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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)

- (1) Revision of caps re crude oil supply and sourcing of the Existing Ongoing Connected Transactions for the financial year ending 31 December 2007; and**
(2) New Framework Master Agreements re Existing Ongoing Connected Transactions for three financial years ending 31 December 2010

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



Hantec Capital Limited

A letter from the Board is set out on pages 6 to 20 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 21 of this circular.

A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 43 of this circular.

A notice convening the SGM to be held at Boardroom 3-4, Mezzanine Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wan Chai, Hong Kong on 21 September 2007 at 10:00 a.m. is set out on pages 48 to 49 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 Tricor Secretaries Limited, the Hong Kong Branch Share Registrar and Transfer Office of the Company, at 26th Floor, Tesbury Centre, 28 Queen's Road East, 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

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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
“Circular”	this circular
“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
“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
“Director(s)”	the director(s) of the Company, including the independent non-executive directors of the Company
“Existing Ongoing Connected Transactions”	means collectively the non-exempted continuing connected transactions including, the services and facilities in relation to the Huizhou Jetty, the crude oil supply and sourcing, petroleum and petrochemical products trading and the third party processing of crude oil collectively, details of which are set out in paragraph (I) – sub-paragraphs (A), (B) and (C) of this Circular
“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
“First Previous SGM”	1 April 2005
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Huade”	惠州市大亞灣華德石化有限公司 (Hua De Petrochemical Co. Ltd.), a wholly foreign owned enterprise established under the laws of the PRC with limited liability and is held by the Group through Kantons Investment
“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
“Independent Board Committee”	the independent board committee of the Company comprising of Mr. Wong Po Yan, Ms. Tam Wai Chu, Maria and Mr. Fong Chung, Mark, the independent non-executive Directors
“Independent Financial Adviser”	Hantec Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Revised Caps, the Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 (together with their caps) and the New Framework Master Agreements
“Independent Shareholders”	holder of shares in the Company other than Sinopec Group Company, Sinopec Corp., Unipet, CPIC, SKI and their respective associates
“Latest Practicable Date”	14 August 2007
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Framework Master Agreements”	collectively the New Sinopec Guangzhou Branch Framework Master Agreement, the New Unipet Framework Master Agreement, the New CPIC Framework Master Agreement, the Sinopec (HK) Framework Master Agreement and the Sinopec/CAOSC Framework Master Agreement

DEFINITIONS

“New CPIC Framework Master Agreement”	the agreement dated 27 July 2007 entered into between the Company and CPIC in respect of continuing connected transactions as disclosed in paragraph (I) of this Circular for the three financial years ending 31 December 2010
“New Sinopec Guangzhou Branch Framework Master Agreement”	the agreement dated 27 July 2007 entered into between the Company and Sinopec Guangzhou Branch regulating the continuing connected transactions as disclosed in paragraph (I) of this Circular for the three financial years ending 31 December 2010
“New Unipec Framework Master Agreement”	the agreement dated 27 July 2007 entered into between the Company and Unipec in respect of continuing connected transactions as disclosed in paragraph (I) of this Circular for the three financial years ending 31 December 2010
“Old CPIC Framework Master Agreement”	the agreement dated 18 February 2005 entered into between the Company and CPIC in respect of continuing connected transactions between the Company and CPIC Group for the three financial years ending 31 December 2007
“Old CPIGC Framework Master Agreement”	the agreement dated 18 February 2005 entered into between the Company and CPIGC in respect of continuing connected transactions between the Company and CPIGC for the three financial years ending 31 December 2007
“Old Sinopec Corp. Framework Master Agreement”	the agreement dated 18 February 2005 entered into between the Company and Sinopec Corp. in respect of continuing connected transactions between the Company and Sinopec Corp. for the three financial years ending 31 December 2007
“Old Unipec Framework Master Agreement”	the agreement dated 18 February 2005 entered into between the Company and Unipec in respect of continuing connected transactions between the Company and Unipec Group for the three financial years ending 31 December 2007
“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

DEFINITIONS

“Revised Caps”	the revision and increase of the caps of crude oil supply and sourcing of the Existing Ongoing Connected Transactions, being the crude oil supply and sourcing for the financial year ending 31 December 2007, as disclosed in paragraph (I) – sub paragraphs (B)(1) and (2) of this Circular
“Second Previous SGM”	21 November 2005
“SGM”	the special general meeting of the Company to be convened for the purpose of approving the Revised Caps, the Existing Ongoing Connected Transactions and the New Framework Master Agreements
“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 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 75.84% 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 expansion of the crude oil refinery of Sinopec Guangzhou Branch to an annual refining capacity of 13 million tonnes grade crude oil refinery
“Sinopec (HK)”	Sinopec (Hong Kong) Company Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of Sinopec Corp

DEFINITIONS

“Sinopec (HK) Framework Master Agreement”	the agreement dated 27 July 2007 entered into between the Company and Sinopec (HK) in respect of continuing connected transactions as disclosed in paragraph (I) of this Circular for the three financial years ending 31 December 2010
”Sinopec/CAOSC”	Sinopec/CAOSC Co. Ltd., a company incorporated in Hong Kong and a wholly owned subsidiary of Sinopec Corp
”Sinopec/CAOSC Framework Master Agreement”	the agreement dated 27 July 2007 entered into between the Company and Sinopec/CAOSC in respect of continuing connected transactions as disclosed in paragraph (I) of this Circular for the three financial years ending 31 December 2010
“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
“State”	the government of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Unipeç”	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 and a wholly owned subsidiary of Sinopec Corp
“Unipeç Group”	Unipeç, 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:

Ms. Wang Li Sheng

Mr. Zhu Zeng Qing

Mr. Zhou Feng

Mr. Zhu Jian Min

Mr. Tan Ke Fei

Mr. Ye Zhi Jun (*Managing Director*)

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:

20th Floor, Office Tower

Convention Plaza,

1 Harbour Road,

Wanchai,

Hong Kong

17 August 2007

To the shareholders

Dear Sir or Madam,

- (1) Revision of caps re crude oil supply and sourcing of the Existing Ongoing Connected Transactions for the financial year ending 31 December 2007; and**
(2) New Framework Master Agreements re Existing Ongoing Connected Transactions for three financial years ending 31 December 2010

The Existing Ongoing Connected Transactions were approved by the independent shareholders in April 2005 in the First Previous SGM, with the revised caps approved in November 2005 in the Second Previous SGM. The approval will expire on 31 December 2007. The Company conducts the Existing Ongoing Connected Transactions and will have to comply with the reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

Given the increase in volume of business, the management of the Company would like to seek shareholders approval to revise and increase the caps of crude oil supply and sourcing of the Existing Ongoing Connected Transactions for the financial year ending on 31 December 2007. In addition, the Company would like to seek shareholders' approval to the Existing Ongoing Connected Transactions to be conducted under the terms and conditions of

* For identification purposes only

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the New Framework Master Agreements, which will commence on 1 January 2008 and will end on 31 December 2010. An announcement regarding the Existing Ongoing Connected Transaction was made by the Company on 27 July 2007.

As at the date of this Circular, none of the caps in relation to the Existing Ongoing Connected Transactions that were approved and revised by the shareholders of the Company in the First and Second Previous SGMs for the financial year ending 31 December 2007 has been exceeded and the Directors do not anticipate that any such caps will be exceeded on the date of the SGM.

(I) Non-exempted Existing Ongoing Connected Transactions

(A) Crude Oil Jetty Services

On 18 February 2005, the Company and Sinopec Corp. entered into the Old Sinopec Corp. Framework Master Agreement to set out a framework and to regulate, among others, the provision of crude oil jetty services between the Group and Sinopec Corp.

On 27 July 2007, Sinopec Guangzhou Branch entered into the New Sinopec Guangzhou Branch Framework Master Agreement, and on 27 July 2007, the Company and Unipet entered into the New Unipet Framework Master Agreement. Conditional upon the approval in the SGM, each of the New Sinopec Guangzhou Branch Framework Master Agreement and the New Unipet Framework Master Agreement will commence from 1 January 2008 for a term of 3 years up to 31 December 2010.

Nature of transaction and the connected party

Huade has provided under the Old Sinopec Corp. Framework Master Agreement, the following services to Sinopec Corp., and will, under each of the New Sinopec Guangzhou Branch Framework Master Agreement and the New Unipet Framework Master Agreement, continue to provide the following services and facilities to relevant branches and subsidiaries of Sinopec Corp., including Sinopec Guangzhou Branch and Unipet Group, 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, in case of Sinopec Guangzhou Branch, Sinopec Guangzhou Branch's refinery complex in Guangzhou; and in case of Unipet Group, to the crude oil bonded zone operated by the Group for Unipet Group's crude oil trading businesses.

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Pricing basis and caps

Pursuant to the Old Sinopec Corp. Framework Master Agreement, and for the three financial years ending 31 December 2010 and, pursuant to each of the New Sinopec Guangzhou Branch Framework Master Agreement and the New Unipet Framework Master Agreement, Huade entered/will enter into separate crude oil jetty service agreements with Sinopec Guangzhou Branch and Unipet Group respectively. 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 Old Sinopec Corp. Framework Master Agreement and the New Sinopec Guangzhou Branch Framework Master Agreement and the New Unipet Framework Master Agreement, the service fees payable by Sinopec Guangzhou Branch and Unipet Group respectively, and received by the Group in respect of (i) above are 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) above are charged on the basis of government-approved prices, being approved by the Guangdong Price Bureau. The service fees payable in respect of (iii) above are based on the State-prescribed prices, being regulated by the PRC's National Development and Reform Commission.

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 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 consumer price index can be obtained from the Guangdong Bureau of Statistics of the PRC.

The aggregate amounts received by the Group in respect of these connected transactions for each of the two years ended 31 December 2006 were approximately HK\$315 million and HK\$339 million. For the period from 1 January 2007 to 30 June 2007, the aggregate amounts received by the Group in respect of these connected transactions is approximately HK\$182.6 million.

As approved in the First Previous SGM and adjusted in the Second Previous SGM, the annual caps for these transactions are HK\$350 million, HK\$630 million and HK\$630 million for each of the three financial years ending 31 December 2007. For the three financial years ending 31 December 2010, the Directors expect that these connected transactions will continue and the monetary amount will increase. The aggregate transaction amounts will be within a maximum annual cap of HK\$700 million, HK\$700 million and HK\$700 million for each of the three financial years ending 31 December 2008, 31 December 2009 and 31 December 2010 respectively.

LETTER FROM THE BOARD

Reasons for the revised cap, the transactions and new caps

The Group entered into these connected transactions for the reasons that, (a) in the case of Sinopec Guangzhou Branch, the availability and quality of the above services and the proximity of Huade crude oil jetty to Sinopec Guangzhou Branch for transmission of crude oil to the crude oil refinery facilities of Sinopec Guangzhou Branch; and (b) in the case of Unipet Group, the availability and quality of the above services and proximity of Huade crude oil jetty for transmission of crude oil to the crude oil bonded zone operated by the Group for Unipet Group's crude oil trading businesses. Sinopec Guangzhou Branch is the largest customer of Huizhou Jetty.

In arriving at the cap, the following factors were taken into account: (i) the historical figures of the transactions; (ii) the State-prescribed prices and the government approved prices for these services; (iii) with the increase in crude oil refinery capacity of Sinopec Guangzhou Branch Expansion and the increase in demand for petroleum and petrochemical products in the PRC market, Sinopec Guangzhou Branch is expected to import more crude oil and thus will consume more crude oil jetty services and its facilities; (iv) Unipet Group is also expected to import more crude oil for Unipet Group's crude oil trading business; and (v) given the nature of mutual dependence and reliance of the supply and consumption of the services and facilities by Sinopec Guangzhou Branch and Unipet 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.

(B) Trading activities

On 18 February 2005, the Company entered into the Old Unipet Framework Master Agreement and the Old CPIC Framework Master Agreement with Unipet and CPIC respectively to regulate the trading activities amongst them.

On 27 July 2007, the Company and Unipet entered into the New Unipet Framework Master Agreement, the Company and CPIC entered into the New CPIC Framework Master Agreement, the Company and Sinopec (HK) entered into the Sinopec (HK) Framework Master Agreement and the Company and Sinopec/CAOSC entered into the Sinopec/CAOSC Framework Master Agreement. Conditional upon the approval in the SGM, each of the New Unipet Framework Master Agreement, the New CPIC Framework Master Agreement, Sinopec (HK) Framework Master Agreement and Sinopec/CAOSC Framework Master Agreement will cover all these trading activities with the Group, Unipet Group, CPIC Group, Sinopec (HK) and Sinopec/CAOSC respectively commencing on 1 January 2008 for a term of three years up to 31 December 2010.

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.

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Pricing basis and caps

Under the Old Unipet Framework Master Agreement and the New Unipet Framework Master Agreement, the Group entered/will enter into written supply agreements not exceeding 3 years with members of the Unipet Group 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. Under each of the Old Unipet Framework Master Agreement and the New 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.

The aggregate amounts received by the Group in respect of these connected transactions for each of the two years ended 31 December 2006 were approximately HK\$3,297 million and HK\$7,592 million.

As approved in the First Previous SGM and adjusted in the Second Previous SGM, the annual caps of these connected transactions for each of the three financial years ending 31 December 2007 are HK\$4,600 million, HK\$9,800 million and HK\$9,800 million respectively. For the financial year ending 31 December 2007, the Directors expect an increase in the volume and monetary value, given the expected increase in the crude oil price. In the SGM, the Directors will seek shareholders approval to revise the cap for these connected transactions for the financial year ending 31 December 2007 to HK\$20,000 million. For the period from 1 January 2007 to 30 June 2007, the aggregate amount received by the Group in respect of these connected transactions is approximately HK\$7,139 million.

For the three financial years ending 31 December 2010, 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\$25,000 million, HK\$30,000 million and HK\$35,000 million for each of the three financial years ending 31 December 2008, 31 December 2009 and 31 December 2010 respectively.

Reasons for the revised cap, the transactions and new 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 to the users 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.

Given its trading nature, the amount of business to be conducted is market and customer demand driven. The Company expects these transactions shall further increase for the financial year ending 31 December 2007 in light of the figures for the first six

LETTER FROM THE BOARD

months of the financial year ending 31 December 2007, the expected increase of volume of business for the second six months of the financial year ending 31 December 2007 and increase in the crude oil prices. 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.

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 also taken into account:

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

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 Sinopec Group.

Pricing basis and caps

Under the Old Unipet Framework Master Agreement, and for the three financial years ending 31 December 2010 and under each of the New Unipet Framework Master Agreement and the Sinopec (HK) Framework Master Agreement, the Group entered/ will enter into separate written sourcing agreements not exceeding 3 years with members of the Unipet Group and Sinopec (HK) 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.

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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 2006 were approximately HK\$2,412 million and HK\$5,198 million. For the period from 1 January 2007 to 30 June 2007, the aggregate amount paid by the Group in respect of these connected transactions is approximately HK\$7,548 million.

As approved in the First Previous SGM and adjusted in the Second Previous SGM, the annual caps of these connected transactions for each of the three financial years ending 31 December 2007 are HK\$3,600 million, HK\$8,000 million and HK\$8,000 million respectively. For the financial year ending 31 December 2007, the Directors expect an increase in the volume and monetary value, given the increase in the crude oil price. In the SGM, the Directors will seek shareholders approval to revise the cap for these connected transactions for the financial year ending 31 December 2007 to HK\$24,000 million.

For the three financial years ending 31 December 2010, 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\$29,500 million, HK\$37,000 million and HK\$43,000 million for each of the three financial years ending 31 December 2008, 31 December 2009 and 31 December 2010 respectively.

Reasons for the revised caps, the transactions and new caps

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 financial cost of the Group will be 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 financial 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. In particular, the Company expects these transactions shall further increase for the financial year ending 31 December 2007 in light of the figures for the first six months of the financial year ending 31 December 2007, the expected increase of volume of business for the second six months of the financial year ending 31 December 2007 and the increase of crude oil prices. It is in

LETTER FROM THE BOARD

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 are 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 increase in the consumption of petroleum and petrochemical products in the PRC and the increase in the demand of crude oil by the PRC crude oil refineries;
- (c) the increase in crude oil refining capacities of Sinopec Guangzhou Branch after the Sinopec Guangzhou Branch Expansion and the expected increase in crude oil refining capacities of other crude oil refineries;
- (d) the volatility and 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 branches and subsidiaries of Sinopec Corp, including Sinopec (HK), Sinopec/CAOSC, the Unipet Group and the CPIC Group.

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

Under the current arrangements of Sinopec Group, CPIGC ceased its business on December 2006 and its business is now being conducted by CPIC. The Old CPIGC Framework Master Agreement had lapsed accordingly.

Conditional upon the approval in the SGM, the New Unipet Framework Master Agreement, the New CPIC Framework Master Agreement, the Sinopec (HK) Framework Master Agreement and the Sinopec/CAOSC Framework Master Agreement will cover all these trading activities with the Unipet Group, the CPIC Group, Sinopec (HK) and Sinopec/CAOSC respectively commencing on 1 January 2008 for a term of three years up to 31 December 2010.

LETTER FROM THE BOARD

Pricing basis and caps

For the financial year ending 31 December 2007, under each of the Old Unipet Framework Master Agreement and the Old CPIC Framework Master Agreement, and for the three financial years ending 31 December 2010, and under the New Unipet Framework Master Agreement, the New CPIC Framework Master Agreement, the Sinopec (HK) Framework Master Agreement and the Sinopec/CAOSC Framework Master Agreement, the Group will enter into separate written sale and purchase agreements not exceeding 3 years with the Unipet Group, the CPIC Group, Sinopec (HK) and Sinopec/CAOSC respectively, 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 each of the Old Unipet Framework Master Agreement, the Old CPIC Framework Master Agreement, and the New Unipet Framework Master Agreement, the New CPIC Framework Master Agreement, the Sinopec (HK) Framework Master Agreement and the Sinopec/CAOSC 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 by the Group in respect of these connected transactions for each of the two years ended 31 December 2006 were approximately HK\$228 million and HK\$509 million. For the period from 1 January 2007 to 30 June 2007, the aggregate amount paid by the Group in respect of these connected transactions is approximately HK\$156.9 million.

As approved in the First Previous SGM and adjusted in the Second Previous SGM, the annual caps of these continuing connected transactions for each of the three financial years ending 31 December 2007 are HK\$450 million, HK\$1,500 million and HK\$1,500 million respectively. For the three financial years ending 31 December 2010, the Directors expect that the amount paid by the Group under these connected transactions will continue to increase substantially for reasons set out below. The aggregate amounts paid by the Group in respect of these transactions shall not exceed HK\$1,500 million, HK\$1,600 million and HK\$1,700 million for each of the three financial years ending 31 December 2008, 31 December 2009 and 31 December 2010 respectively.

The aggregate amounts received by the Group in respect of these transactions for each of the two years ended 31 December 2006 were approximately HK\$1,496 million and HK\$1,322 million. For the period from 1 January 2007 to 30 June 2007, the aggregate amount received by the Group in respect of these connected transactions is approximately HK\$662.1 million.

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As approved in the First Previous SGM and adjusted in the Second Previous SGM, the annual caps of these continuing connected transactions for the three financial years ending 31 December 2007 are HK\$1,950 million, HK\$3,200 million and HK\$3,200 million respectively. For the three financial years ending 31 December 2010, the Directors expect that the amount received by the Group under these connected transactions will continue to increase substantially for reasons set out below. The aggregate amounts received by the Group in respect of these transactions shall not exceed HK\$ 3,300 million, HK\$4,000 million and HK\$4,500 million for each of the three financial years ending 31 December 2008, 31 December 2009 and 31 December 2010 respectively.

Reasons for the transactions and new caps

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, the Group has to supply to the users through corporations that have crude oil, petroleum and petrochemical product import rights in the PRC, for examples, Unipet, CPIC and Sinopec Corp.

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 when Sinopec Group negotiates the selling price of the petroleum and petrochemical products with the end users. This arrangement reduces the financial 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 financial cost incurred by the Group is thereby reduced.

Moreover, 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 are 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;

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- (c) the increase in crude oil refining capabilities of Sinopec Guangzhou Branch after the Sinopec Guangzhou Branch Expansion and the expected increase in crude oil refining capacities of other refineries; and
- (d) the volatility and increase in the international and the PRC market price of crude oil, petroleum and petrochemical products.

(C) Third party processing

On 18 February 2005, the Company and Sinopec Corp. entered into the Old Sinopec Corp. Framework Master Agreement to set out a framework and to regulate the provision of third party processing services between the Group and Sinopec Corp. Conditional upon the approval in the SGM, the New Unipet Framework Master Agreement will commence from 1 January 2008 for a term of 3 years up to 31 December 2010.

Nature of the transaction and connected parties

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

Pricing basis and the cap

Under the Old Sinopec Corp. Framework Master Agreement and the New Unipet Framework Master Agreement, the Group entered/will enter into separate written third party processing agreements not exceeding 3 years with Sinopec Guangzhou Branch and the Unipet Group 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 each of the Old Sinopec Corp. Framework Agreement and the New Unipet 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 2006 were approximately HK\$41 million and HK\$63 million. For the period from 1 January 2007 to 30 June 2007, the aggregate amount paid by the Group in respect of these connected transactions is approximately HK\$41.3 million.

As approved in the First Previous SGM, the annual caps of these continuing connected transactions for the three financial years ending 31 December 2007 are HK\$150 million, HK\$150 million and HK\$150 million respectively. For the three financial years ending 31 December 2010, the Directors expect that these connected transactions will continue and the monetary amount will increase. The aggregate

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amounts paid by the Group in respect of these transactions shall not exceed HK\$260 million, HK\$280 million and HK\$300 million for each of the three financial years ending 31 December 2008, 31 December 2009 and 31 December 2010 respectively.

Reasons for the transactions and the new caps

Unipecc will be the sole agent company for all refineries of Sinopec Corp. to conduct third party processing businesses. On the other hand, due to 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.

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 international market; and
- (c) the volatility and increase in the international and the PRC market price of crude oil, petroleum and petrochemical products.

(II) The Directors' view

The Directors are of the opinion that the Revised Caps, the Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 (together with their caps) and the New Framework Master Agreements are entered into and carried out in the ordinary and usual course of business of the Group on an arm's length basis, are fair and reasonable and in the interests of the shareholders of the Company as a whole (including the basis thereof), 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) will be in accordance with the terms of the agreements governing the Existing Ongoing Connected Transactions in question; or (4) if applicable, on terms no less favourable than terms available to or from independent third parties.

(III) Listing Rules implications for the Existing Continuing Connected Transaction

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 per cent. of Sinopec Corp., Unipecc, CPIC, and other

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relevant branches and 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 as disclosed under paragraph (I) (sub paragraphs (A), (B) and (C)) 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 by poll by the independent shareholders.

(IV) 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.

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.

Unipec (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. Unipec is one of the State-authorised import agents of crude oil in the PRC and is a State-owned enterprise established under PRC laws and a wholly owned subsidiary of Sinopec Corp

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.

Sinopec (HK) is a limited liability company incorporated in Hong Kong and a wholly owned subsidiary of Sinopec Corp.

Sinopec/CAOSC Co. Ltd. is a limited liability company incorporated in Hong Kong and a wholly owned subsidiary of Sinopec Corp.

LETTER FROM THE BOARD

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

(V) General

Sinopec Group Company is the ultimate controlling shareholder of the Company and indirectly holds approximately 72.34 per cent. (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., Unipet, CPIC, SKI and their associates will abstain from voting in the special general meeting to approve the Revised Caps by poll, the Existing Ongoing Connected Transactions and the New Framework Master Agreements.

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 Revised Caps, the Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 and the New Framework Master Agreements and to recommend to the Independent Shareholders how to vote in the SGM. Hantec 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 Revised Caps, Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 and the New Framework Master Agreements and all matters contemplated therein.

(VI) Special General Meeting

A SGM is to be convened and will be held on 21 September 2007 at 10:00 a.m. at Boardroom 3-4, Mezzanine Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wan Chai, Hong Kong for the purpose of considering, and if thought fit, passing an ordinary resolution to approve by poll the Revised Caps, the Existing Ongoing Connected Transactions and the New Framework Master Agreements and all matters contemplated thereunder. The notice of the SGM is set out on pages 48 to 49 of this circular.

Sinopec Group Company, Sinopec Corp., Unipet, CPIC, SKI and their respective associates 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 Tricor Secretaries Limited, the Hong Kong Branch Share Registrar and Transfer Office of the Company, at 26th Floor, Tesbury Centre, 28 Queen's Road East, 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.

LETTER FROM THE BOARD

(VII) Recommendation

The Board (including the Independent Board Committee) is of the opinion that the Revised Caps, the terms of the Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 (together with their caps) and the New Framework Master Agreements 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 resolution set out in the notice of the SGM for the approval of the Revised Caps, the Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 and the New Framework Master Agreements.

(VIII) Additional Information

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

Yours faithfully,
For and on behalf of the Board
Wang Li Sheng
Chairlady

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)

17 August 2007

To the Independent Shareholders

Dear Sir or Madam,

We have been appointed as the Independent Board Committee to advise you in connection with the Revised Caps, the Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 and the New Framework Master Agreements, details of which are set out in the Letter from the Board contained in the circular to the shareholders of the Company dated 17 August 2007 (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 Revised Caps, the Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 (together with their caps), the New Framework Master Agreements, and the advice and opinion of the Independent Financial Adviser in relation thereto as set out on pages 22 to 43 of the Circular, we are of the opinion that the terms of the Revised Caps, the Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 (together with their caps) and the New Framework Master Agreements 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 resolution to be proposed at the SGM to approve the Revised Caps, the Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 and New Framework Master Agreements.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Revised Caps, the Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 (together with their caps) and the New Framework Master Agreements, which has been prepared for the purpose of inclusion in this circular:



Hantec Capital Limited

45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

17 August 2007

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

Dear Sirs and Madams,

REVISION OF CAPS FOR EXISTING ONGOING CONNECTED TRANSACTIONS AND NEW FRAMWORK MASTER AGREEMENTS RE EXISTING ONGOING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Revised Caps, the Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 (together with their caps) and the New Framework Master Agreements, details of which are set out in the Letter from the Board ("**Letter from the Board**") contained in the circular (the "**Circular**") of the Company dated 17 August 2007 of which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meanings as defined in the Circular.

Sinopec Group Company is the ultimate controlling shareholder of the Company and indirectly holds approximately 72.34 per cent. (750 million shares) of the entire issued share capital of the Company. 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 per cent. of Sinopec Corp., Unipet, CPIC, SKI and other relevant branches and members of the Sinopec Group, all of the Existing Ongoing Connected Transactions will constitute connected transactions for the Company. Sinopec Group Company, Sinopec Corp., Unipet, CPIC, SKI and their associates will

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

abstain from voting in the SGM to approve the Revised Caps, the Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 (together with their caps) and the New Framework Master Agreements.

The Independent Board Committee, comprising three independent non-executive Directors, namely Mr. Wong Po Yan, Ms. Tam Wai Chu, Maria and Mr. Fong Chung, Mark, has been established to advise the Independent Shareholders on the Revised Caps, the Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 (together with their caps), and the New Framework Master Agreements.

BASIS OF OUR ADVICE

In formulating our recommendation, we have relied on the statements, information, opinions and representations contained in the Circular, and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and the management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. However, we have not carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group and the Sinopec Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our opinion with regard to terms of the Revised Caps, the Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 (together with their caps) and the New Framework Master Agreements, we have considered the following principal factors and reasons:

1. Background

(a) Information on the Company

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.

(b) Information on Sinopec Group

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.

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 and a wholly owned subsidiary of Sinopec Corp..

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..

Sinopec (HK) is a limited liability company incorporated in Hong Kong and a wholly owned subsidiary of Sinopec Corp..

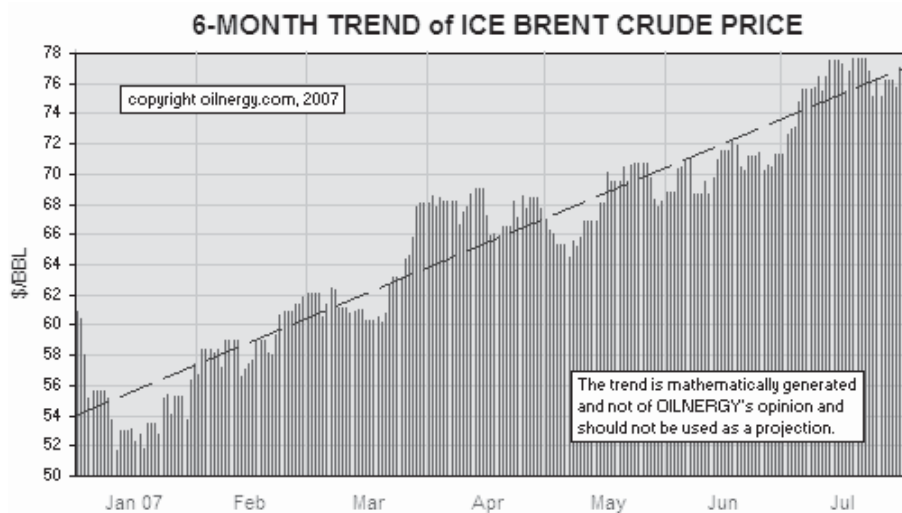
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Sinopec/CAOSC Co. Ltd. is a limited liability company incorporated in Hong Kong and a wholly owned subsidiary of Sinopec Corp..

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

(c) Crude oil demand and the crude oil price

According to the data published on Hong Kong Trade Development Council headed “Analysis of China’s market demand for oil or natural gas” on 24 October 2005, PRC oil consumption has grown at an average annual rate of over 7 per cent. since 1995, while the PRC’s annual oil supply grew only 1.7 per cent., there is stronger demand over the supply in the PRC market. We further note that the price of crude oil is under an upward trend, the chart below further shows the upward trend of the crude oil price for the period from January 2007 to July 2007:



Source: www.oilnergy.com

With reference to the chart above, the price of crude oil was increased from approximately US\$54 per barrel in January 2007 to approximately US\$77 per barrel in July 2007 under a continuous upward trend as shown above, representing an compound monthly growth rate of approximately 6.09 per cent..

Besides, we noted that the consumption for oil products in the PRC is increasing. According to Hong Kong Trade Development Council, the consumption of apparent crude oil and refined oil products in the PRC hit a record high in the first half of 2007, totaling approximately 173.03 million tons and approximately 106.11 million tons respectively, representing an increase of approximately 6.8 per cent. and 9.6 per cent. to the previous year. Based on the above, we consider that the consumption and demand for petroleum and petrochemical products in the PRC are increasing.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As discussed in the paragraphs below, in assessing our opinion on the annual caps and the Revised Caps for the Existing Ongoing Connected Transactions, we have taken into account (i) the upward trend of the crude oil price and (ii) the increasing consumption and demand of oil products, and we have further reviewed the basis considered by the Company in calculating the annual caps and the Revised Caps with reference to the current increasing trend of the crude oil price as shown above and we consider the basis is fair and reasonable.

2. Background and reasons of the Existing Ongoing Connected Transactions

The Existing Ongoing Connected Transactions were approved by the Independent Shareholders in April 2005 in the First Previous SGM, with the revised cap approved on November 2005 in the Second Previous SGM. The Company has, on 18 February 2005, entered in the Old CPIC Framework Master Agreement, Old CPIGC Framework Master Agreement, Old Sinopec Corp. Framework Master Agreement and Old Unipet Framework Master Agreement (collectively “**Old Framework Master Agreements**”) in respect of the Existing Ongoing Connected Transactions with CPIC, CPIGC, Sinopec Corp. and Unipet respectively. The Old Framework Master Agreements are to be expired on 31 December 2007, the Company has on 27 July 2007 entered into the New Framework Master Agreements in respect of the Existing Ongoing Connected Transactions so as to further extend the Existing Ongoing Connected Transactions for a term of three years up to 31 December 2010 commencing from 1 January 2008 subject to the shareholder’s approval.

The Directors are of the opinion that the Revised Caps, the Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 (together with their caps) and the New Framework Master Agreements are entered into and carried out in the ordinary and usual course of business of the Group, on an arm’s length basis, are fair and reasonable and in the interests of the shareholders of the Company as a whole (including the basis thereof).

Taking into consideration (i) the Existing Ongoing Connected Transactions under Old Framework Master Agreements and the New Framework Master Agreements are in line with the Group’s business and are entered into in usual and ordinary course of business of each of the Group and the Sinopec Group, and (ii) the transactions amounts of the Existing Ongoing Connected Transactions will be restricted by the new caps, we therefore consider that the Existing Ongoing Connected Transactions and the entering into of the New Framework Master Agreements are in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Existing Ongoing Connected Transactions

(A) Crude oil jetty services

On 18 February 2005, the Company and Sinopec Corp. entered into the Old Sinopec Corp. Framework Master Agreement to set out a framework and to regulate, among others, the provision of crude oil jetty services between the Group and Sinopec Corp..

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 27 July 2007, the Company and Sinopec Guangzhou Branch entered into the New Sinopec Guangzhou Branch Framework Master Agreement, and on the same day, the Company and Unipec entered into the New Unipec Framework Master Agreement. Conditional upon the approval in the SGM, each of the New Sinopec Guangzhou Branch Framework Master Agreement and the New Unipec Framework Master Agreement will commence from 1 January 2008 for a term of three years up to 31 December 2010.

Nature of transactions

Huade has provided, under the Old Sinopec Corp. Framework Master Agreement, the following services to Sinopec Corp. and will, under each of the New Sinopec Guangzhou Branch Framework Master Agreement and the New Unipec Framework Master Agreement, continue to provide the following services and facilities to relevant branches and subsidiaries of Sinopec Corp., including Sinopec Guangzhou Branch and Unipec Group, 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, in case of Sinopec Guangzhou Branch, Sinopec Guangzhou Branch's refinery complex in Guangzhou; and in case of Unipec Group, to the crude oil bonded zone operated by the Group for Unipec Group's crude oil trading businesses.

Reason for entering into the transactions

We understand that the Group entered into these connected transactions for the reasons that, (a) in the case of Sinopec Guangzhou Branch, the availability and quality of the above services and the proximity of Huade crude oil jetty to Sinopec Guangzhou Branch for transmission of crude oil to the crude oil refinery facilities of Sinopec Guangzhou Branch; and (b) in the case of Unipec Group, the availability and quality of the above services and proximity of Huade crude oil jetty for transmission of crude oil to the crude oil bonded zone operated by the Group for Unipec Group's crude oil trading businesses. Sinopec Guangzhou Branch is the largest customer of Huizhou Jetty.

Terms of the transactions

Pursuant to each of the New Sinopec Guangzhou Branch Framework Master Agreement and the New Unipec Framework Master Agreement, Huade entered/ will enter into separate crude oil jetty service agreements with Sinopec Guangzhou Branch and Unipec Group respectively. The parties will negotiate with reference to, among other factors, law and regulations, market conditions, normal

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

commercial terms, trade customs and the principle of fairness and will conclude the detailed terms and provisions in the agreements. We have reviewed the above agreements and are of the view that the agreements are entered into on normal commercial terms and in the ordinary and usual course of business of the Group.

Pricing of the transactions

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

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 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 consumer price index can be obtained from the Guangdong Bureau of Statistics of the PRC.

To this end, we have discussed with the management of the Company and are given to understand that the current service fees are regulated by the National Development and Reform Commission, the Ministry of Communications and the Guangdong Price Bureau respectively and that the Company follows the relevant guidelines closely. In this regard, we have reviewed (i) the service fees regulated by the National Development and Reform Commission, the Ministry of Communications and the Guangdong Price Bureau and (ii) the sample orders between the Company and Sinopec Corp. in relation to the crude oil jetty services, we note that the Company has followed the relevant guideline closely.

New annual caps for the transactions

The aggregate amounts received by the Group in respect of these connected transactions for each of the two years ended 31 December 2006 and for the six months ended 30 June 2007 were approximately HK\$315 million, HK\$339 million and approximately HK\$182.6 million respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As approved in the First Previous SGM and adjusted in the Second Previous SGM, the annual caps for these transactions are HK\$350 million, HK\$630 million and HK\$630 million for each of the three financial years ending 31 December 2007. For the three financial years ending 31 December 2010, the Directors expect that these connected transactions will continue and the monetary value will increase. The aggregate transaction amounts will be within a maximum annual cap of HK\$700 million, HK\$700 million and HK\$700 million for each of the three financial years ending 31 December 2008, 31 December 2009 and 31 December 2010 respectively. As discussed above in the sub-section headed “Crude oil demand and the crude oil price”, the price of crude oil was increased from approximately US\$54 per barrel in January 2007 to approximately US\$77 per barrel in July 2007 under a continuous upward trend, representing an compound monthly growth rate of approximately 6.09 per cent., with respect to the above and the expected increase in volume of import of crude oil from Sinopec Guangzhou Branch and Unipet Group, the increase of crude oil refinery capacity of Sinopec Guangzhou Branch and the increase in consumption of petroleum products and petrochemical products in the PRC, we consider that the caps for these transactions increased from the original of HK\$630 million for the financial year ending 31 December 2007 to HK\$700 million for each of the three financial years ending 31 December 2010 in order to capture the strong volatility of crude oil price is reasonable.

As advised by the Directors, in arriving at the annual caps for the three years ending 31 December 2010, they have taken into account: (i) the historical figures of the transaction amounts of these transactions; (ii) the State-prescribed prices and the government approved prices for these services; (iii) with the increase in crude oil refinery capacity of Sinopec Guangzhou Branch Expansion and the increase in demand for petroleum and petrochemical products in the PRC market, Sinopec Guangzhou Branch is expected to import more crude oil and thus will consume more crude oil jetty services and its facilities; (iv) Unipet Group is also expected to import more crude oil for Unipet Group’s crude oil trading business; and (v) given the nature of mutual dependence and reliance of the supply and consumption of the services and facilities by Sinopec Guangzhou Branch and Unipet 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.

In assessing the fairness and reasonableness of the annual caps for the three years ending 31 December 2010 with respect to the crude oil jetty services, we have discussed with the management of the Company and are given to understand that the Directors determine the new caps on the basis detailed above and the Directors consider the new caps provides more opportunities to conduct its ordinary and usual course of business. In addition, we have reviewed (i) historical growth rates of these transactions; (ii) the State-prescribed prices and the government approved prices for these services as regulated under PRC regulation; (iii) the improvement of the refinery capacity of Sinopec Guangzhou Branch from annual refining capacity of 7.7 million tones to an annual refining capacity of 13 million tones grade crude oil refinery, representing an increase of approximately 68.8 per cent., which would lead to a corresponding increase in consumption of

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service and facilities of Huizhou Jetty; and (iv) the volatility of the price of crude oil, petroleum products and petrochemical products that we noted from the statistics as discussed in the paragraph headed “Crude oil demand and the crude oil price” above. Though the historical transaction amounts for each of the two years ended 31 December 2006 were approximately HK\$315 million and HK\$339 million respectively, representing approximately 90% and 53.8% respectively of the caps for the two years ended 31 December 2006, based on the above information reviewed and, having discussed with the management, we are further 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; and (b) 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 and there is a fair and reasonable basis in arriving at the annual caps of the transactions.

(B) Trading activities

On 18 February 2005, the Company entered into the Old Unipet Framework Master Agreement and the Old CPIC Framework Master Agreement with Unipet and CPIC respectively to regulate the trading activities amongst them.

On 27 July 2007, (i) the Company and Unipet entered into the New Unipet Framework Master Agreement; (ii) the Company and CPIC entered into the New CPIC Framework Master Agreement; (iii) the Company and Sinopec (HK) entered into the Sinopec (HK) Framework Master Agreement; and (iv) the Company and Sinopec/CAOSC entered into the Sinopec/CAOSC Framework Master Agreement. Conditional upon the approval in the SGM, each of the New Unipet Framework Master Agreement, New CPIC Framework Master Agreement, Sinopec (HK) Framework Master Agreement and Sinopec/CAOSC Framework Master Agreement will cover all these trading activities with the Group, Unipet Group, CPIC Group, Sinopec (HK) and Sinopec/CAOSC respectively commencing on 1 January 2008 for a term of three years up to 31 December 2010.

1. Crude oil supply

Nature of transactions

The Group has supplied, under the Old Framework Master Agreements, and will continue to supply crude oil to Unipet Group under the New Framework Master Agreements.

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Reason for entering into the transactions

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.

Terms of the transactions

Under the Old Unipet Framework Master Agreement and under the New Unipet Framework Master Agreement, the Group entered/will enter into written supply agreements not exceeding three years with members of the Unipet Group 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 agreements, we are of the view that the agreements are entered into in the ordinary and usual course of business of the Group.

Pricing of the transactions

Under each of the Old Unipet Framework Master Agreement and the New 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 EIA energy market information resource operated by Platts.

We note that Platts, a division of The McGraw-Hill Companies which is a leading global information services provider meeting worldwide needs in the financial services, education and business information markets, is a large energy information provider based in the United States, specializing in news, prices, data, analytics, 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. Having reviewed the background and information provided on the website of Platts, we concur with the Directors that Platts serves to be a large energy information provider specializing in news, prices, data, analytics, research and consultancy for the energy industry, and its information represent internationally recognized benchmarks.

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Revised cap and the new annual caps for the transactions

The aggregate amounts received by the Group in respect of these connected transactions for each of the two years ended 31 December 2006 and the six months ended 30 June 2007 were approximately HK\$3,297 million, HK\$7,592 million and HK\$7,139 million respectively.

As approved in the First Previous SGM and adjusted in the Second Previous SGM, the annual caps of these connected transactions for each of the three financial years ending 31 December 2007 are HK\$4,600 million, HK\$9,800 million and HK\$9,800 million respectively.

The Company expects these transactions shall further increase for the financial year ending 31 December 2007 in light of (i) the figure for the first six months of the financial year ending 31 December 2007, (ii) the expected increase of volume of business for the second six months of the financial year ending 31 December 2007, and (iii) increase in the crude oil prices. The Directors believe 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 by revision of the cap for the financial year ending 31 December 2007. In the SGM, the Directors will seek shareholders approval to revise the cap for the financial year ending 31 December 2007 to HK\$20,000 million.

We noted that the aggregate amounts received by the Group of approximately HK\$7,139 million for the six months ended 30 June 2007 represents approximately 72.8 per cent. of the original annual cap approved for the financial year ending 31 December 2007. Taken into account (i) the actual transaction amount of approximately HK\$7,139 million up to 30 June 2007 as compared to the annual cap amount of HK\$9,800 million for the year 2007; (ii) the historical growth rate of the amount of these transactions; (iii) the price of crude oil is under upward trend as discussed in the paragraph headed “Crude oil demand and the crude oil price” above; (iv) the revised cap for the transactions provides flexibility to the Group to capture the growing demand from Unipet, we consider that the revised cap for the year ending 31 December 2007 with respect to crude oil supply is fair and reasonable.

For the three financial years ending 31 December 2010, the Directors expect that these connected transactions will continue and the monetary value will increase. The aggregate amounts received by the Group in respect of these transactions in each financial year shall not exceed the annual caps amount of HK\$25,000 million, HK\$30,000 million and HK\$35,000 million for each of the three financial years ending 31 December 2008, 31 December 2009 and 31 December 2010 respectively.

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The Directors expect that, 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 be increased accordingly.

Apart from the reasons set out above, in arriving at the above revised cap for the year ending 31 December 2007 and the annual caps for the three years ending 31 December 2010, the Directors have also taken into account the following factors:

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

In assessing the fairness and reasonableness of the annual caps for the three years ending 31 December 2010 and the revised cap for the financial year ending 31 December 2007 with respect to the crude oil supply, we have discussed with the management of the Company and are given to understand that the Directors determine the new caps and the revised cap on the basis detailed above and the Directors consider the new caps provides more opportunities to conduct its ordinary and usual course of business. In addition, we have reviewed (i) historical growth of the transaction amounts of these transactions; (ii) statistics in relation to the growth of consumption of petroleum and petrochemical products in the PRC and the increasing demand of crude oil by the crude oil refineries in the PRC as discussed in the paragraph headed “Crude oil demand and the crude oil price” above; (iii) the improvement of the refinery capacity of Sinopec Guangzhou Branch with respect to its Sinopec Guangzhou Branch Expansion from annual refining capacity of 7.7 million tones to an annual refining capacity of 13 million tones grade crude oil refinery, representing an increase of approximately 68.8 per cent., which would possibly raise the demand for crude oil supply; and (iv) the historical increase and the upward trend of the international and the PRC market price of crude oil, petroleum and petrochemical products as discussed in the paragraph headed “Crude oil demand and the crude oil price” above. Based on the above, we consider that the new caps for the

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three years ending 31 December 2010 and the revised cap for the financial year ending 31 December 2007 with respect to crude oil supply are fair and reasonable.

2. Crude oil sourcing

Nature of transactions

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

Reason for entering into the transactions

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 financial 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 financial cost incurred by the Group is thereby reduced.

Terms of the transactions

Under the Old Unipet Framework Master Agreement, and for the three financial years ending 31 December 2010 and under each of the New Unipet Framework Master Agreement and the Sinopec (HK) Framework Master Agreement, the Group entered/will enter into separate written sourcing agreements not exceeding three years with members of the Unipet Group and Sinopec (HK) 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 the agreements are entered into on normal commercial terms and in the ordinary and usual course of business of the Group.

Pricing of the transactions

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.

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As discussed in the above paragraphs, Platts is a large energy information provider based in the United States, specializing in news, prices, data, analytics, analytical tools, geospatial systems, research and consultancy for the complete spectrum of the energy industry. As advised by the Directors, the price of crude oil as published by Platts serves to represent an internationally recognized benchmark and commonly adopted in the energy industry.

Revised cap and the new annual caps for the transactions

The aggregate amounts paid by the Group in respect of these connected transactions for each of the two years ended 31 December 2006 and for the six months ended 30 June 2007 were approximately HK\$2,412 million, HK\$5,198 million and HK\$7,548 million respectively.

As approved in the First Previous SGM and adjusted in the Second Previous SGM, the annual caps of these connected transactions for each of the three financial years ending 31 December 2007 are HK\$3,600 million, HK\$8,000 million and HK\$8,000 million respectively.

For the financial year ending 31 December 2007, the Directors expect there is an increase in the volume and monetary value, given the increase in the crude oil price. The Company expects these transactions shall further increase for the financial year ending 31 December 2007 in light of (i) the figure for the first six months of the financial year ending 31 December 2007, (ii) the expected increase of volume of business for the second six months of the financial year ending 31 December 2007 and (iii) increase in the crude oil prices. The Directors believe 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 by revision of the cap for the financial year ending 31 December 2007. In the SGM, the Directors will seek shareholders approval to revise the cap for these connected transactions for the financial year ending 31 December 2007 to HK\$24,000 million.

We noted that the aggregate amounts paid by the Group for the six months ended 30 June 2007 in respect of crude oil sourcing of approximately HK\$7,548 million represents approximately 94.4 per cent. of the annual cap approved for the financial year ending 31 December 2007. Taken into account (i) up to 30 June 2007, the annual cap approved for the financial year ending 31 December 2007 is substantially used up as to 94.4 per cent.; (ii) the historical growth rate of the amount of these transactions; (iii) the price of crude oil is under upward trend with a compound monthly growth rate of approximately 6.09 per cent as discussed in the paragraph headed “Crude oil demand and the crude oil price” above; (iv) the Group may capture more opportunities to conduct its ordinary and usual course of business; and (v) the increase in crude oil refining capacities of Sinopec Guangzhou Branch and the expected increase in crude oil refining capacities

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of other crude oil refineries in the PRC, we consider that the revised cap for the year ending 31 December 2007 with respect to crude oil supply is fair and reasonable.

For the three financial years ending 31 December 2010, the Directors expect that these connected transactions will continue and the monetary value will increase substantially for reasons set out below, in particular, when Sinopec Group negotiates crude oil prices with oil majors or companies and Sinopec Group will enter into agreements with crude oil vendors directly, which would reduce the Group's financial cost as the Group is not required to issue letter of credits to Sinopec Group for these transactions and is beneficial to the Group. The aggregate amounts paid by the Group in respect of these transactions shall not exceed HK\$29,500 million, HK\$37,000 million and HK\$43,000 million for each of the three financial years ending 31 December 2008, 31 December 2009 and 31 December 2010 respectively.

Furthermore, the Directors consider that, 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 be increased.

Apart from the reasons set out above, in arriving at the above revised cap for the year ending 31 December 2007 and the annual caps for the three years ending 31 December 2010, the Directors have also taken into account the following factors:

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

In assessing the fairness and reasonableness of the annual caps of these transactions for the three years ending 31 December 2010 and the revised cap for the financial year ending 31 December 2007 with respect to the crude oil sourcing, we have discussed with the management of the Company and are given to understand that the Directors determine the new caps on the basis detailed above. In addition, we have reviewed (i) historical growth of

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the transaction amounts of these transactions; (ii) statistics in relation to the growth of consumption of petroleum and petrochemical products in the PRC and the increasing demand of crude oil by the crude oil refineries in the PRC as discussed in the paragraph headed “Crude oil demand and the crude oil price” above; (iii) the improvement of the refinery capacity of Sinopec Guangzhou Branch with respect to its Sinopec Guangzhou Branch Expansion from annual refining capacity of 7.7 million tones to an annual refining capacity of 13 million tones grade crude oil refinery, representing an increase of approximately 68.8 per cent., which will possibly raise the demand for crude oil sourcing; and (iv) the historical increase and the upward trend of the international and the PRC market price of crude oil, petroleum and petrochemical products as discussed in the paragraph headed “Crude oil demand and the crude oil price” above. Having reviewed the factors considered by the management and the information above, we concur with the view of the Directors that the underlying basis for the new caps for the three years ending 31 December 2010 and the revised cap for the financial year ending 31 December 2007 with respect to crude oil sourcing are fair and reasonable.

3. 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 branches and subsidiaries of Sinopec Corp, including Sinopec (HK), Sinopec / CAOSC, the Unipet Group and the CPIC Group.

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

Under the current arrangements of Sinopec Group, CPIGC ceased its business on December 2006 and its business is now be conducted by CPIC. The Old CPIGC Framework Master Agreement had lapsed accordingly.

Reason for entering into the transactions

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 Sinopec Corp..

Also, the sale of petroleum and petrochemical products to Sinopec Group for resale to the end users will be beneficial to the Sinopec Group when Sinopec Group negotiates the selling price of the petroleum and petrochemical products with the end users and Sinopec Group will be entering into the agreements with the petroleum and petrochemical products

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vendors directly, which would in turn reduce the Group's financial cost as the Group is not required to issue letter of credits to Sinopec Group for these transactions. Thus, the financial cost of the Group is thereby reduced.

Terms of the transactions

For the financial year ending 31 December 2007, under each of the Old Unipet Framework Master Agreement and the Old CPIC Framework Master Agreement, and for the three financial years ending 31 December 2010, under the New Unipet Framework Master Agreement, the New CPIC Framework Master Agreement, the Sinopec (HK) Framework Master Agreement and the Sinopec/CAOSC Framework Master Agreement, the Group will enter into separate written sale and purchase agreements not exceeding three years with the Unipet Group, the CPIC Group, Sinopec (HK) and Sinopec/CAOSC respectively, 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. We have reviewed the above agreements and are of the view that the agreements are entered into on normal commercial terms and in the ordinary and usual course of business of the Group.

Pricing of the transactions

Under each of the Old Unipet Framework Master Agreement, the Old CPIC Framework Master Agreement, and the New Unipet Framework Master Agreement, the New CPIC Framework Master Agreement, the Sinopec (HK) Framework Master Agreement and the Sinopec/CAOSC 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. To this end, we are given to understand that Platts provides international benchmarks that are commonly adopted in the energy industry.

New annual caps for the transactions

The aggregate amounts paid by the Group in respect of these connected transactions for each of the two years ended 31 December 2006 and for the six months ended 30 June 2007 were approximately HK\$228 million and HK\$509 million and HK\$156.9 million respectively.

As approved in the First Previous SGM and adjusted in the Second Previous SGM, the annual caps of these continuing connected transactions for each of the three financial years ending 31 December 2007 are HK\$450 million, HK\$1,500 million and HK\$1,500 million respectively. For the three

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financial years ending 31 December 2010, the Directors expect that the amount paid by the Group under these connected transactions will continue to increase substantially for reasons set out above in the sub-section headed “Reason for entering into the transactions”. The aggregate amounts paid by the Group in respect of these transactions shall not exceed the annual caps of HK\$1,500 million, HK\$1,600 million and HK\$1,700 million for each of the three financial years ending 31 December 2008, 31 December 2009 and 31 December 2010 respectively.

The aggregate amounts received by the Group in respect of these transactions for each of the two years ended 31 December 2006 and the six months ended 30 June 2007 were approximately HK\$1,496 million and HK\$1,322 million and HK\$662.1 million.

As approved in the First Previous SGM and adjusted in the Second Previous SGM, the annual caps of these continuing connected transactions for the three financial years ending 31 December 2007 are HK\$1,950 million, HK\$3,200 million and HK\$3,200 million respectively. For the three financial years ending 31 December 2010, the Directors expect that the amount received by the Group under these connected transactions will continue to increase substantially for reasons set out in the sub-section headed “Reason for entering into the transactions”. The aggregate amounts received by the Group in respect of these transactions shall not exceed HK\$ 3,300 million, HK\$4,000 million and HK\$4,500 million for each of the three financial years ending 31 December 2008, 31 December 2009 and 31 December 2010 respectively. As discussed above in the sub-section headed “Crude oil demand and the crude oil price”, the price of crude oil was increased from approximately US\$54 per barrel in January 2007 to approximately US\$77 per barrel in July 2007 under a continuous upward trend, representing a compound monthly growth rate of approximately 6.09 per cent., with respect to the above and the expected increase in volume of import of crude oil from Sinopec Guangzhou Branch and Unipac Group, the increase of crude oil refinery capacity of Sinopec Guangzhou Branch and the increase in consumption of petroleum products and petrochemical products in the PRC, we consider that setting a higher annual caps for the three years ending 31 December 2010 for these transactions to capture the strong volatility of crude oil price is reasonable.

Moreover, given its trading nature, the amount of business to be conducted is market and customer demand driven. The Directors believe 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 be increased.

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Apart from the reasons set out above, in arriving at the annual caps for the three years ending 31 December 2010, the Directors have also taken into account the following factors:

- (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
- (c) the increase in crude oil refining capabilities of Sinopec Guangzhou Branch after the Sinopec Guangzhou Branch Expansion and the expected increase in crude oil refining capacities of these refineries.
- (d) the volatility and possible increase in the international and the PRC market price of crude oil, petroleum and petrochemical products.

In assessing the fairness and reasonableness of the annual caps of these transactions for the three years ending 31 December 2010 with respect to the petroleum and petrochemical products trading, we have discussed with the management of the Company and are given to understand that the Directors determine the new caps on the basis detailed above and the Directors consider the new caps provides more opportunities to conduct its ordinary and usual course of business. In addition, we have reviewed (i) historical transaction amounts of these transactions, (ii) statistics in relation to the growth of consumption of petroleum and petrochemical products in the PRC and the increasing demand of crude oil by the crude oil refineries in the PRC as discussed in the paragraph headed “Crude oil demand and the crude oil price” above; (iii) the increase of the refining capacity of Sinopec Guangzhou Branch with respect to its Sinopec Guangzhou Branch Expansion from annual refining capacity of 7.7 million tones to an annual refining capacity of 13 million tones grade crude oil refinery, representing an increase of approximately 68.8 per cent., and (iv) the historical increase and the upward trend of the international and the PRC market price of crude oil, petroleum and petrochemical products as discussed in the paragraph headed “Crude oil demand and the crude oil price” above. Having reviewed the factors considered by the management and the information above, we concur with the view of the Directors that the underlying basis for the new caps for the three years ending 31 December 2010 with respect to petroleum and petrochemical products trading are fair and reasonable.

Considering the different nature of transactions with respect to crude oil supply, crude oil sourcing, and petroleum and petrochemical products trading, and the different historical growth rate of the transaction amounts in relation to the above mentioned transactions, we consider that the difference

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in increment rate of the new caps for the transactions of crude oil supply, crude oil sourcing and petroleum and petrochemical products trading in each of three financial year ending 31 December 2010 are fair and reasonable.

(C) Third party processing

On 18 February 2005, the Company and Sinopec Corp. entered into the Old Sinopec Corp. Framework Master Agreement to set out a framework and to regulate the provision of third party processing services between the Group and Sinopec Corp..

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

Reasons for entering into the aforesaid transactions

Unipet will be the sole agent for all refineries of Sinopec Corp. to conduct third party processing businesses. On the other hand, due to 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.

Terms of the transactions

Under the Old Sinopec Corp. Framework Master Agreement, and the New Unipet Framework Master Agreement, the Group entered/will enter into separate written third party processing agreements not exceeding three years with Sinopec Guangzhou Branch and the Unipet Group 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. We have reviewed the above agreements and are of the view that the agreements are entered into on normal commercial terms and in the ordinary and usual course of business of the Group.

Pricing of the transactions

Under each of the Old Sinopec Corp. Framework Agreement and under the New Unipet Framework Master Agreement, the prices payable are to be determined on a cost plus reasonable profits basis with reference to the market prices of the processing fees as quoted by third party and are to be agreed between the parties on an arm's length basis through negotiations.

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New annual caps for the transactions

The aggregate amounts paid by the Group in respect of these connected transactions for each of the two years ended 31 December 2006 and for the six months ended 30 June 2007 were approximately HK\$41 million, HK\$63 million and HK\$41.3 million.

As approved in the First Previous SGM, the annual caps of these continuing connected transactions for the three financial years ending 31 December 2007 are HK\$150 million, HK\$150 million and HK\$150 million respectively. For the three financial years ending 31 December 2010, the Directors expect that these connected transactions will continue and the monetary value will increase. The aggregate amounts paid by the Group in respect of these transactions shall not exceed the annual caps for these transactions of HK\$260 million, HK\$280 million and HK\$300 million for each of the three financial years ending 31 December 2008, 31 December 2009 and 31 December 2010 respectively. As discussed above in the sub-section headed “Crude oil demand and the crude oil price”, the price of crude oil was increased from approximately US\$54 per barrel in January 2007 to approximately US\$77 per barrel in July 2007 under a continuous upward trend, representing a compound monthly growth rate of approximately 6.09 per cent., with respect to the above and the expected increase in volume of import of crude oil from Sinopec Guangzhou Branch and Unipet Group, the increase of crude oil refinery capacity of Sinopec Guangzhou Branch and the increase in consumption of petroleum products and petrochemical products in the PRC, we consider that setting a higher annual caps for the three years ending 31 December 2010 for these transactions to capture the strong volatility of crude oil price, and the increase of the new caps from HK\$150 million for the year ending 31 December 2007 to HK\$260 million for the year ending 31 December 2008 are reasonable.

Given its trading nature, the amount of business to be conducted is market and customer demand driven. The Directors believe 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 reasons set out above, in arriving at the annual caps for the three years ending 31 December 2010, the Directors have also taken into account the following factors:

- (a) the respective historical figures of these connected transactions.
- (b) the expected increase in the consumption of petroleum and petrochemical products in the international market.
- (c) the volatility and possible increase in the international and the PRC market price of crude oil, petroleum and petrochemical products.

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In assessing the fairness and reasonableness of the annual caps of these transactions for the three years ending 31 December 2010 with respect to the third party processing, we have discussed with the management of the Company and are given to understand that the Directors determine the new caps on the basis detailed above. In addition, we have reviewed (i) historical growth rate of the transaction amounts of these transactions; (ii) statistics in relation to the growth of the consumption of petroleum and petrochemical products in the international market as discussed in the paragraph headed “Crude oil demand and the crude oil price” above; and (iii) the historical increase and the upward trend of the international and the PRC market price of crude oil, petroleum and petrochemical products as discussed in the paragraph headed “Crude oil demand and the crude oil price” above. Having reviewed the factors considered by the management and the information above, we concur with the view of the Directors that the underlying basis for the new caps for the three years ending 31 December 2010 with respect to third party processing are fair and reasonable.

RECOMMENDATION

Having taken into account the principal factors and reasons referred to the above, we are of the opinion that the Revised Caps and the terms of the Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 (together with their caps) and the New Framework Master Agreements are based on normal commercial terms, in the ordinary and usual course of business, fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Shareholders and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Revised Caps, the Existing Ongoing Connected Transactions for the three financial years ending 31 December 2010 (together with their caps) and the New Framework Master Agreements and all matters contemplated thereunder.

Yours faithfully,
For and on behalf of
Hantec Capital Limited
Kinson Li
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 2006, 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

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

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 Petroleum & Chemical Corporation. The controlling interest in the registered capital of China Petroleum & Chemical Corporation is held by China Petrochemical Corporation.

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 2006, 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
Hantec Capital Limited	A licenced corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO.

Hantec 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, Hantec 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 meeting 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). The qualified accountant of the Company is Mr. Chan Kim Fai (a member of the Hong Kong Institute of Certified Public Accountants).
- (b) The principal place of business of the Company in Hong Kong is 20th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.
- (c) The Hong Kong Branch Share Registrar and Transfer Office of the Company is Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, 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 the Company at 20th Floor, Office Tower, Convention Plaza, Harbour Road, Wanchai, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 21 September 2007:

- (a) the letter from Hantec Capital Limited as the Independent Financial Adviser as set out on pages 22 to 43 in this circular;
- (b) the written consent from Hantec 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 21 in this circular; and
- (d) the New Framework Master Agreements.

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 Boardroom 3-4, Mezzanine Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wan Chai, Hong Kong on 21 September 2007 at 10:00 a.m. for the purposes of considering and, if thought fit, passing the following resolution as ordinary resolution:

ORDINARY RESOLUTION

“**THAT** (1) the Revised Caps (as defined in the circular of the Company dated 17 August 2007 (the “**Circular**”)) be and are hereby approved; (2) the Existing Ongoing Connected Transactions (as defined in the Circular) for the three financial years ending 31 December 2010 be and are hereby approved; and (3) the New Framework Master Agreements (as defined in the Circular) for the three financial years ending 31 December 2010 be and are hereby approved, 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
Wang Li Sheng
Chairlady

Hong Kong, 17 August 2007

Principal office:

20th Floor,
Office Tower Convention Plaza,
1 Harbour Road, Wanchai,
Hong Kong

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.

* For identification purposes only

NOTICE OF SPECIAL GENERAL MEETING

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 Tricor Secretaries Limited, the Hong Kong Branch Share Registrar and Transfer Office of the Company, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting.