group in respect of these connected transactions for each of the two years ended 31 December 2003 were approximately HK\$1,746.78 million and HK\$2,084.67 million.

The Directors expect that these connected transactions will continue and the monetary amount will increase. The aggregate amounts received by the Group in respect of these transactions in each financial year shall not exceed HK\$3,300 million, HK\$4,300 million and HK\$4,300 million of the turnover of the Group for each of the three financial year ending 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

Reasons for the transactions and caps

Due to foreign trade laws and regulations of the PRC, the Group cannot supply crude oil, petroleum and petrochemical products to, or enter into written agreements with its end users in the PRC directly. The Group has to supply through and enter into written contracts with corporations that have crude oil, petroleum and petrochemical product import trading rights in the PRC, for example, Unipec, CPIC and CPIGC.

In addition, given its trading nature, the amount of business to be conducted is market and customer demand driven. It is in the interest of the Company and its future business development that it can capture any increase in the volume and the quantity or other new opportunities in its trading businesses as they arise.

Furthermore, with reference to the dominant position and increase in turnover and activities of Sinopec Group in the petroleum and petrochemical industry of the PRC, the number and amount of these connected transactions between the Sinopec Group and the Group is expected to increase.

Apart from the reasons set out above, in arriving at the above caps, the following factors are taken into account:

- (a) the respective historical figures of these connected transactions.
- (b) the expected increase in the consumption of petroleum and petrochemical products in the PRC, the expected increase in the demand of crude oil by the crude oil refineries in the PRC and the expected increase in crude oil refining capacities of these refineries, including the Sinopec Guangzhou Branch Expansion.
- (c) the volatility and possible increase in the international and the PRC market price of crude oil.

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2. *Crude oil sourcing*

Nature of the transaction and connected parties

The Group has sourced and will continue to source crude oil from members of the Unipet Group and CPIC Group.

Pricing basis and cap

Under the Unipet Framework Master Agreement and the CPIC Framework Master Agreement, the Group will enter into separate written sourcing agreements not exceeding 3 years with members of the Unipet Group and CPIC Group for the sourcing of crude oil on a transaction by transaction basis. The parties will negotiate with reference to, among other factors, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the contracts and the agreements.

The prices payable are to be based on international market prices and are to be agreed between the parties on an arm's length basis through negotiations. The parties can access such pricing information from various sources, including the EMIS energy market information resource operated by Platts.

The aggregate amounts paid by the Group in respect of these connected transactions for each of the two years ended 31 December 2003 were approximately HK\$1,106.62 million and HK\$1,105.95 million.

The Directors expect that these connected transactions will continue and the monetary amount will increase substantially for reasons set out below, in particular, the collective bargaining power of Sinopec Group, which the Group wishes to utilize more in the future and is beneficial to the Group. The aggregate amounts paid by the Group in respect of these transactions shall not exceed HK\$2,600 million, HK\$3,400 million and HK\$3,400 million for each of the three financial years ending 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

Reasons for the transactions and cap

Sourcing crude oil from Sinopec Group will strengthen the collective bargaining power of Sinopec Group as and when Sinopec Group negotiates crude oil prices with international oil majors and other oil companies.

Also, the finance cost of the Group is reduced: Sinopec Group will be entering into the agreements with the crude oil vendors directly. Generally, the Group is not required to issue letters of credit to Sinopec Group in these transactions. Thus, the finance cost incurred by the Group is thereby reduced.

In addition, given its trading nature, the amount of business to be conducted is market and customer demand driven. It is in the interest of the Company and its future business development that it can capture any increase in the volume and the quantity or other new opportunities in its trading businesses as they arise.

LETTER FROM THE BOARD

Furthermore, with reference to the dominant position and increase in turnover and activities of Sinopec Group in the petroleum and petrochemical industry of the PRC, the number and amount of these connected transactions between members of the Sinopec Group and the Group is expected to increase.

Apart from the reasons set out above, in arriving at the above caps, the following factors are taken into account:

- (a) the respective historical figures of these connected transactions.
- (b) the expected increase in the consumption of petroleum and petrochemical products, the expected increase in the demand of crude oil by the crude oil refineries and the expected increase in crude oil refining capacities of these refineries, including the Sinopec Guangzhou Branch Expansion.
- (c) the volatility and possible increase in the international and the PRC market price of crude oil, petroleum and petrochemical products.

3. *Petroleum and petrochemical products trading*

Nature of the transaction and connected parties

The Group has traded and will continue to trade (including sale or purchase in different transactions and different products) petroleum products with members of the Unipet Group, the CPIC Group (such as Sinopec (Hong Kong) Co. Ltd., a wholly owned subsidiary of CPIC; and Sinopec/CAOSC Co. Ltd., of which 70% of its share capital is owned by CPIC) and CPIGC.

In addition, the Group has traded and will continue to trade petrochemical products with members of the CPIC Group and CPIGC.

Pricing basis and cap

Under the Unipet Framework Master Agreement, the Group will enter into separate written sale and purchase agreements not exceeding 3 years with members of the Unipet Group for the trading of petroleum products on a transaction by transaction basis. The parties will negotiate with reference to, among other factors, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the contracts and the agreements.

Under the Unipet Framework Master Agreement, the prices payable are to be based on international market prices and are to be agreed between the parties on an arm's length basis through negotiations. The parties can access such pricing information from various sources, including the EMIS energy market information resource operated by Platts.

LETTER FROM THE BOARD

Under the CPIC Framework Master Agreement, the Group will enter into separate written sale and purchase agreements not exceeding 3 years with members of the CPIC Group and CPIGC for the trading of petroleum and petrochemical products on a transaction by transaction basis. The parties will negotiate with reference to, among other factors, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the contracts and the agreements.

Under the CPIC Framework Master Agreement, the prices payable are to be based on international market prices and are to be agreed between the parties on an arm's length basis through negotiations. The parties can access such pricing information from various sources, including the EMIS energy market information resource operated by Platts.

Under the CPIGC Framework Master Agreement, the Group will enter into separate written sale and purchase agreements not exceeding 3 years with CPIGC for the trading of petroleum and petrochemical products on a transaction by transaction basis. The parties will negotiate with reference to, among other factors, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions of the contracts and the agreements.

Under the CPIGC Framework Master Agreement, the prices payable are to be based on international market prices and are to be agreed between the parties on an arm's length basis through negotiations. The parties can access such pricing information from various sources, including the EMIS energy market information resource operated by Platts.

The aggregate amounts paid and received by the Group in respect of these connected transactions for each of the two years ended 31 December 2003 were approximately HK\$297.23 million and HK\$303.96 million.

The Directors expect that these connected transactions will continue and the monetary amount will increase substantially for reasons set out below, in particular, the collective bargaining power of Sinopec Group, which the Group wishes to utilize more in the future and is beneficial to the Group. The aggregate amounts paid and received by the Group in respect of these transactions shall (which is an aggregate figure and not a net-off figure) not exceed HK\$1,500 million, HK\$2,000 million and HK\$2,000 million for each of the three financial year ending 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

Reasons for the transactions and cap

Due to foreign trade laws and regulations of the PRC, the Group cannot supply petroleum and petrochemical products to, or enter into written agreements with its end users in the PRC directly, but has to supply through corporations that have crude oil, petroleum and petrochemical product import rights in the PRC, for example, Unipecc, CPIC and CPIGC respectively.

LETTER FROM THE BOARD

Also, the sale of petroleum and petrochemical products to Sinopec Group for resale to the end users will strengthen the collective bargaining power of Sinopec Group as and when Sinopec Group negotiates the selling price of the petroleum and petrochemical products with the end users.

Moreover, this arrangement reduces the finance cost of the Group: Sinopec Group will be entering into the agreements with the petroleum and petrochemical products vendors directly. Generally, the Group is not required to issue letters of credit to Sinopec Group in these transactions. Thus, the finance cost incurred by the Group is thereby reduced.

In addition, given its trading nature, the amount of business to be conducted is market and customer demand driven. It is in the interest of the Company and its future business development that it can capture any increase in the volume and the quantity or other new opportunities in its trading businesses as they arise.

Furthermore, with reference to the dominant position and increase in turnover and activities of Sinopec Group in the petroleum and petrochemical industry of the PRC, the number and amount of these connected transactions between the Sinopec Group and the Group is expected to increase.

Apart from the above reasons, in arriving at the above cap, the following factors are taken into account:

- (a) the respective historical figures of these connected transactions.
- (b) the expected increase in the consumption of petroleum and petrochemical products in the relevant markets, the expected increase in the demand of crude oil by the crude oil refineries and the expected increase in crude oil refining capacities of these refineries, including the Sinopec Guangzhou Branch Expansion.
- (c) the volatility and possible increase in the international and the PRC market price of crude oil, petroleum and petrochemical products.

(C) Sinopec Group Company's undertaking

On 14 May 1999, Sinopec Group Company undertook in writing to the Company:

- (a) to treat the Group equally with all other subsidiaries that are within the scope of Sinopec Group Company's management;
- (b) in respect of all transactions between any member of the Group and Sinopec Group Company or its other subsidiaries, to treat the Group no less favourably than other subsidiaries which are within the scope of Sinopec's management; and
- (c) that the ordinary business and normal operations of the Company will be carried out by the Directors, and that Sinopec Group Company will not, and will procure that other subsidiaries within the scope of management of Sinopec Group Company will not, interfere in the Group's business or normal operations, or adopt any unfair means of competition.

LETTER FROM THE BOARD

(D) The Directors' view

The Directors are of the opinion that the Existing Ongoing Connected Transactions and the Framework Master Agreements are entered into and carried out in the ordinary course of business of the Group, on an arm's length basis, and either (1) where there are comparable transactions, on normal commercial terms; or (2) in accordance with State-prescribed prices or government-approved prices (as the case may be) prescribed or approved by relevant governmental or regulatory authorities; or (3) in accordance with the terms of the agreements governing the Existing Ongoing Connected Transactions in question that are fair and reasonable and in the interests of the shareholders of the Company as a whole; or (4) if applicable, on terms no less favourable than terms available to or from independent third parties. The Directors are of the view that the Existing Ongoing Connected Transactions and the Framework Master Agreements are entered into in the ordinary course of business of the Group and are fair and reasonable so far as the Company and its shareholders are concerned.

(E) Listing Rules implications

Under the Listing Rules, for so long as Sinopec Group Company remains a substantial shareholder of the Company for the purposes of the Listing Rules, and Sinopec Group Company holds not less than 30% of Sinopec Guangzhou Branch, Guangdong Company, Unipet, CPIC, CPIGC, GPC and other relevant members of the Sinopec Group, all of the Existing Ongoing Connected Transactions will constitute "connected transactions". Since the value of each of the caps of these Existing Ongoing Connected Transactions will exceed 2.5% of the percentage ratios of the Group, pursuant to rule 14A.35 of the Listing Rules, these Existing Ongoing Connected Transactions will require disclosure by way of press notice, preparation and dispatch of circulars to shareholders and approval and ratification by poll by the independent shareholders.

(F) Information on the Company and the Sinopec Group

The Company was incorporated in Bermuda with limited liability and its shares are listed on the Stock Exchange. The principal activities of the Group are the trade of crude oil, petroleum, and petrochemical products, the operation of crude oil jetties and its ancillary facilities and petrol stations.

Sinopec Corp. is an integrated energy and chemical company with upstream, midstream and downstream operations and is publicly listed on the stock exchanges of Hong Kong, Shanghai, New York and London. The principal operations of Sinopec Corp. and its subsidiaries include:

- (1) exploring for and developing, producing and trading crude oil and natural gas;
- (2) processing crude oil into refined oil products, producing refined oil products and trading, transporting, distributing and marketing refined oil products; and
- (3) producing, distributing and trading chemical products.

LETTER FROM THE BOARD

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

Unipetec (China International United Petroleum and Chemicals Co. Ltd. 中國國際石油化工聯合有限公司) is a company established under the laws of the PRC with limited liability. Unipetec is one of the State authorised import agents of crude oil in the PRC and is a State-owned enterprise established under PRC laws. Sinopec Corp. and Sinochem Corporation own 70 per cent. and 30 per cent. of Unipetec's registered capital respectively.

CPIC (China Petrochemical International Co. Ltd. 中國石化國際事業有限公司) is a company established under the laws of the PRC, a direct wholly-owned subsidiary of Sinopec Corp. and the sole shareholder of SKI.

CPIGC (China Petrochemical International Guangzhou Company 中國石化國際事業廣州公司) is a company established under the laws of the PRC and a wholly-owned subsidiary of GPC.

GPC (Sinopec Guangzhou Petrochemical Complex 中國石化集團廣州石油化工總廠) is an enterprise established under the laws of the PRC and a wholly-owned subsidiary of Sinopec Group Company.

SKI (Sinopec Kantons International Limited) is a limited liability incorporated in the British Virgin Islands, and is the immediate controlling shareholder of the Company.

GENERAL

Sinopec Group Company is the ultimate controlling shareholder of the Company and indirectly holds approximately 72.34% (750 million shares) of the entire issued share capital of the Company. Pursuant to the Listing Rules, the Existing Ongoing Connected Transactions constitute connected transactions to the Company. Sinopec Group Company, Sinopec Corp., CPIC, SKI and their associates will abstain from voting in the special general meeting to approve, confirm and ratify by poll the Existing Ongoing Connected Transactions.

The Company has established an independent board committee comprising of the three independent non-executive Directors of the Company, namely Mr. Wong Po Yan, Ms. Tam Wai Chu, Maria and Mr. Fong Chung, Mark, to consider the Existing Ongoing Connected Transactions and to recommend to the shareholders how to vote in the special general meeting. DBS Asia Capital Limited has been appointed as the independent financial adviser for the purpose of advising the independent board committee and the independent shareholders in relation to the Existing Ongoing Connected Transactions and all matters contemplated therein.

SPECIAL GENERAL MEETING

A SGM is to be convened and will be held on 1 April 2005 at 10:00 a.m. at 1608 Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong for the purpose of considering, and if thought fit, passing ordinary resolutions to approve and ratify by poll the Existing Ongoing Connected Transactions and all matters contemplated thereunder. The notice of the SGM is set out on page 42 of this circular.

LETTER FROM THE BOARD

Sinopec Group Company, Sinopec Corp., CPIC, SKI and their respective associates (as defined in the Listing Rules) will abstain from voting at the SGM.

A form of proxy for use in connection with the SGM is enclosed herewith. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to Secretaries Limited, the Hong Kong Branch Share Registrar and Transfer Office of the Company, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong and in any event by no later than 48 hours before the time appointed for the holding of the SGM (or any adjourned meeting thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM (or any adjourned meeting thereof) should you so wish.

RECOMMENDATION

The Board (including the Independent Board Committee) is of the opinion that the terms of the Existing Ongoing Connected Transactions (including the caps) and each of the Sinopec Corp. Framework Master Agreement, Unipet Framework Master Agreement, CPIC Framework Master Agreement and CPIGC Framework Master Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, the Board (including the Independent Board Committee) recommends that the Independent Shareholders vote in favour of the ordinary resolutions set out in the notice of the SGM for the approval, confirmation and ratification of the Existing Ongoing Connected Transactions (including the caps) and each of the Sinopec Corp. Framework Master Agreement, Unipet Framework Master Agreement, CPIC Framework Master Agreement and CPIGC Framework Master Agreement.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendix to this circular.

Yours faithfully,
For and on behalf of the Board
Yang Shu Shan
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



SINOPEC KANTONS HOLDINGS LIMITED

(中石化冠德控股有限公司)*

(incorporated in Bermuda with limited liability)

(Stock Code: 934)

16 March 2005

To the Independent Shareholders

Dear Sir or Madam,

We have been appointed as the Independent Board Committee to advise you in connection with the Existing Ongoing Connected Transactions, details of which are set out in the Letter from the Board contained in the circular to the shareholders of the Company dated 16 March 2005 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the Existing Ongoing Connected Transactions and the advice and opinion of the Independent Financial Adviser in relation thereto as set out on pages 21 to 36 of the Circular, we are of the opinion that the terms of the Existing Ongoing Connected Transactions (including the caps) and each of the Sinopec Corp. Framework Master Agreement, Unipet Framework Master Agreement, CPIC Framework Master Agreement and CPIGC Framework Master Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned. We therefore recommend that you vote in favour of the ordinary resolutions to be proposed at the SGM to approve, confirm and ratify the Existing Ongoing Connected Transactions (including the caps) and each of the Sinopec Corp. Framework Master Agreement, Unipet Framework Master Agreement, CPIC Framework Master Agreement and CPIGC Framework Master Agreement.

Yours faithfully,

Mr. Wong Po Yan
Independent
Non-executive Director

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

Mr. Fong Chung, Mark
Independent
Non-executive Director

* For identification purposes only



16 March 2005

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

Dear Sirs,

EXISTING ONGOING CONNECTED TRANSACTIONS

INTRODUCTION

We have been appointed by the Company as the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders in relation to the Existing Ongoing Connected Transactions, details of which are contained in the letter from the Board set out on pages 6 to 19 of a circular to the shareholders of the Company dated 16 March 2005 (the "Circular"), of which this letter forms part. Expressions used in this letter shall have the same meanings as defined in the Circular, unless the context otherwise requires.

As the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders, our role is to give an independent opinion to and advise the Independent Board Committee whether the Existing Ongoing Connected Transactions are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and its shareholders as a whole.

In arriving at our opinion, we have relied on the information, opinions and facts supplied, and representations made to us, by the Directors, and advisers and representatives of the Company (including those contained or referred to in the Circular). We have also assumed that the information and representations contained or referred to in the Circular were true and accurate in all respects at the time they were made and continue to be so at the date of the dispatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have relied on certain information available to the public and have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company or any of its respective subsidiaries or associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our advice, we have considered the following principal factors and reasons:

A. Background of the First and Second Waivers

The Company is a member of the Sinopec Group, which is engaged in a diversified range of energy and petrochemical related operations. The controlling shareholder of the Company is Sinopec Corp., a joint-stock limited liability company incorporated in the PRC. The ultimate controlling shareholder of the Company is Sinopec Group Company, which is a State-owned corporation in the PRC.

The Company was incorporated in Bermuda with limited liability and its shares are listed on the Stock Exchange. The principal activities of the Group are trading of crude oil, petroleum, and petrochemical products, the operation of crude oil jetties and its ancillary facilities and petrol stations.

Sinopec Corp. is an integrated energy and chemical company with upstream, midstream and downstream operations and is publicly listed on the stock exchanges of Hong Kong, Shanghai, New York and London. The principal operations of Sinopec Corp. and its subsidiaries include:

- (1) exploring for and developing, producing and trading crude oil and natural gas;
- (2) processing crude oil into refined oil products, producing refined oil products and trading, transporting, distributing and marketing refined oil products; and
- (3) producing, distributing and trading chemical products.

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

Upon the listing of the Company's shares on the Stock Exchange in June 1999, the Company applied for and was granted the First Waiver for the Existing Ongoing Connected Transactions for a term of three (3) years commencing from the date of the listing. The First Waiver expired on June 2002 and the Second Waiver was granted and approved in August 2002. The Second Waiver expired on 31 December 2004. The Company will continue to conduct the Existing Ongoing Connected Transactions and will have to comply with the reporting, announcement and independent shareholders' approval requirements under Chapter 14A.35 of the Listing Rules. We note that the Existing Ongoing Connected Transactions are entered into and carried out in the ordinary course of business of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

B. Principal terms of the Existing Ongoing Connected Transactions

(a) Services and facilities in relation to Huizhou Jetty

Huade has provided and will continue to provide the following services and facilities to Sinopec Guangzhou Branch through Huizhou Jetty:

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

Reasons for the transaction

We understand that the Group entered into the connected transaction for the reason that given the availability and quality of the above services and the proximity of Huade crude oil jetty to Sinopec Guangzhou Company, the latter relies on the provision of services by the former.

Terms of the transaction

Pursuant to the Sinopec Corp. Framework Master Agreement, Huade will enter into a separate crude oil jetty service agreement with Sinopec Guangzhou Branch annually. The parties will negotiate with reference to, among other factors, law and regulations, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the agreements. Upon reviewing the Sinopec Corp. Framework Master Agreement, we are of the view that the terms of the agreement are fair and reasonable.

Service fees payable

Pursuant to the Sinopec Corp. Framework Master Agreement, the service fees payable by Sinopec Guangzhou Branch and received by the Group in respect of (i) above is based on the State-prescribed prices, being regulated and standardised by the PRC's Ministry of Communications. The service fees payable in respect of (ii) and (iii) above are charged on the basis of government-approved prices, being approved by the Guangdong Price Bureau.

If the State-prescribed prices or the government-approved prices (as the case may be) of any of the above services are abolished, the service fees payable by Sinopec Guangzhou Branch shall be (a) the fair market price for the relevant service (to be determined by the parties after consultation); or (b) if no market price is available or agreed between the parties, the previous State-prescribed prices or

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

government-approved prices (as the case may be) plus a margin not exceeding the rate of increase of the consumer price index for the Guangdong Province during the immediately preceding calendar year.

We understand from the Company that the current service fees are regulated by the Ministry of Communications and the Guangdong Price Bureau respectively and that the Company follows the relevant guidelines closely.

Annual caps for the transaction

The aggregate amounts received by the Group in respect of this connected transaction for each of the two years ended 31 December 2003 were approximately HK\$305.74 million and HK\$278.38 million respectively.

The Directors expect that this connected transaction will continue and the monetary amount will increase. The aggregate transaction amounts will be within a maximum annual cap of HK\$350 million, HK\$500 million and HK\$500 million for each of the three financial years ending 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

In arriving at the cap, the historical figures were taken into account. Also, the Directors were informed of the Sinopec Guangzhou Branch Expansion, being the planned improvement and expansion of the crude oil refinery of Sinopec Guangzhou Branch from an annual crude refining capacity of 7.7 million to an annual refining capacity of 10 million tonnes grade crude oil refinery. This is expected to be completed in 2006, which will lead to a corresponding increase in consumption of service and facilities of Huizhou Jetty. Sinopec Guangzhou Company is the largest customer of Huizhou Jetty.

The Directors have also considered that (a) due to the planned increase of crude oil processing capacity of Sinopec Guangzhou Company and the expected increase in demand for petroleum and petrochemical products in the PRC market, Sinopec Guangzhou Company is expected to import more crude oil and thus will consume more crude oil jetty services and its facilities; (b) the planned improvement and expansion of the crude oil jetty and its ancillary facilities to cope with the expected increase in demand for crude oil jetty services of Sinopec Guangzhou Company; and (c) given the nature of mutual dependence and reliance of the supply and consumption of the services and facilities in relation to Huizhou Jetty, it is in the interest of the Company to capture any increase in the volume and quantity of this business.

Based on the above, we consider that there is a fair and reasonable basis in arriving at the annual caps of the transaction.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Other issues

We note that Sinopec Guangzhou Branch is only a customer of the Group and the Group has no control over it. That being the case, there may be changes or amendments to the plan and the implementation of Sinopec Guangzhou Branch Expansion which may affect the increase in the consumption of services and facilities in relation to Huizhou Jetty. Given the uncertainty in the potential increase in the consumption of services and facilities in relation to Huizhou Jetty, we are of the view that the cap is justified.

(b) Supplies of petroleum products to the Kantons Petrol Stations

The Group has purchased and will continue to purchase gasoline and other petroleum products from Guangdong Company and its subsidiaries for re-sale through the Kantons Petrol Stations. Guangdong Company is a branch of Sinopec Corp.

Reasons for the transaction

The Group entered into the connected transaction because of the close proximity of the Kantons Petrol Stations to Guangdong Company and the availability and quality of the products, which are more economical to KGSIM. We note that the Kantons Petrol Stations and the Guangdong Company are both located within Guangdong province.

Terms of the transaction

Pursuant to the Sinopec Corp. Framework Master Agreement, the Group will enter into, from time to time, separate written petroleum products purchase agreements not exceeding 3 years with Guangdong Company and its subsidiaries for the supply of petroleum products on a transaction by transaction basis. The parties will negotiate with reference to, among other factors, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the contracts and the agreements. Upon reviewing the Sinopec Corp. Framework Master Agreement, we are of the view the transaction is based on normal commercial terms, in the ordinary and usual course of its business, fair and reasonable and in the interest of the Company and its shareholders as a whole.

Purchase prices payable

Pursuant to the Sinopec Corp. Framework Master Agreement, the purchase prices payable for the petroleum products supplied by Guangdong Company to the Group are to be agreed between the parties on an arm's length basis through negotiations, are to be based on government guidance prices, are to be fair and reasonable and the quality of the products are to be in compliance with the State's prescribed standard. The current government guidance price is based on the notice regarding price restructuring plan of crude oil and petroleum products (原油成品油價格改革通知) issued by the State Development and Planning Commission (國家

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發展計劃委員會, now State Development and Reform Commission (國家發展和改革委員會)) in June 1998. We have reviewed the State's existing prescribed standard provided by the Company and note that compliance with the State's prescribed standard is required.

Annual caps for the transaction

The aggregate amounts paid by the Group in respect of this connected transaction for each of the two years ended 31 December 2003 were approximately HK\$724.13 million and HK\$1,101.1 million respectively.

The Directors expect that this connected transaction will continue and the monetary amount will increase. The aggregate transaction amounts paid by the Group will be within a maximum annual cap of HK\$1,300 million, HK\$1,500 million and HK\$1,600 million for each of the three financial years ending 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

In arriving at the cap, the historical figures were taken into account. Given its trading nature, the amount of business to be conducted is market and customer demand driven. The Directors have considered the expected increase in the consumption of gasoline and other petroleum products in the Guangzhou Province; the expected improvement and development of the Kantons Petrol Stations; the volatility and possible increase of the price of gasoline and other petroleum products in the PRC and the international market; and the cost of refining crude oil into petroleum products which may possibly increase. We concur with the management of the Company that the annual cap is fair and reasonable for this connected transaction.

(c) *Third party processing*

The Group has engaged and will continue to engage Sinopec Guangzhou Branch to refine and process crude oil into various types of petroleum products on behalf of the Group.

Reasons for the transaction

In view of the close proximity of Sinopec Guangzhou Branch to the Group and to its end users, it is more economical to engage Sinopec Guangzhou Branch to refine and process crude oil for the Group. We note that the Sinopec Guangzhou Branch and the Group are both located in Guangdong province.

Terms of the transaction

Under the Sinopec Corp. Framework Master Agreement, the Group will enter into separate written third party processing agreements not exceeding 3 years with Sinopec Guangzhou Branch for the processing of crude oil on a transaction by transaction basis. The parties will negotiate with reference to, among other factors, market conditions, normal commercial terms, trade customs and the principle of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

fairness and will conclude the detailed terms and provisions in the contracts and the agreements. Upon reviewing the Sinopec Corp. Framework Master Agreement, we are of the view that the transaction is based on normal commercial terms, in the ordinary and usual course of its business, fair and reasonable and in the interest of the Company and its shareholders as a whole.

Prices payable for the transaction

Under the Sinopec Corp. Framework Master Agreement, the prices payable are to be determined on a cost plus reasonable profits basis and are to be agreed between the parties on an arm's length basis through negotiations. We consider that Sinopec Guangzhou Branch is justified to negotiate reasonable profits on an arm's length basis with the Company as the services provided to the Company will incur opportunity costs for Sinopec Guangzhou Branch. We have no reason to believe that the above pricing arrangements would not be conducted at an arm's length basis.

Annual caps for the transaction

The aggregate amounts paid by the Group in respect of these connected transactions for each of the two years ended 31 December 2003 were approximately HK\$90.91 million and HK\$52.97 million respectively.

The Directors expect that these connected transactions will continue and the monetary amount will increase. The aggregate amounts paid by the Group in respect of these transactions shall not exceed HK\$150 million for each of the three financial years ending 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

In addition, given its trading nature, the amount of business to be conducted is market and customer demand driven. It is in the interest of the Company and its future business development that it can capture any increase in the volume or the quantity or other new opportunities in its trading businesses as they arise.

Apart from the above reasons, in arriving at the above caps, the following factors are taken into account:

- (a) the respective historical figures of these connected transactions.
- (b) the expected increase in the consumption of petroleum and petrochemical products in the relevant markets and the expected increase in crude oil refining capacities of PRC refineries, including the Sinopec Guangzhou Branch Expansion.
- (c) the volatility and possible increase in the international and the PRC market price of crude oil, petroleum and petrochemical products.

Based on the above, we consider that there is a fair and reasonable basis in arriving at the annual caps of the transaction.

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(d) Trading activities

On 18 February 2005, the Company entered into the Unipet Framework Master Agreement, the CPIC Framework Master Agreement and the CPIGC Framework Master Agreement with Unipet, CPIC and CPIGC respectively to regulate the trading activities amongst them. Conditional upon the approval and ratification in the SGM, these agreements will commence retrospectively from 1 January 2005 for a term of 3 years up to 31 December 2007.

(i) Crude oil supply

The Group has supplied and will continue to supply crude oil to Unipet Group, CPIC Group and CPIGC.

Reasons for the transaction

We understand from the Company that due to foreign trade laws and regulations of the PRC, the Group cannot supply crude oil, petroleum and petrochemical products to, or enter into written agreements with its end users in the PRC directly. The Group has to supply through and enter into written contracts with corporations that have crude oil, petroleum and petrochemical product import trading rights in the PRC, for example, Unipet, CPIC and CPIGC.

Terms of the transaction

Under each of the Unipet Framework Master Agreement, the CPIC Framework Master Agreement and the CPIGC Framework Master Agreement, the Group will enter into separate written supply agreements not exceeding 3 years with members of the Unipet Group, CPIC Group and CPIGC respectively for the supply of crude oil on a transaction by transaction basis. The parties will negotiate with reference to, among other factors, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the contracts and the agreements. We have reviewed the above documents and consider the terms of the transaction fair and reasonable.

Prices payable for the transaction

Under each of the Unipet Framework Master Agreement, the CPIC Framework Master Agreement and the CPIGC Framework Master Agreement, the prices payable are to be based on international market prices and are to be agreed between the parties on an arm's length basis through negotiations. The parties can access such pricing information from various sources, including the EMIS energy market information resource operated by Platts.

Based on our research, we note that Platts is a large energy information provider based in the United States, specializing in news, prices, data, analytics,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

analytical tools, geospatial systems, research and consultancy for the complete spectrum of the energy industry. As advised by the Company, the prices of crude oil, petroleum and petrochemical product as published by Platts serves to represent internationally recognized benchmarks. We further understand from the management of the Company that the prices of crude oil, petroleum and petrochemical product as published by Platts largely reflect the international market prices of crude oil, petroleum and petrochemical product around the Asia Pacific region.

Annual caps for the transaction

The aggregate amounts received by the Group in respect of these connected transactions for each of the two years ended 31 December 2003 were approximately HK\$1,746.78 million and HK\$2,084.67 million respectively.

The Directors expect that these connected transactions will continue and the monetary amount will increase. The aggregate amounts received by the Group in respect of these transactions in each financial year shall not exceed HK\$3,300 million, HK\$4,300 million and HK\$4,300 million of the turnover of the Group for each of the three financial years ending 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

In addition, given its trading nature, the amount of business to be conducted is market and customer demand driven. It is in the interest of the Company and its future business development that it can capture any increase in the volume and the quantity or other new opportunities in its trading businesses as they arise.

Furthermore, with reference to the dominant position and increase in turnover and activities of Sinopec Group in the petroleum and petrochemical industry of the PRC, the number and amount of these connected transactions between the Sinopec Group and the Group is expected to increase.

Apart from the reasons set out above, in arriving at the above caps, the following factors are taken into account:

- (a) the respective historical figures of these connected transactions.
- (b) the expected increase in the consumption of petroleum and petrochemical products in the PRC, the expected increase in the demand of crude oil by the crude oil refineries in the PRC and the expected increase in crude oil refining capacities of these refineries, including the Sinopec Guangzhou Branch Expansion.
- (c) the volatility and possible increase in the international and the PRC market price of crude oil.

Based on the above, we consider that there is a fair and reasonable basis in arriving at the annual caps of the transaction.

(ii) Crude oil sourcing

The Group has sourced and will continue to source crude oil from members of the Unipet Group and CPIC Group.

Reasons for the transaction

Sourcing crude oil from Sinopec Group will strengthen the collective bargaining power of Sinopec Group as and when Sinopec Group negotiates crude oil prices with major international oil corporations and other oil companies.

Also, the finance cost of the Group is reduced as Sinopec Group will be entering into the agreements with the crude oil vendors directly. Generally, the Group is not required to issue letters of credit to Sinopec Group in these transactions. Thus, the finance cost incurred by the Group is thereby reduced. Based on the above, we are of the view that there is a legitimate basis to enter into this transaction.

Terms of the transaction

Under the Unipet Framework Master Agreement and the CPIC Framework Master Agreement, the Group will enter into separate written sourcing agreements not exceeding 3 years with members of the Unipet Group and CPIC Group for the sourcing of crude oil on a transaction by transaction basis. The parties will negotiate with reference to, among other factors, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the contracts and the agreements. We have reviewed the above agreements and are of the view that they are based on normal commercial terms, in the ordinary and usual course of its business, fair and reasonable and in the interest of the Company and its shareholders as a whole.

Prices payable for the transaction

The prices payable are to be based on international market prices and are to be agreed between the parties on an arm's length basis through negotiations. The parties can access such pricing information from various sources, including the EMIS energy market information resource operated by Platts.

Based on our research, the price of crude oil as published by Platts serves to represent an internationally recognized benchmark. We further understand from our research that the price of crude oil as published by Platts largely reflects the international market price of crude oil around the Asia Pacific region.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Annual caps for the transaction

The aggregate amounts paid by the Group in respect of these connected transactions for each of the two years ended 31 December 2003 were approximately HK\$1,106.62 million and HK\$1,105.95 million respectively.

The Directors expect that these connected transactions will continue and the monetary amount will increase substantially for reasons set out below, in particular, the collective bargaining power of Sinopec Group, which the Group wishes to utilize more in the future and is beneficial to the Group. The aggregate amounts paid by the Group in respect of these transactions shall not exceed HK\$2,600 million, HK\$3,400 million and HK\$3,400 million for each of the three financial years ending 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

In addition, given its trading nature, the amount of business to be conducted is market and customer demand driven. It is in the interest of the Company and its future business development that it can capture any increase in the volume and the quantity or other new opportunities in its trading businesses as they arise.

Furthermore, with reference to the dominant position and increase in turnover and activities of Sinopec Group in the petroleum and petrochemical industry of the PRC, the number and amount of these connected transactions between members of the Sinopec Group and the Group is expected to increase.

Apart from the reasons set out above, in arriving at the above caps, the following factors are taken into account:

- (a) the respective historical figures of these connected transactions.
- (b) the expected increase in the consumption of petroleum and petrochemical products, the expected increase in the demand of crude oil by the crude oil refineries and the expected increase in crude oil refining capacities of these refineries, including the Sinopec Guangzhou Branch Expansion.
- (c) the volatility and possible increase in the international and the PRC market price of crude oil, petroleum and petrochemical products.

Based on the above, we consider that there is a fair and reasonable basis in arriving at the annual caps of the transaction.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iii) Petroleum and petrochemical products trading

The Group has traded and will continue to trade (including sale or purchase in different transactions and different products) petroleum products with members of the Unipet Group, the CPIC Group (such as Sinopec (Hong Kong) Co. Ltd., a wholly owned subsidiary of CPIC; and Sinopec / CAOSC Co. Ltd., of which 70% of its share capital is owned by CPIC) and CPIGC.

In addition, the Group has traded and will continue to trade petrochemical products with members of the CPIC Group and CPIGC.

Reasons for the transaction

Due to foreign trade laws and regulations of the PRC, the Group cannot supply petroleum and petrochemical products to, or enter into written agreements with its end users in the PRC directly, but has to supply through corporations that have crude oil, petroleum and petrochemical product import rights in the PRC, for example, Unipet, CPIC and CPIGC respectively.

Also, the sale of petroleum and petrochemical products to Sinopec Group for resale to the end users will strengthen the collective bargaining power of Sinopec Group as and when Sinopec Group negotiates the selling price of the petroleum and petrochemical products with the end users.

Moreover, this arrangement reduces the finance cost of the Group as Sinopec Group will be entering into the agreements with the petroleum and petrochemical products vendors directly. Generally, the Group is not required to issue letters of credit to Sinopec Group in these transactions. Thus, the finance cost incurred by the Group is thereby reduced.

In addition, given its trading nature, the amount of business to be conducted is market and customer demand driven. We concur with the Company that it is in the interest of the Company and its future business development that it can capture any increase in the volume and the quantity or other new opportunities in its trading businesses as they arise.

Terms of the transaction

Under the Unipet Framework Master Agreement, the Group will enter into separate written sale and purchase agreements not exceeding 3 years with members of the Unipet Group for the trading of petroleum products on a transaction by transaction basis. The parties will negotiate with reference to, among other factors, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the contracts and the agreements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Under the Unipet Framework Master Agreement, the prices payable are to be based on international market prices and are to be agreed between the parties on an arm's length basis through negotiations. The parties can access such pricing information from various sources, including the EMIS energy market information resource operated by Platts.

Under the CPIC Framework Master Agreement, the Group will enter into separate written sale and purchase agreements not exceeding 3 years with members of the CPIC Group and CPIGC for the trading of petroleum and petrochemical products on a transaction by transaction basis. The parties will negotiate with reference to, among other factors, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the contracts and the agreements.

Under the CPIC Framework Master Agreement, the prices payable are to be based on international market prices and are to be agreed between the parties on an arm's length basis through negotiations. The parties can access such pricing information from various sources, including the EMIS energy market information resource operated by Platts.

Under the CPIGC Framework Master Agreement, the Group will enter into separate written sale and purchase agreements not exceeding 3 years with CPIGC for the trading of petroleum and petrochemical products on a transaction by transaction basis. The parties will negotiate with reference to, among other factors, market conditions, normal commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the contracts and the agreements.

Under the CPIGC Framework Master Agreement, the prices payable are to be based on international market prices and are to be agreed between the parties on an arm's length basis through negotiations. The parties can access such pricing information from various sources, including the EMIS energy market information resource operated by Platts.

We have reviewed the above agreements and are of the view that they are based on normal commercial terms. We have also been informed by the Company and confirmed through our research that Platts provides international benchmarks that are commonly adopted in the energy industry. We are of the view that the above agreements were derived on normal commercial terms, in the ordinary and usual course of its business, fair and reasonable and in the interest of the Company and its shareholders as a whole.

Annual caps of the transaction

The aggregate amounts paid and received by the Group in respect of these connected transactions for each of the two years ended 31 December 2003 were approximately HK\$297.23 million and HK\$303.96 million respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors expect that these connected transactions will continue and the monetary amount will increase substantially for reasons set out below, in particular, the collective bargaining power of Sinopec Group, which the Group wishes to utilize more in the future and is beneficial to the Group. The aggregate amounts paid and received by the Group in respect of these transactions shall (which is an aggregate figure and not a net-off figure) not exceed HK\$1,500 million, HK\$2,000 million and HK\$2,000 million for each of the three financial years ending 31 December 2005, 31 December 2006 and 31 December 2007 respectively.

Furthermore, with reference to the dominant position and increase in turnover and activities of Sinopec Group in the petroleum and petrochemical industry of the PRC, the number and amount of these connected transactions between the Sinopec Group and the Group is expected to increase.

Apart from the above reasons, in arriving at the above cap, the following factors are taken into account:

- (a) the respective historical figures of these connected transactions.
- (b) the expected increase in the consumption of petroleum and petrochemical products in the relevant markets, the expected increase in the demand of crude oil by the crude oil refineries and the expected increase in crude oil refining capacities of these refineries, including the Sinopec Guangzhou Branch Expansion.
- (c) the volatility and possible increase in the international and the PRC market price of crude oil, petroleum and petrochemical products.

Based on the above, we consider that there is a fair and reasonable basis in arriving at the annual caps of the transaction.

C. Sinopec Group Company's undertaking

On 14 May 1999, Sinopec Group Company undertook in writing to the Company:

- (a) to treat the Group equally with all other subsidiaries that are within the scope of Sinopec Group Company's management;
- (b) in respect of all transactions between any member of the Group and Sinopec Group Company or its other subsidiaries, to treat the Group no less favourably than other subsidiaries which are within the scope of Sinopec's management; and
- (c) that the ordinary business and normal operations of the Company will be carried out by the Directors, and that Sinopec Group Company will not, and will procure that other subsidiaries within the scope of management of Sinopec Group Company will not, interfere in the Group's business or normal operations, or adopt any unfair means of competition.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed the written undertaking from Sinopec Group Company to the Company and are of the opinion that the undertaking will provide additional assurance the Existing Ongoing Connected Transactions will be entered into and carried out on normal commercial terms, in the ordinary and usual course of its business, fair and reasonable and in the interest of the Company and its shareholders as a whole.

D. Reasons for making the Existing Ongoing Connected Transactions

The Directors are of the opinion that the Existing Ongoing Connected Transactions are entered into and carried out in the ordinary course of business of the Group, on an arm's length basis, and either (1) where there are comparable transactions, on normal commercial terms; or (2) in accordance with State-prescribed prices or government-approved prices (as the case may be) prescribed or approved by relevant governmental or regulatory authorities; or (3) in accordance with the terms of the agreements governing the Existing Ongoing Connected Transactions in question that are fair and reasonable and in the interests of the shareholders of the Company as a whole; or (4) if applicable, on terms no less favourable than terms available to or from independent third parties. The Directors are of the view that the Existing Ongoing Connected Transactions are entered into in the ordinary course of business of the Group on normal commercial terms that are fair and reasonable so far as the Company and its shareholders are concerned.

We understand that these transactions are essential for the efficient and continuous operation and growth of the Group. The Board considers that full disclosure by way of press announcement and/or prior approval by the Independent Shareholders of the Existing Ongoing Connected Transactions on each occasion it occurs in full compliance of the Listing Rules would be impracticable due to the frequency of happening of such transactions, which will create unnecessary administrative burden and costs to the Company.

Taking into account that the Existing Ongoing Connected Transactions are (i) restricted by the caps and (ii) complies with the State's prescribed standard, in addition to the reasons as stated by the Directors, we consider that the Company has taken appropriate measures to govern the Company in carrying out the Existing Ongoing Connected Transactions, thereby safeguarding the interests of the shareholders thereunder. In particular, we note that the Existing Ongoing Connected Transactions is being carried out by the Company on normal commercial terms, in the ordinary and usual course of its business, fair and reasonable and in the interest of the Company and its shareholders as a whole.

E. The framework master agreements

The CPIC Framework Master Agreement, CPIGC Framework Master Agreement, Sinopec Corp. Framework Master Agreement and Unipet Framework Master Agreement entered into by the Company and its connected parties for conducting the Existing Ongoing Connected Transactions constitute connected transactions which require the Independent Shareholders' approval at the SGM. We have reviewed the above framework master agreements and are of the view that the framework master agreements are based on normal commercial terms, in the ordinary and usual course of its business, fair and reasonable and in the interest of the Company and its shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OUR ADVICE

After taking into account the principal factors and reasons referred to above, we are of the opinion that the terms of both the Existing Ongoing Connected Transactions and the Framework Master Agreements are based on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the shareholders as a whole. We have formulated our advice based on the following consideration:

- The Existing Ongoing Connected Transactions have been entered into in the ordinary and usual course of business of the Group. The terms of these transactions have been negotiated on an arm's length basis between the Group and the relevant parties concerned.
- The Existing Ongoing Connected Transactions have been entered into (1) where there are comparable transactions, on normal commercial terms; or (2) in accordance with the applicable State-prescribed prices or government-approved prices (as the case may be).
- The term of the Second Waiver had expired on 31 December 2004.
- The basis for the respective annual caps for each of the three financial years ending 31 December 2007 as set out in the paragraphs above.
- The making of the Existing Waiver Application is essential to the Company and unless such application is approved by the Stock Exchange, all of the Existing Ongoing Connected Transactions would require disclosure by way of press announcement, preparation and dispatch of circulars to shareholders and likely prior approval by the Independent Shareholders on each occasion it occurs, thus creating unnecessary administrative burden and costs on the Company, unless applicable exceptions under the Listing Rules apply.
- The approval of the Existing Waiver Application will be conditional on, inter alia, the Existing Ongoing Connected Transactions being reviewed by the independent non-executive Directors and the auditors of the Company on an annual basis.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution approving, confirming and ratifying the Existing Ongoing Connected Transactions (including the caps) and the Framework Master Agreements to be proposed at the SGM.

Yours faithfully,
For and on behalf of
DBS ASIA CAPITAL LIMITED
Kelvin Lau
Managing Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

Directors' Interests and Short Positions

As at the Latest Practicable Date, none of the Directors, nor their associates, had any interest and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance Cap.571 (the “SFO”)) which were required to be notified to the Company and the Stock Exchange which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 and the Stock Exchange under the provisions of Divisions 7 and 8 of Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein.

Directors' Interest in Any Asset Acquired, Disposed or Leased

None of the Directors has any material interest, direct or indirect, in any asset which, since 31 December 2003, being the date to which the latest audited consolidated financial statements of the Group have been made up, had been acquired or disposed of by or leased to any member of the Group or was proposed to be acquired or disposed of by or leased to any member of the Group.

Directors' Service Contracts and Appointment Letters

Mr. Yang Shu Shan, executive Director, has entered into a service contract with the Company for a period of one (1) year commencing from 1 July 2001 renewable automatically for successive terms of one (1) year each commencing from the day next after the expiry of the then current term of the appointment, unless terminated by not less than six (6) months' notice in writing served by either party. For the financial years ended 31 December 2003 and 2004, Mr. Yang was entitled to HK\$1,080,000 and HK\$1,530,000 respectively as director's emoluments.

Mr. Pan Xin Rong, an executive Director, has entered into a service contract with the Company for a term of one (1) year commencing from 30 March 2004 renewable automatically for successive terms of one (1) year each commencing from the day next after the expiry of the then current term of the appointment unless terminated by not less than three (3) months' notice in writing served by either party. For the financial year ended 31 December 2004, Mr. Pan was entitled to approximately HK\$810,000 as director's emoluments.

Mr. Zhu Jian Min, an executive Director, has entered into a service contract with the Company for a term of one (1) year commencing from 1 September 2004 renewable automatically for successive terms of one (1) year each commencing from the day next after the expiry of the then current term of the appointment unless terminated by not less than three (3) months' notice in writing served by either party. For the financial year ended 31 December 2004, Mr. Zhu is entitled to HK\$326,667 as director's emoluments.

Mr. Zhou Feng, an executive Director, has entered into a service contract with the Company for a term of one (1) year commencing from 30 March 2004 renewable automatically for successive terms of one (1) year each commencing from the day next after the expiry of the then current term of the appointment unless terminated by not less than three (3) months' notice in writing served by either party. For the financial year ended 31 December 2004, Mr. Zhou is entitled to HK\$735,000 as director's emoluments.

Mr. Ye Zhi Jun, an executive Director, has entered into a service contract with the Company for a term of one (1) year commencing from 28 March 2002 renewable automatically for successive terms of one (1) year each commencing from the day next after the expiry of the then current term of the appointment unless terminated by not less than three (3) months' notice in writing served by either party. For the financial years ended 31 December 2003 and 2004, Mr. Ye is entitled to HK\$880,000 and HK\$880,000 respectively as director's emoluments.

Mr. Ge Han Hua, an executive Director, has entered into a service contract with the Company for a term of one (1) year commencing from 30 March 2004 renewable automatically for successive terms of one (1) year each commencing from the day next after the expiry of the then current term of the appointment unless terminated by not less than three (3) months' notice in writing served by either party. For the financial year ended 31 December 2004, Mr. Ge is entitled to HK\$360,000 as director's emoluments.

Mr. Yang Mo Fei, non-executive Director, has been appointed for a term of three (3) years commencing from 30 March 2004 which is automatically renewed upon expiry for successive terms of one year. For the financial year ended 31 December 2004, Mr. Yang is entitled to no director's emolument.

Mr. Wong Po Yan and Ms. Tam Wai Chu, Maria were appointed as independent non-executive Directors since 25 March 1998 for a term of three (3) years. Their appointments have been extended from 25 March 2004 for a further term of three (3) years. For the financial years ended 31 December 2003 and 2004 respectively, each of Mr. Wong and Ms. Tam are entitled to HK\$100,000 and HK\$180,000 as director's emoluments.

Mr. Fong Chung, Mark was appointed as independent non-executive Directors since 1 September 2004 for a term of three (3) years. For the financial year ended 31 December 2004, Mr. Fong is entitled to HK\$60,000 as director's emoluments.

Save as disclosed above, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one (1) year without the payment of compensation other than statutory compensation.

Directors' Interest in Contracts

No contracts of significance to which the Company, any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a Director had a material interest and which is significant to the Group's business, whether directly or indirectly, subsisted at the date of this circular.

3. SUBSTANTIAL SHAREHOLDERS

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

Name of interested party	Number of Shares	Percentage of shareholding (%)
Sinopec Kantons International Limited	750,000,000	72.34

Note: The entire share capital of Sinopec Kantons International Limited is held by China Petrochemical International Company Limited. The entire registered capital of China Petrochemical International Company Limited was held by China Petroleum & Chemical Corporation. The controlling interest in the registered capital of China Petroleum & Chemical Corporation is held by China Petrochemical Corporation.

- (B) Save as disclosed below, the Directors are not aware of any other person (other than a Director or chief executive of the Company or his/her respective associate(s)) who, as at the Latest Practicable Date, was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of member of the Group	Name of shareholders	% of the registered capital
Huade	GPC	30%
Kantons Gas Station Investment & Management Co. Ltd.	GPC	10%

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading prospects of the Group since 31 December 2003, the date to which the latest audited financial statements of the Group were made up.

5. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

6. CONSENT AND EXPERT

The following are the qualifications of the professional advisers who have given opinion or advice, which is contained in this circular:

Name	Qualification
DBS Asia Capital Limited	a deemed licensed corporation under the SFO permitted to engage in types 1, 4, 6 and 9 of the regulated activities

DBS Asia Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, DBS Asia Capital Limited is not beneficially interested in the share capital of any member of the Group nor does it have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor does it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. PROCEDURES FOR DEMANDING A POLL

Set out below is the procedure by which shareholders and the chairman of any shareholders' meeting may demand a poll pursuant to article 73 of the bye-laws of the Company:

“At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the Chairman of the meeting; or
- (ii) by at least three shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any shareholder or shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the shareholders having the right to vote at the meeting; or

- (iv) by any shareholder or shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.”

A poll will be demanded by the Chairman of the SGM to pass the ordinary resolution in the notice of the SGM.

8. MISCELLANEOUS

- (a) The secretary of the Company is Mr. Lai Yang Chau, Eugene (practicing solicitor).
- (b) The principal place of business of the Company in Hong Kong is 1608 Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong.
- (c) The Hong Kong Branch Share Registrar and Transfer Office of the Company is Secretaries Limited of G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (d) The English text of this circular and form of proxy shall prevail over the Chinese text.

9. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Coudert Brothers at 39th Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 1 April 2005:

- (a) the letter from DBS Asia Capital Limited as the Independent Financial Adviser as set out on pages 21 to 36 in this circular;
- (b) the written consent from DBS Asia Capital Limited referred to in paragraph 6 of this appendix;
- (c) the letter of recommendation from the Independent Board Committee to the Independent Shareholders as set out on page 20 in this circular;
- (d) the service agreements and appointment letters of the Directors referred to in paragraph 2 of this appendix; and
- (e) the Sinopec Corp. Framework Master Agreement, the Unipet Framework Master Agreement, the CPIC Framework Master Agreement, and the CPICG Framework Master Agreement.

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 of Sinopec Kantons Holdings Limited (the “Company”) will be held at 1608 Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong on 1 April 2005 at 10:00 a.m. for the purposes of considering and, if thought fit, passing the following resolution as ordinary resolution:

ORDINARY RESOLUTION

“**THAT** the (1) Existing Ongoing Connected Transactions (as defined in the circular of the Company dated 16 March 2005 (the “Circular”)), including the caps; (2) each of the Sinopec Corp. Framework Master Agreement, Unipet Framework Master Agreement, CPIC Framework Master Agreement and CPIGC Framework Master Agreement (as defined in the Circular) and all the matters contemplated therein be and is hereby approved, confirmed and ratified; and that the Directors be and are hereby authorised to do all such acts and take all necessary actions in connection therewith”.

Note:

This ordinary resolution will be put to a poll.

By Order of the Board
Yang Shu Shan
Chairman

Hong Kong, 16 March 2005

Principal office:
1608 Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

* For identification purposes only

NOTICE OF SPECIAL GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend, and subject to the provisions of the Bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.
2. 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 or authority, at Secretaries Limited, the Hong Kong Branch Share Registrar and Transfer Office of the Company, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting should they so wish.

As at the date of this notice, the board of directors of the Company comprises:

Executive Directors:

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

Non-executive Director:

Mr. Yang Mo Fei

Independent Non-executive Directors:

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